Endgame investment
The investment priorities of DB schemes reaching their endgame

Buyouts
The capacity of the bulk annuity market to meet increasing demand

Investment Pathways
The early response levels and experience of the DC decumulation options

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December 2021

PENSIONS Age

The leading pensions magazine

Year review: *How 2021 may be remembered as one of the most transformational years in history for the sector*

Case study: *The benefits of Schneider Electric's recent move to a master trust*

Attracting trustees

As the number of trustees leaving the industry increases, will the rise in professional trusteeship fill the gap?

INCLUDING: Member Communications Guide 2021

Editorial Comment

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

The year is going out with a bang for the pensions sector, with the news that the first DB superfund finally has authorisation to accept clients. Clara-Pensions is the first to have met The Pensions Regulator's assessment standards and will now be able to begin operations as a DB superfund *[for more information see page 10].*

We may still be waiting for announcements of the first schemes to move across to the superfunds, but once we do we will have evidence that a new endgame option is possible for DB schemes, sitting somewhere between self-sufficiency and insurance buyout.

Now up and running, will this extra endgame option change the plans of those managing DB schemes, as recent research found that, for the first time, they are more likely to target a buyout instead of self-sufficiency? Only time will tell.

The number of DB endgame options may be increasing, but for those reaching retirement in a DC fund the array of decumulation choices can make it confusing to know what to do for the best. This is why the FCA launched its four Investment Pathways earlier this year. Yet, so far, early research suggests savers are mostly still 'sidestepping' engagement with their pensions to continue as they are, as our article on page 84 discovers.

Effective communication can help members make active decisions and is vital for members to at least know and understand their options. Which is why our Member Communications Guide *[see page 59]* explores the importance of blending the benefits of digital communication with more traditional methods.

Once a goal is decided upon, it is important to plan ahead the steps needed to achieve this aim. For instance, knowing which endgame is being targeted impacts a scheme's asset allocations and investment strategies, as our feature on page 46 explores.

However, just as important as planning ahead is looking back and learning the lessons from past actions. For instance, it may have been 30 years since his death, but the consequences of Robert Maxwell's deeds continue to resonate. Thankfully some lasting good was also salvaged from the tragedy of those left without a pension, including the formation of a pensions regulator, controls on funding levels and the requirement for member-nominated trustees *[see page 86].*

Which of the industry developments of 2021 *[see page 42]* will still be talked about in 30 years' time (for much more positive reasons than the Maxwell scandal of course)? Will it be the 2021 Pensions Schemes Act, seen by many as the most important development since the 2015 pension freedoms? And within that, the regulator's new criminal powers to investigate and prosecute those who avoid employer debts to pension schemes or put savers' pensions at risk? The announcement of simpler annual statements? New regulations on trustee powers to block suspected scam pension transfers? Or the DWP's efforts to simplify DC scheme charging frameworks?

Hopefully 2021's lasting legacy will be it being a turning point in the fight against climate change, with a third of pension funds already playing their part by committing to reduce their carbon emissions, with the majority pledging to reach net zero.

The pensions industry had many requests in their letters to Santa *[see page 98]* but reducing climate change would undoubtedly be a present we'd all be happy to receive.

Have a lovely Christmas.

Laura Blows, Editor

DB Complete

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European Pensions Awards 2020 WINNER Pension Fund Innovation Award

PensionsAge Awards 2021 WINNER DC Pension Scheme of the Year

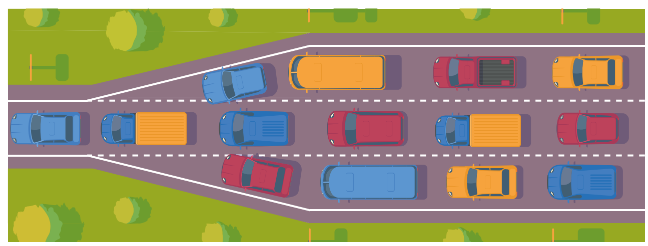
COVER FEATURE

Theme: The endgame

Attracting trustees

Trusteeship has become more complex and demanding in recent years. Amid worrying signs that more current and prospective trustees are deciding not to serve in the role, David Adams asks if the professional trustee industry can help to meet growing demand and considers what else can be done to ensure a steady supply of new trustees are able to deliver effective scheme governance

Highlighted features



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Dateline - November 2021

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

1 November The **Department for Work and Pensions** (DWP) launches a consultation on plans to increase the Fraud Compensation Levy (FCL) ceiling for the levy year 2022/23 onwards. Under the proposed changes, the FCL ceiling would allow levy rates to be set by the Pension Protection Fund (PPF) to a maximum of 65p per member for master trusts and £1.80 per member for other eligible occupational schemes. Earlier this year, the PPF increased the 2021/22 FCL on pension schemes to 30p per member for master trusts and 75p per member of other schemes, the maximum level allowed under current regulations, in light of a High Court ruling that found occupational pension schemes set up as part of a scam were eligible to claim on the Fraud Compensation Fund. The PPF has already seen some claims on the fund following the ruling, estimating that claims could total up to £350m.

3 November The **government** announces plans that aim to help the UK become the "world's first" net-zero aligned finance centre. Financial institutions in the UK will be required to have robust firm-level transition plans, which will set out how the company will decarbonise to meet the UK's net-zero targets.

4 November The **government** shortens and closes the window of time during which people can either join or transfer into a scheme that can offer a protected pension age of 55 or 56 in light of stakeholder concerns. In a parliamentary statement, Economic Secretary to the Treasury, John Glen, confirms that the government is pushing ahead with a clause to increase the normal minimum pension age from 55 to 57 from 6 April 2028 in the Finance Bill 2021/22.

8 November New measures to help protect pension savers against the threat of scam transfers will come into force on 30 November, the **government** confirms. The regulations will mean that suspicious transfers can be blocked by pension scheme trustees and managers where there are 'tell-tale' signs of fraud or methods frequently used by scammers.

10 November The **DWP** confirms it will ban flat-fee charges as part of a combination charge on default defined contribution (DC) pensions used for auto-enrolment (AE) with pots worth less than £100 from April 2022. In its response to its consultation, the DWP states that the de minimis will apply to active and deferred pots. It will recommend that valuations should be taken at regular intervals either monthly or annually, while flat fees should be deducted on the day of valuation. The consultation also proposed moving to a single, universal charging structure for use within default funds of DC pension schemes used for AE. However, the DWP finds that there was a "broad majority" that opposed the move and it will propose its next steps on the matter "shortly".

Willy Barton / Shutterstock.com

15 November The trustee of the **Mitchells & Butlers Pension Plan** wins a "ground-breaking" High Court case against the scheme's principal employer over powers to decide which index is used to increase members' pensions. The case centred around a change in the schemes' rules that moved the power to change the default index by which pensions in payment were increased from the trustee to the sponsoring employer.

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

17 November The **DWP** writes to interested parties about potential plans to scrap a European Court of Justice (ECJ) ruling on pension lifeboats, ensuring that members of bust companies' pension schemes do not fall below the poverty line. In the papers seen by LCP partner and former Pensions Minister, Steve Webb, the DWP is setting up meetings with the title: Removing the effects of the Judgment by Court of Justice of the European Union in the case of *Pensions-Sicherungs-Verein VvaG v Gunter Bauer* from retained EU law.

18 November Defined benefit (DB) pension transfer values hit a record high of £265,200 on 28 October, before falling back to close the month at £260,000, **XPS Pension Group's** Transfer Value Index reveals. The new high surpassed the previous record of £264,300, which was recorded on 24 August 2021. The October increase was driven by continued high future inflation expectations alongside a fall in gilt yields.

19 November GMB Union launches a Judicial Review against the Treasury over its use of the cost control mechanism on public sector pension schemes. The announcement comes amid similar moves by the British Medical Association and Fire Brigades Union. GMB claims that, since 2015, more than four million people working in the NHS, civil service and local government have "effectively been overcharged" for their pensions.

22 November SEI confirms the completion of its acquisition of Capita's former DC master trust, Atlas, for an undisclosed sum. The acquisition will see three members of the Atlas executive team join SEI, with the expanded team bringing decades of experience in pensions administration, governance and technology to the group.

25 November The **High Court** approves the transfer of a £12bn portfolio of annuities from The Prudential Assurance Company, a subsidiary of M&G, to Rothesay Life. The court initially blocked the transfer, involving nearly 400,000 policy holders, in August 2019. Rothesay subsequently appealed the decision from the High Court, with the Court of Appeal overturning the decision in December 2020 and describing the original ruling as wrong on a number of issues.

29 November The **Deloitte Pensions Master Plan** (DPMP) and the **TPT DB Master Trust** complete their DB master trust self-certifications. The self-certification regime, which is hosted by the Pensions and Lifetime Savings Association (PLSA), was launched in October 2021. The DPMP, provided by Deloitte, and the TPT DB Master Trust, provided by TPT Retirement Solutions, are the first DB master trusts to complete the association's self-certification regime.

30 November Clara-Pensions becomes the first DB superfund to complete The Pensions Regulator's (TPR) assessment process. TPR states that Clara had met its "tough new standards" of governance and administration that it had set out to ensure assessed DB superfunds met its expectations to protect savers. Clara is now able to begin to onboard pension schemes and offer a 'secure solution' to ceding trustees and sponsors, with the superfund confirming that it is "ready for transactions". Clara, initially founded over four years ago, describes the successful assessment process as a "remarkable team effort" and an "incredibly important step forward" in the journey to provide safer pensions.

30 November The **DWP** launches a consultation on proposed changes to the regulatory charge cap for automatic enrolment DC pension schemes to encourage greater investment in 'productive finance'. The consultation will inform future policy to help ensure DC schemes are able to access a broader range of illiquid asset classes that have the potential to result in positive outcomes for members. The proposals aim to enable AE pension schemes to make greater use of performance-based fees, which are payable to an investment manager only if they generate high returns on their investments. It also seeks views on extending the list of charges excluded from the pensions charge cap.

News focus

Clara-Pensions becomes first TPR-assessed DB superfund

Clara met the regulator's assessment standards and will now be able to begin operations as a DB superfund

Clara-Pensions has become the first defined benefit (DB) superfund to complete The Pensions Regulator's (TPR) assessment process.

TPR stated that Clara had met its "tough new standards" of governance and administration that it had set out to ensure assessed DB superfunds met its expectations to protect savers.

As a result, Clara is now able to onboard pension schemes and offer a 'secure solution' to ceding trustees and sponsors, with the superfund confirming that it is "ready for transactions".

Clara-Pensions, which was initially founded over four years ago, highlighted the successful assessment process as a remarkable team effort and an incredibly important step forward in the journey to provide safer pensions.

"Clara's member-first model is ready for transactions. We now turn our attention to our first transactions and our first pension scheme members," Clara-Pensions CEO, Adam Saron, commented.

The superfund has now been listed on the regulator's new online list of assessed DB superfunds, which TPR executive director of frontline regulation, Nicola Parish, highlighted as a "vital tool for trustees and employers".

TPR also urged trustees to ensure that they still carry out their own thorough due diligence once their superfund has been added to the list, however.

Furthermore, trustees were encouraged to continue to recheck TPR's website at regular intervals to make sure that they have the most up-to-date information.

"We are determined to protect savers and so potential customers of a superfund on our list can have the confidence that the scheme has been through a rigorous assessment process to show they are fit for purpose," Parish continued.

"It is vital, however, that trustees and employers still carry out their own thorough due diligence to ensure they are confident a superfund is the right option for their particular scheme and members, and only consider a superfund that is on our list.

"We expect employers considering a superfund to come to us for clearance."

The approval of Clara will now open the door to an additional endgame solution for DB pension schemes in the UK.

The interim regime for DB superfunds was launched nearly 18 months ago, in June 2020, with guidance for trustees and employers considering a superfund also published shortly after this.

Commenting on the news, Pensions

Minister, Guy Opperman, said: "This is a welcome milestone, which fills a gap in the workplace pensions market.

"Superfunds are an innovative development in the DB sphere that can increase protection for savers, and their pensions, whilst providing employers with a new, affordable option to manage their legacy pension responsibilities."

The assessment process for schemes to be included on TPR's list of approved DB superfunds requires TPR to assess its 'key expectations' regarding people, governance, systems and processes, and financial sustainability mechanisms and processes in respect of business plans, costs, assets and liquidity plan, investment governance and risk management.

Following assessment and inclusion on the list, superfunds will be subject to a further assessment when TPR is notified of an intended transfer into it.

TPR noted that where it has concerns about a superfund during or following the further assessment, superfunds may be removed from the list.

Clara Pension Trust chair, Alan Pickering, highlighted the announcement as "good news not just for Clara but also the whole pensions sector".

"Our role as trustees is to ensure that Clara remains member-first and offers safer pensions," he continued.

"We've been closely involved in engagement with TPR to demonstrate the strength of our role and that member interests are at the heart of the Clara model. We look forward to providing better outcomes for members as we welcome them to Clara."

In other news, The Deloitte Pensions Master Plan (DPMP) and the TPT DB Master Trust have completed their DB master trust self-certifications.

The self-certification regime, which is hosted by the Pensions and Lifetime Savings Association (PLSA), was launched in October 2021.

The DPMP, provided by Deloitte, and the TPT DB Master Trust, provided by TPT Retirement Solutions, are the first DB master trusts to complete the association's self-certification regime.

Designed by a Department for Work and Pensions (DWP)-led industry working group, the templates enable DB master trusts to provide information on their structure and how they operate.

The PLSA has issued guidance to schemes wishing to complete the self-certification process, although it clarified that whilst self-certificates provide useful information about the DB master trust, they are not an assessment of the quality of the scheme.

The DWP-led industry working group included Abrdn, Deloitte, Hymans Robertson, Mercer, the PLSA, the Pensions Management Institute, Punter Southall, TPT and Travers Smith.

The concept for a self-certification regime was first raised in the DWP's *DB White Paper* in 2018, with Opperman confirming the proposals would be taken forward at the PLSA Annual Conference.

Commenting on its completion of the self-certification, Deloitte UK pension business head, Mark McClintock, said: "We are really pleased to have published the self-certificate for the DPMP, which is helping companies to reduce their pension costs.

"The design and build of the Master Plan was funded by Deloitte's innovation programme, and our DB master trust has now grown in excess of £1 billion of assets."

Written by Jack Gray and Sophie Smith

VIEW FROM TPR

Transfer regulations, in force since the end of last month, empower trustees and offer them an opportunity to better protect savers from scammers.

The rules mean in certain circumstances, trustees can halt a transfer if there's a heightened risk it may be part of a scam.

The industry has been calling for this power for a while and we warmly welcomed the new measures.

However, while the ability to halt a transfer may be new, carrying out appropriate due diligence measures should neither be new nor a burden to those already doing the right thing by savers.

Trustees may have noticed the regulations enshrine in legislation two of the key points from our pledge to combat pension scams – namely around due diligence measures and issuing members warnings of high-risk transfers.

Those trustees who pledged or self-certified that they met the pledge's requirements should be well prepared – meaning the majority of transfers should be able to proceed without delay.

While the Pension Scams Industry Group estimates 5 per cent of all requests give cause for concern, the vast majority are legitimate and can proceed with minimum intervention if a common sense approach is taken.

But it's vital when suspicions do arise they are reported to the relevant authorities – Action Fraud or by calling 101 Scotland.

TPR executive director of frontline regulation, Nicola Parish

The Pensions Regulator
Making workplace pensions work

DWP confirms introduction of scam pension transfer regulations

The government's measures to give trustees and pension scheme managers the power to block proposed transfers that are suspected of being fraudulent came into force on 30 November

New measures to help protect pension savers against the threat of scam transfers came into force on 30 November, following a government consultation.

The regulations mean that suspicious transfers can be blocked by pension scheme trustees and managers where there are 'tell-tale' signs of fraud or methods frequently used by scammers.

Under the system, red flags will prevent a transfer request, whilst amber flags will pause a transfer until the member can prove they have taken specific scam guidance from the Money and Pensions Service (Maps).

Commenting on the news, Pensions Minister, Guy Opperman, said: "We are tackling the scourge of pension scams in practical terms to safeguard pensioners' hard-earned savings.

"These measures will provide better protection for savers."

The Department for Work and Pensions (DWP) launched a consultation on the proposals earlier this year, outlining the conditions that would allow a transfer to proceed without incident.

Industry experts raised concerns over the potential for false negatives and positives under the proposed conditions, however, with the consultation receiving a mixed industry response.

In light of industry feedback, the government's response to the consultation has now confirmed that whilst it will retain the first condition, it will remove the reference to a pension scheme operated by an insurer that is registered by the Financial Conduct Authority and authorised by the Prudential Regulatory Authority (PRA).

It explained that this will continue to provide a guarantee of being able to exercise the statutory right to transfer, whilst also serving to "level the playing field" for all FCA-regulated schemes offering similar products.

The DWP also acknowledged that there was "potential for misinterpretation" in the proposed structure of the second, third and fourth conditions, with some trustees and schemes managers thinking that they had to go through and apply each condition in sequence, thereby slowing down the transfer process.

To address this, the DWP confirmed that it will remove each standalone condition and merge them into one new condition, allowing for a "holistic" consideration of the employment and residency links with the red and amber flags.

The DWP has also "honed and tightened" the use of terms in the flags and the related definitions, with further guidance from The Pensions Regulator (TPR)also published to support the practical application of the regulations.

Master trusts, collective defined contribution schemes and funded public sector schemes will be classed as 'safe destinations' and effectively exempt from the new measures.

Following the confirmation of the new powers, TPR published guidance for trustees to help them understand their new powers in halting suspicious pension transfers.

The guidance details what information the trustee needs to collect about the transferring member, the receiving scheme, and any financial adviser or other individual involved in the transfer.

It then outlines how trustees are expected to carry out their due diligence with a series of checks to determine which conditions apply to the transfer and whether they can then proceed.

TPR's guidance details some of the factors that trustees should consider when assessing whether the transfer shows signs of red or amber flags.

Trustees should also inform members of progress throughout the transfer process, TPR noted.

Included in the guidance is a 'transfer progress decision tree', a diagram that shows trustees a step-by-step guide of how to handle a transfer request in regard to the new regulations.

Both the regulations and guidance were drafted in co-operation with the DWP, TPR, Maps and the Pension Scams Industry Group (PSIG).

Written by Sophie Smith and Jack Gray

Govt to ban flat fees on small pots

The ban will apply to flat fee charges as part of a combination charge on default DC pensions used for auto-enrolment with pots worth less than £100

The government has confirmed that it will ban flat fee charges as part of a combination charge on default defined contribution (DC) pensions used for auto-enrolment (AE) with pots worth less than £100 from April 2022.

In its response to its *Permitted Charges within DC Pension Schemes* consultation, the Department for Work and Pensions (DWP) stated that the de minimis will apply to active and deferred pots.

The government will continue to monitor the impact of the de minimis and will issue non-statutory guidance on the regularity or timing of period when a member's rights should be valued.

It will recommend that valuation should be taken at regular intervals either monthly or annually, while flat fees should be deducted on the day of valuation, if applicable.

The consultation also proposed moving to a single, universal charging structure for use within default funds of DC pension schemes used for AE.

However, the DWP found that there was a "broad majority" that opposed moving to a universal charging structure and it will propose its next steps on the matter in a separate response "shortly".

Respondents warned the government that the change could lead to fewer providers offering pensions in the AE market, leading to a reduction in diversity of products and investment policies.

Furthermore, "a number of" respondents stated that member inertia was a more significant barrier to members understanding charges than the structure of those charges, and government prioritisation of improving member engagement was suggested before any charge simplification.

The government said it will consider the evidence on a universal charging structure in more detail before making any policy decisions and will continue to be receptive to new evidence concerning improvements to transparency of member charges and costs comparability.

"The consultation, which ran from 24 May 2021 to 16 July 2021, has helped broaden our evidence base, and understanding of respondents' views regarding the proposal for a universal charging structure," said Pensions Minister, Guy Opperman.

"I know this is of great interest to the AE sector and I believe that clarity and comprehension around charges is important, but I will not rush into making decisions."

Written by Jack Gray

NEWS IN BRIEF

Jonathan Ashworth has been named as **Labour's** new Shadow Work and Pensions Secretary following a reshuffle of the shadow cabinet. Ashworth replaces Jonathan Reynolds, who has been moved to the role of Shadow Business Secretary. Reynolds held the position between 6 April 2020 and 29 November 2021.

The **Pensions Administration Standards Association** (Pasa) GMP Working Group has published guidance on how to treat GMP reconciliation data during a transition to a new administration provider. The publication, which builds on previous Pasa guidance, looks at how the transition of administration between providers can be managed in a professional manner, prioritising the best interests of members and trustees.

The **Reuters Supplementary Pension Scheme** has agreed a £310m full scheme buy-in deal with Legal & General (L&G) Assurance Society. The buy-in, which is the scheme's first transaction with L&G, involved the assessment and insurance of a complex multi-benefit structure.

The **Tesco Plc Pension Scheme** and the **Tesco Retirement Savings Plan** have committed to their investments having net-zero carbon emissions by 2050. The two schemes, which have a combined membership of over 345,000 and assets of over £24bn, will use their scale and influence to urge the companies they invest in to reduce their carbon emissions over time, setting targets and milestones along the way.

VIEW FROM AMNT

On 5 November, 30 years ago, Robert Maxwell died after falling from his luxury yacht whilst cruising around the Canary Isles.

Following his death, investigations showed that he had been taking money from the Mirror Group Pension Fund. The day and the consequent fallout is remembered as the start of a regulatory process designed to protect the rights and benefits of pension fund members.

The Pensions Regulator and member-nominated trustees (MNTs) came about from the legislative programme that followed. Yet even though protections were put in place, unscrupulous individuals and companies still found ways to avoid their duties and exploit pension funds.

Legislation runs to catch up with each new scam or devious design in what appears to be a never-ending arms race between those misusing their powers and those seeking to protect the unwary.

In any 'arms race' there are moments of apparent calm, leading to calls for disarmament and even the dismantling of the protections previously felt critical. We seem to be entering that period again; particularly following the recent legislation, with intimations that MNTs have served their purpose. The danger in dropping your guard allows another 'Maxwell' knockout blow. MNTs remain ever vigilant to protect all members' interests.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

DWP proposes plans to enable greater pension investment in 'productive finance'

The consultation aims to allow DC pension schemes greater access to a broader range of illiquid asset classes by giving auto-enrolment schemes the ability to make better use of performance-based fees and extending the list of charges excluded from the charge cap

The Department for Work and Pensions (DWP) has launched a consultation on proposed changes to the regulatory charge cap for automatic enrolment defined contribution (DC) pension schemes to encourage greater investment in 'productive finance'.

The consultation, which is open until 18 January, will inform future policy to help ensure DC schemes are able to access a broader range of illiquid asset classes that have the potential to result in positive outcomes for members.

The proposals would enable automatic enrolment pension schemes to make greater use of performance-based fees, which are payable to an investment manager only if they generate high returns on their investments.

In particular, the proposals would look to extend the list of charges excluded from the pensions charge cap to include well-designed performance fees that are paid when an asset manager exceeds pre-determined performance targets.

The exemption would not apply to fees that are not related to performance, with all other investment administration charges currently in scope of the cap to remain.

The exclusion from the charge cap aims to help schemes overcome barriers to long-term investment and provide new opportunities to invest in areas such as British business, start-ups and green projects.

The DWP also noted, however, that some large schemes are currently in the midst of negotiating more appropriate fee structures to overcome operational issues with private equity managers and others.

"We would not wish to undermine this negotiation and interfere with market forces," it said.

"Separately, many large master trust providers have already taken the view that they will not pay performance fees of any kind. The government passes no comment on this recognising that this is a commercial judgement."

The proposals build on the government's previous consultations around illiquid investments, with DWP stating that responses from these previous consultations suggested that there was industry support for the objective of providing trustees with greater flexibility when it comes to performance fees and the charge cap.

Written by Sophie Smith

Trustee wins 'ground-breaking' pension rectification court case

The trustee of the Mitchells and Butlers Pension Plan won the case against the scheme's sponsoring employer, meaning that the power to decide which index is used to raise members' pensions has been reverted back to the trustee. Meanwhile, the High Court has approval the transfer of a £12bn portfolio of annuities from Prudential to Rothesay

Chaz Bhari / Shutterstock.com

The trustee of the Mitchells & Butlers Pension Plan has won a "ground-breaking" High Court case against the scheme's principal employer over powers to decide which index is used to increase members' pensions.

The case centred around a change in the schemes' rules that moved the power to change the default index by which pensions in payment were increased from the trustee to the sponsoring employer.

Prior to 1996, the trustee held the power to change the default index used to increase pension provisions.

However, this power was moved to the sponsoring employer by a 1996 deed, which was then perpetuated by further deeds signed in 2002 and 2006.

On behalf of the scheme's 20,000 members, the trustee claimed that this change was never intended.

The judge ruled that the shift in power by the three deeds was void because the scheme's actuaries had not been properly consulted, as required by the scheme's rules, and the change had not been brought to their attention.

Gowling WLG, which represented the trustee, stated that what the judge said about the actuary needing to be effectively consulted was "likely to be of interest to other schemes".

Pub chain owner, Mitchells & Butlers, became the scheme's principal employer in 2003 and argued that it did so as a bona fide purchaser for value without notice, enabling it to avoid the trustee's claim to rectify the deeds signed in 1996 and 2002.

However, the judge rejected this claim, ruling that the power by which Mitchells & Butlers had become the sponsoring employer in 2003 was not concerned with the sale of property or the transfer of rights, and was therefore not a 'purchase'.

In other news, the High Court has approved the transfer of a £12bn portfolio of annuities from The Prudential Assurance Company, a subsidiary of M&G, to Rothesay Life.

The court initially blocked the transfer, involving nearly 400,000 policy holders, in August 2019.

Rothesay subsequently appealed the decision from the High Court, with the Court of Appeal overturning the decision in December 2020 and describing the original ruling as wrong on several issues.

The successful appeal resulted in the High Court reviewing the case, and subsequently ruling that the transfer can now proceed on 15 December 2021.

Written by Jack Gray

VIEW FROM THE PLSA

The pensions industry breathed a collective sigh of relief after the Budget at what might have been.

It was very positive that the government listened to the PLSA and the wider pensions industry in recognising that more, not less pension saving is needed, and decided not to make any fundamental changes to the current system of pensions taxation.

We have explained to the government in many forums that mooted reforms to pensions tax relief – such as adopting a single rate of tax relief at 20 per cent, 25 per cent or 30 per cent – would not have a materially positive impact on pension adequacy for the vast majority of savers but would result in substantially higher tax bills for three to four million savers. Furthermore, the PLSA is also pleased the government has outlined in the Budget a solution to address the pensions tax administration anomaly that results in approximately 1.2 million lower earners – mostly women – in net-pay schemes missing out on pensions tax relief.

The PLSA has been calling on government to fix this problem for some years. Indeed, it is something we highlighted in our submission to the Treasury in advance of the Budget. The major challenge the new fix poses is that uptake of the top-up payments is likely to be low without an effective awareness campaign.

PLSA director of policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

VIEW FROM THE PMI

Pensions Management Institute

Following the inconclusive end to COP 26 in November, there has been extensive discussion as to whether constraining global warming to within 1.5 degrees remains a viable target. Tighter controls over the use of fossil fuel are now seen as vital in order to prevent irreversible damage, and institutional investors – such as pension funds – have an essential role to play.

Since October, the UK's largest pension schemes have been required to prepare Climate-Related Financial Disclosures (TCFD) reports. This requirement will be cascaded on to smaller schemes from next year. A TCFD report requires trustees to establish the extent to which their scheme has been impacted by climate change and to assess the extent to which continued investment in fossil fuels remains in members' best interests. In the case of defined contribution (DC) arrangements, this may well involve the restructuring of the default fund. Given that the significant majority of DC members never move investments outside the default fund, this is an important consideration.

We have come a long way since the 1986 *Cowan v Scargill* case, which appeared to impose significant constraints on investment policies with objectives other than providing the best financial return. We are now in the midst of a revolution affecting pension schemes' investment strategy. It is one that cannot be allowed to fail.

PMI director of policy and external affairs, Tim Middleton

Public service unions seek judicial reviews over pensions

The BMA, Fire Brigades Union and GMB Union are seeking separate judicial reviews against the government over its use of the cost control mechanism on public sector pension schemes

The British Medical Association (BMA) Pension Committee, Fire Brigades Union (FBU) and GMB Union have submitted separate claims for Judicial Reviews against the Treasury over its use of the cost control mechanism on public sector pension schemes.

FBU's claim relates to changes made to firefighters' pensions following the McCloud ruling, which found that the government's public sector pension reforms were discriminatory on the ground of age.

Older workers had been allowed to stay in the previous scheme, while younger workers had to move to the 2015 scheme.

The union has claimed that the government is making members of the 2015 scheme "pay for the cost of the discrimination" through the cost control mechanism.

Meanwhile, the BMA challenged the Public Service Pensions Directions 2021 made on 7 October 2021.

These directions gave effect to the government's decision to lift the suspension of the cost control mechanism and to include the full costs of the McCloud remedy for the purposes of resuming the cost control mechanism and completing the 2016 valuation.

However, the BMA has argued that it is "wrong in principle" that the McCloud remedy cost should be borne by scheme members, arguing that, in the circumstances, it is "artificial for the government to present its solution as increasing the value of the scheme".

The letter also claimed that there has been a failure to consider or consult upon the overpayment of contributions for the duration of the pause for some categories of scheme member and the loss of value in accrued pension benefits.

It also suggested that consideration had not been given to the "indiscriminate burdens and disadvantages" to particular scheme members, such as new joiners of the 2015 NHS Pension Scheme who could bear the cost of the McCloud remedy despite not being members at the time of the unlawful treatment.

GMB Union, meanwhile, claimed that, since 2015, more than four million people working in the NHS, civil service and local government have "effectively been overcharged" for their pensions.

The union stated that the government has passed legislation that would allow them to use the "surplus cash", which GMB estimated at £2.4bn, to pay for the costs of addressing the McCloud judgment.

GMB's legal review is aiming to stop the government using the money to rectify McCloud and return it to workers.

When contacted for a response, a government spokesperson said: "We cannot comment on ongoing litigation."

Written by Sophie Smith and Jack Gray

Appointments, moves and mandates

The Pensions Management Institute (PMI) has appointed Cardano Advisory as its covenant insight partner.
The partnership will focus on the key considerations facing pension scheme trustees in the covenant space, including funding positions, the Pension Schemes Act, risk transfer, environmental, social and governance (ESG) considerations, stressed schemes, restructuring, litigation, and transactions. As part of this, the two companies will deliver webinars, research and case studies to increase understanding of employer covenant and other relevant topics to provide a big-picture thinking approach. The partnership will also allow PMI members to access Cardano Advisory's insight, views and experience.
Commenting on the appointment, PMI CEO, Gareth Tancred, said: "This exciting partnership will enable our members to access a range of high-quality guidance on the often complex issues related to covenant. We aim to provide our members access to education that encompasses the entire pensions industry and are thrilled to incorporate Cardano Advisory's covenant insight into our offering."


Antonia Balaam

Aegon UK has announced the appointment of Antonia Balaam as director of defined contribution (DC) clients. Balaam, who is a qualified actuary, brings around 25 years' experience in the pensions industry to the role, having previously joined Aegon in 2019. The newly created role will see Balaam lead the client director team, reporting to Aegon director of client and partnership development, Nick Roy.


Jonny Davies

Aries Insight has appointed Jonny Davies as pensions technical consultant.
Davies has over 18 years' experience in the pensions industry across administration and technology, and will lead on work specially focusing on pension transfer law and regulation, The Pensions Regulator and its code of practice, and pension trustee duties and powers. He joins the company from Quilter, where he was a pensions technical specialist.


Kurt Morriesen

Legal & General Investment Management (LGIM) has named Kurt Morriesen as head of investment stewardship. Morriesen will join the business in January 2022 and, in his new role, will lead its global investment stewardship team. He has over 15 years of sustainable investment experience, joining from the United Nations Development Programme (UNDP), where he was a senior adviser for impact investments and SDGs.


Dom Manley

Cushon has announced three appointments to its senior leadership team. Dom Manley has been appointed as head of product, while David Harvey has been appointed master trust lead, and Andy Aitken has been named strategic partnerships director. The new hires join with nearly 60 years of combined experience spanning master trusts, defined contribution and adviser platforms.


Heather Fleming

Pensions for Purpose has announced its new board after establishing a new limited company. The group confirmed that executive directors will include chief executive, Charlotte O'Leary, chair, Karen Shackleton, and head of Australia, John Donovan, as well as company secretary, Mark Shackleton. Pensions for Purpose has also appointed four non-executive directors: Heather Fleming, Louise Kooy-Henckel, Debbie Fielder and John Featherby.

BT Group has appointed XPS Pensions Group as its pension advisory partner.
XPS Pensions was chosen following a competitive tender process and will support BT's in-house pensions team and advise on actuarial and investment matters and the ongoing evolution of BT's pensions strategy. BT Group pensions risk director, Paul Rogers, said that the partnership would bring "significant scale and depth of support to BT and further enhance the way we work as a team". BT Group has both defined benefit and defined contribution pension schemes, including the BT Pension Scheme, one of the UK's largest occupational pension schemes with 280,000 members and assets of over £50bn.
Commenting on the appointment, BT Group pensions risk director, Paul Rogers, said: "We wanted to completely reshape the way we work with advisers. We selected XPS following a competitive tender process because they really understood our requirements and offered an innovative and progressive partnership structure. The partnership that XPS will provide will add significant scale and depth of support to BT and further enhance the way we work as a team."

VIEW FROM THE SPP

On 8 November 2021, the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 were laid before parliament.

The regulations require trustees and scheme managers to carry out specific checks before complying with a member's request to transfer their pension, which are intended to determine if the member has a statutory right to transfer.

Now, when a member makes an application for a transfer it will be assessed against two conditions set out in the regulations.

The first condition relates to certain types of scheme, eg public service pension schemes, authorised master trusts, and authorised CDC schemes, where a statutory transfer can continue without the need for additional checks.

The second condition will apply to all other transfers and involves an assessment by the trustees or managers as to whether or not certain 'flags' are present in the case, with one or more red flags meaning that the member does not have a statutory right to transfer and one or more amber flags meaning a statutory transfer can only proceed if the member has obtained guidance from MoneyHelper.

This change in the law will require schemes to make changes to their transfer-out processes and documentation which may prove to be a challenge for some given the short time in which they have to act.

SPP legislation committee member, Peter Scott

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

Market commentary: A wobble or a fall?

As predicted, inflation has continued to rise, with the latest figures from the Office for National Statistics revealing a further jump to 4.2 per cent in October, up from 3.1 per cent in September.

The increases in inflation have continued to prompt concern, with Royal London consumer finance specialist, Sarah Pennells, highlighting the increased rate as evidence of what many households have already felt in their budgets, that prices are rising sharply, particularly amid an increase in energy bills and fuel costs.

Whilst this continued increase was not a surprise, Pennells stressed that the country has not experienced inflation at this level for almost a decade, noting that the Office for Budget Responsibility has predicted that inflation would reach 4 per cent, on average, throughout next year, peaking at around 5 per cent.

Capital Group global portfolio strategist, Arjun Madan, also explained that there are "several factors driving this acceleration in inflation, including base effects from the pandemic shock, supply side bottlenecks, high commodity prices, weak exchange rates (in some cases), and recovery in domestic demand".

"This has raised concerns as to whether this uptick in inflation will be temporary or more long lasting," he said. "Base effects and supply side bottlenecks should ease in time, but commodity prices or exchange rate pass-through into core inflation, and any strength in domestic demand could create longer-lasting effects, particularly if it has an impact on inflation expectations."

Inflation is not the only concern, however, as Hargreaves Lansdown senior investment and markets analyst, Susannah Streeter, warned that "fear has gripped the financial markets" after the discovery of a new Covid strain that could be more contagious and may render vaccines less effective.

"London's FTSE 100 reversed the slight gains of the week plunging 3.2 per cent in early trade, while the FTSE 250 opened down 2.7 per cent," she noted, continuing: "With Europe still battling with the surge of a fourth wave of the virus, there are now fears that the highly mutated Covid strain discovered in states in southern Africa will prompt fresh shutdowns around the world in an attempt to stop its spread, leading to another drag on recovery."

In particular, Streeter warned that the decision by the UK government to impose stringent quarantine rules on six southern African countries within hours has "severely rattled the travel and tourism industry".

"The immediate way the tough restrictions were imposed was a reminder of just how tied companies' fortunes are to snap government decisions and the latest twists in the trajectory of the virus," she said.

Despite this, deVere Group CEO, Nigel Green, has suggested that the temporary wobble prompted by the new variant will be quickly shrugged off.

"The fact that a new strain has been discovered and, critically, that at this stage we know little about it has caused jitters in the financial markets, which loathe uncertainty," he acknowledged. "The headlines have caused a knee-jerk reaction."

However, Green suggested that this is likely to be temporary, with markets remaining "bullish" for the time being, and markets expected to shrug off the new variant in a similar way that they did the Delta variant.

"This is because, as Delta showed, mutations are now expected and we have more of a blueprint about how to deal with them," he explained.

"Instead, global financial markets will be focusing on other pressing issues including high inflation caused by supply side bottle necks and the likelihood of a quicker pull away from ultra-loose monetary environment."

Written by Sophie Smith

Diary: November 2021 and beyond

ABI Annual Conference 2022
22 February 2022
Etc Venues, Bishopsgate, London

The Association of British Insurers (ABI) Annual Conference 2022 is a full-day event that will bring industry leaders, politicians and regulators together to debate the major issues affecting the insurance and long-term savings industry. Sessions will include keynote speakers, panel sessions and breakout sessions, while attendees will also have the chance to network with their industry peers and join the discussion on the hot topics within the insurance and long-term savings space.

For more information, visit:
abi.org.uk/events/

Pensions Age Awards 2022
23 February 2022
Great Room, Grosvenor House Park Lane

The Pensions Age Awards, which are now celebrating excellence within the pensions industry for the ninth year, aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The awards are open to any UK pension scheme or provider firm that serves pension schemes in the UK, with 35 categories to choose from.

For more information, visit:
pensionsage.com/awards/

PLSA ESG Conference
9-10 March 2022
Online

The Pensions and Lifetime Savings Association's environmental, social and governance (ESG) conference will return in March 2022. It brings together the whole of the UK pensions investment chain on the issues that matter most. The programme covers every angle of ESG, dedicated exclusively to the pensions sector. The conference will be a digital event. Its digital platform provides matchmaking and multiple ways to connect with your peers, share insight and access thought leadership.

For more information, visit:
plsa.co.uk/events/

Pensions Age Spring Conference
22 April 2022
Hilton Tower Bridge

The Pensions Age Spring Conference offers pension funds and those working in the pensions sector the opportunity to learn and network alongside their peers. This one-day conference, which is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs.

For more information, visit:
pensionsage.com/springconference/

Visit www.pensionsage.com for more diary listings

Month in numbers

88%

Around 88 per cent of employers expect schemes to struggle to find trustees who are prepared to take on the role amid increased regulation, according to the Association of Consulting Actuaries.

206,705

A total of 206,705 calls were taken by the Department for Work and Pensions' (DWP) pension tracing service over the past four years, a freedom of information request from Hargreaves Lansdown has revealed.

£12bn

The High Court has approved the transfer of a £12bn portfolio of annuities from The Prudential Assurance Company, a subsidiary of M&G, to Rothesay Life. The court initially blocked the transfer, involving nearly 400,000 policy holders, in August 2019. Rothesay subsequently appealed the decision from the High Court, with the Court of Appeal overturning the decision in December 2020. The successful appeal resulted in the High Court reviewing the case, and subsequently ruling that the transfer can now proceed on 15 December 2021.

VIEW FROM THE PPI

Competitive pressure in the automatic enrolment (AE) space has resulted in typical charges comfortably below the level of the charge cap. Under representative charges, any active pot smaller than £4,100 or deferred pot smaller than £2,700 will cost more to administer than will be recouped by charges.

The government is introducing measures so that flat fees cannot be levied on any pot less than £100 in value from April. Flat fees have been introduced by providers to better recoup costs associated with the large number of small pots they manage. These measures effectively cap the permissible charge at 75p a year on a £100 pot, which may now need additional cross-subsidisation by members with larger pots.

Currently, transfer and consolidation activity is member led and generally involves larger pots, which would be economically viable to a provider. As a result, consolidation schemes, which sit outside of the charge cap, manage larger, economically viable, pots with less need for cross-subsidisation.

Proposals for a single charging structure for AE ought to introduce greater simplicity and easier comparisons across that market. However, it will widen the dichotomy within the wider DC market between schemes designed to serve automatic enrolment savers and schemes operating outside of the charge cap which are designed around existing savings being transferred in. This will alter the balance of how different schemes provide value for money for their members.

PPI head of modelling, Tim Pike

PENSIONS POLICY INSTITUTE
PPI

VIEW FROM THE ACA

Our 2021 *Pension trends survey* has found that the onslaught of regulatory and legislative change has three-quarters of employers expecting trustees to consider resigning. Almost nine in 10 employers expect to struggle to find individuals prepared to become trustees. The growing regulatory burden is leading to more employers considering sole trusteeship by professional trustees.

The pensions industry is creaking under the weight of too much legislative change being pushed through at the same time. A widescale capacity crunch is already happening and set to get worse as dashboards, GMP equalisation, simple statements, scam prevention and climate change are all competing for space, alongside fundamental changes to DB funding regulation and DC value for money.

The pace of change in pensions is pushing up costs and discouraging people from being trustees. Unless steps are taken to manage the pressures being put on schemes, we risk killing off the UK's traditional model of trusteeship. This would all but remove the member representation in trustee boards, which was seen as such as positive step forwards 25 years ago, following the Maxwell scandal.

Brexit and Covid-19 have caused understandable delays in getting many pension policy issues over the line. We desperately need the government to focus on getting longstanding matters completed and implemented, before adding more things to the pensions to-do-list.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

In my opinion

On The Pensions Regulator's (TPR) approval of the UK's first DB superfund, Clara-Pensions

"This is a landmark day in the history of DB pensions as it opens up a new endgame for schemes that has not previously existed. Adding Clara-Pensions to its website signals to the pensions world that TPR is now willing to accept clearance applications for individual transfers and is a massive confidence boost to an industry which has been waiting a long time for further developments after the superfund guidance was issued in the middle of 2020. We'd expect those first applications to be submitted very quickly, and we may see the first transfers finalised in 2022."

Hymans Robertson senior risk transfer consultant, Iain Pearce

On the government's rejection of an amendment to maintain the earnings element of the state pension triple lock

"It's disappointing for pensioners that the Treasury could not find an alternative that would better protect pensioner incomes against inflation than the measure being used this year – September's inflation rate of 3.1 per cent, as this now looks to be on the low side given sharply rising energy, food and fuel bills. There is a real risk that some pensioners will struggle to stay warm and well fed this winter."

Interactive Investor head of pensions and savings, Becky O'Connor

On women in their 20s needing to save around £185,000 more than men their age to have the same retirement income

"It's well known that the gender pay gap has a damaging impact on women's retirement prospects. But women face a double whammy: even if we close the pension saving gender gap, pension equality would still not be achieved, because women need to fund a longer retirement and spend more on associated care costs. There are ways to help level the playing field – from enhancing maternity pensions to offering better parental leave and financial support for childcare – so that women are no longer financially penalised for raising a family. Of course, we must also tackle the larger structural issues in our society, like the gender pay gap."

Scottish Widows managing director of workplace savings, Jackie Leiper

On the introduction of new regulations to block scam pension transfers

"Having witnessed the real damage that pension scams can inflict on an individual's retirement I welcome the new transfer regulations which look to make transfers safer. I am optimistic that over time statutory clarity regarding the level of due diligence expected of trustees and additional information and guidance to be given where appropriate to those planning to transfer, will help combat pension scams, and also reduce the number of transfer complaints to The Pensions Ombudsman (TPO)."

Pensions ombudsman, Anthony Arter

On the Mitchells & Butlers Pension Plan's High Court victory over the scheme's principal employer

"This is one of the most significant pension rectification cases in recent years, involving the cross-examination of 16 witnesses, some of whom gave evidence remotely because of Covid. It is unusual in that rectification was obtained on behalf of members against a scheme's employer. Also unusually, the court was asked to rectify a pension increase rule so as to take away an employer power and replace it with a trustee power. It is so far the only case in which a court had to consider a defence to rectification based on the argument that an entity became the scheme's principal employer as a bona fide purchaser."

Gowling WLG partner, Ian Gordon

Standard Life head of bulk purchase annuities, Justin Grainger

The bulk purchase annuity market

Laura Blows is joined by Standard Life head of bulk purchase annuities, Justin Grainger, to explore the bulk purchase annuity market in our latest podcast

"What we're seeking to do is to help pension scheme trustees and the sponsoring employers of those schemes to secure the best possible outcome for their pension scheme members," explains Justin Grainger, who leads the bulk purchase annuity (BPA) proposition within Standard Life's retirement solutions business, which is part of the wider Phoenix Group.

Phoenix Group is the UK's largest long-term savings and retirement business, with an impressive pedigree of companies within the group, Grainger explains in the latest *Pensions Age* podcast, *The Bulk Purchase Annuity Market.* As well as Standard Life, "an obviously really long-established brand in the pensions and retirement market", this also includes SunLife, "a very strong brand in the over-50s market".

Bulk annuities are key to the growth strategy for Standard Life, Grainger states, with its bulk annuities business leveraging the strength and resilience of the wider group. "As a FTSE 100 company, we've got over £300 billion of assets under administration, which gives us a really large balance sheet to minimise volatility," he adds.

"When we're speaking to customers within our retirement solutions division, they're really buying this financial strength and the certainty that the buy-in and buyout products we provide will deliver security to their members over the very long term," Grainger says.

Standard Life has been in the BPA market for around six years, having conducted about £7 billion worth of BPA business in that time, including "some large and quite complex deals, covering both deferred and pensioner members".

Recently, the Phoenix BPA business rebranded as Standard Life. The Phoenix Group had acquired Standard Life Assurance back in 2018, and agreed a deal this year to acquire full ownership of the Standard Life brand itself.

"Standard Life is an established brand, it's well known amongst consumers, it's been around for nearly 200 years and as a result of that it's really well trusted by a large number of people," Grainger states.

"At the same time, Phoenix Group is a really strong corporate brand and it's already really well respected in the BPA market. However, I think Standard Life, because of its high consumer brand awareness, it allows us to offer what we see as a strong customer brand to scheme trustees who are considering purchasing a bulk purchase annuity, which I think is important to them when thinking about their member experience and how their members feel when they purchase that product."

This strong positioning is timely for a BPA market that is bouncing back from a somewhat slow start to the year.

Despite this, Grainger expects market volumes to be in the region of £25-30 billion this year.

He notes trends towards more full scheme transactions, a rise in PPF plus buyout cases, and schemes looking to secure the pensions for their deferred populations.

Even the DC side is starting to get involved, as "we've been doing a bit of work with our colleagues in the Standard Life defined contribution team, to think about providing a joint offering there," Grainger says.

"I think that should really give some members some flexibility when it comes to drawing their benefits. As an example, allowing members to take their maximum tax-free cash lump sum from their AVCs in the first instance."

As trustees increasingly desire to build long-term partnerships with insurers, Standard Life uses umbrella contracts for clients, which allows it to add another portion of member liabilities to a previous deal quickly and efficiently.

Another trend, in the bulk annuity market and beyond, is a focus on sustainability.

"When we write annuities, we have an opportunity to invest the funds that we receive in things that make a difference, with a very long-term outlook in real assets, such as infrastructure and social housing," Grainger says.

He gives the examples of having invested in 1,000 new energy efficient affordable homes, wind farms and having pledged for its investment portfolio to be net zero carbon by 2050 or earlier.

"So whilst I think as Standard Life we seek to help people secure a life of possibilities, we're also hopefully creating a brighter future for other generations as well."

To listen to the podcast, please visit www.pensionsage.com

VIEW FROM THE ABI

One of the great injustices in the modern pensions system is the so-called 'net-pay anomaly'. It's something the ABI has been campaigning for a solution to for years so we were delighted to see a commitment on net-pay schemes included inside the Chancellor's famous red briefcase; it's so important that those on the lowest incomes benefit from tax relief.

Addressing the net-pay anomaly is also vital if we're to make progress on closing the gender pensions gap, as currently 75 per cent of the people left worse off by the anomaly are women. The positive step the government has taken will make a big difference, helping to improve the financial situation of 1.2 million lower earners.

While it's right that we should celebrate this commitment, we should also not be complacent.

The details outlining exactly how the bonus will be paid to eligible members of net-pay schemes remains to be seen. The process members will need to go through to certify they are due top-up payments will be crucial. The involvement of providers in alerting members about how they can claim this relief will be key to having a successful outcome. There also remains the question of how top-up payments might affect any means-tested benefits, such as Universal Credit. Achieving equal tax relief treatment for net-pay members should not come at the expense of existing financial support.

ABI policy adviser, long-term savings, Ben Infield

ABI

Soapbox: Capacity crisis

The pensions industry is facing a capacity crisis. These past couple of years have seen a barrage of new regulations and requirements for trustees to keep up with, increasing the role's responsibilities, time burden and level of necessary expertise.

According to Charles Stanley Fiduciary Management, 62 per cent of professional defined benefit (DB) pension trustees were planning to step down from their post within the next three years, and who can blame them? *[For more information, see out cover story on page 67]*

New regulations around scam transfers, climate risk reporting and the regulator's enhanced criminal powers have created substantially more work, required knowledge and stress for trustees, while salaries have not increased at the same rate, if at all.

A PwC survey found that trustee time commitment had risen from an average of 17 days a year in 2010 to 26 days in 2020, with this figure likely to only have increased since the passing of the Pensions Schemes Act.

The reasons for the capacity crisis are clear, with Charles Stanley's research finding that more than half (56 per cent) of those planning to step down cited overly burdensome regulations as a factor, while 44 per cent mentioned not having the required knowledge, 41 per cent believed reporting requirements were too onerous and 24 per cent felt the role was taking up too much time.

If, as the research suggests, 62 per cent of professional DB trustees stepped down, how will the industry be able to cope? The remaining trustees will have even more responsibilities, while some companies will not be able to find the required expertise to manage their pension schemes.

This is supported by the Association of Consulting Actuaries (ACA) finding

that 88 per cent of employers expected schemes to struggle to find trustees willing to take on the role. The ACA described the industry as "creaking" under the weight of an increasing regulatory burden, which may push up costs.

There also seems to be no let-up in the amount of regulation being put on trustees' shoulders. The dashboards are on their way, albeit slowly, with data cleansing yet another task that trustees and governing bodies will have to contend with, if they haven't already.

Furthermore, consultations keep coming thick and fast. Understanding and reporting on all of them can be a tricky task for us journalists, so I can't imagine how difficult it is for trustees to understand, respond and then meet the requirements outlined in them.

Although there is obviously a need for regulation to ensure that members receive good outcomes and allow pensions to be a force for good in relation to climate change, this is not being matched with either sufficient remuneration or a drive to encourage younger people to become professional trustees.

Something will have to give unless the government and regulators can find an efficient, consistent, and collaborative approach to help trustees deal with the level of regulation without negatively affecting member outcomes.

Written by Jack Gray

Scope 3 emissions myths

Thomas Hohne-Sparborth debunks seven misconceptions about scope 3 emissions

In this investment viewpoint we describe seven key misconceptions that we think may have deterred investors from fully integrating considerations linked to scope 3.

Scope 3: Indirect emissions linked to supply chains and product use
Companies' greenhouse gas (GHG) emissions are subject to strict accounting rules. However, there is only one global standard for GHG emissions reporting (The Greenhouse Gas Protocol)[1]. Accounting for one's carbon emissions requires specific expertise and understanding of this Protocol. In particular, understanding and appreciating the nuances of different parts of a company product's lifecycle (known as scope 1,2 and 3 emissions) is critical.

Misconception 1: Scope 1 and 2 emissions are comprehensive enough
Many investors still focus primarily on scope 1 and 2 emissions, believing that this provides a reasonable insight into most companies' carbon footprints. However, for key industries (eg oil, gas and automotive sectors) and all major sectors, excl. utilities, scope 3 are the dominant type of emissions. Therefore, if investors do not take scope 3 emissions into account, they fail to capture a company's full GHG profile.

Misconception 2: Scope 1 and 2 emissions are more important due to corporate control
This view can be challenged on three accounts:

- First, companies have significant influence over their supply chains and can engage suppliers to reduce emissions.
- Second, companies can directly reduce their supply-chain emissions by transitioning to less carbon-intensive business models.
- Third, even where a company's ability to influence scope 3 emissions may be limited, the company's exposure to these emissions still creates significant transitional risks – driven by regulatory and market forces.

Misconception 3: There is insufficient data to meaningfully assess scope 3 emissions
In 2010, fewer than 3,000 companies disclosed information to the Carbon Disclosure Project, but as of 2020 this had grown to over 9,500. Furthermore, what is often overlooked is that scope 3 emissions can often be assessed even if they are not reported.

Misconception 4: Emissions double-counting occurs within portfolios
If an investor holds an oil and gas and a transport company in the same portfolio, would the oil and gas company not be reporting emissions that are also already counted by the transport company? We believe not. Double-counting of emissions should be considered from an economy-wide, rather than portfolio, perspective.

Misconception 5: Double-counting is undesirable and should be adjusted for
We argue that although emissions are double-counted across a value chain, carbon risks also reverberate through supply chains. While double-counting may recognise that companies share responsibility for emissions, it artificially deflates the true scale of a portfolio's carbon exposure and the financial risks that it entails.

Misconception 6: As data are still improving, it makes sense to defer scope 3 analysis
Given the misunderstandings about scope 3 analysis, some investors are taking a cautious approach. We believe that delaying scope 3 analysis across the economy will result in significant turnover in investors' portfolios. This could lead to investors selling hidden, poorly aligned companies and drive appreciation among better-aligned companies before investors lagging on scope 3 analysis have identified them.

Misconception 7: High scope 3 emissions disqualify companies from a climate-aligned portfolio
Including scope 3 emissions in investment analysis improves the accuracy of carbon-risk assessments in portfolios but does not mean that high-emitting companies should necessarily be excluded. Carbon-intensive industrial sectors are often among the most important in the net-zero transition.

The right question is therefore not whether a company is emissions intensive today, but whether it is transitioning quickly enough to meet Paris Agreement-aligned decarbonisation objectives.

Written by Lombard head of sustainability research, Thomas Hohne-Sparborth

In association with

LOMBARD ODIER INVESTMENT MANAGERS

Source: 1. We set the standards to measure and manage emissions / https://ghgprotocol.org/

Top of the (pensions) pops

B&CE, provider of The People's Pension, director of policy and external affairs, Phil Brown, chats with Sophie Smith about his days mixing cocktails for A-listers and his secret pizzaiolo skills

What's your employment history (including jobs outside of pensions)?
At the risk of sounding like the opening line to one of the great hits of the 80s, I worked in a cocktail bar – which I really enjoyed but I probably had too much fun if I am being honest.

I also once worked in a game reserve during the holidays in my final year at school in Zambia.

I have been in the pensions industry for nearly 35 years. I have worked at Teachers Assurance where I led marketing and customer services teams. I have also spent time at the Financial Services Authority, which has since ceased to exist and was replaced by the Financial Conduct Authority.

I then went to lead retirement products at Partnership before I moved onto LV= where I led the proposition and marketing teams before being head of policy. During my career I have also operated as an independent consultant, as well as being a member of many trade body committees and industry groups, such as the HMT FinTech Delivery Panel and the Money and Pension Advice Service independent review panel.

What's your favourite memory of working in the pensions sector?
There are many highlights from working in a fast-moving industry and delivering market changing projects. There is also a surprising number of characters, but my enduring memory has to be my, then young, son texting Tom McPhail who thought the text was from me – I won't tell you what the text said!

If you did not work in pensions, what sector do you think you would be in instead?
If I do say so myself, I am a dab hand with a pizza oven so I could see myself as a pizzaiolo in another life.

What was your dream job as a child?
Marine biologist.

What do you like to do in your spare time?
I love being outdoors and I regularly climb the cliffs near where I live in Dorset. I also have a passion for being on the water with a paddle in hand and my son and I regularly go canoeing and kayaking. We have completed the 100 miles of the River Wye challenge a couple of times too.

Do you have any hidden skills or talents?
During my days of working behind a bar, I once mixed a cocktail for George Michael at the height of his fame.

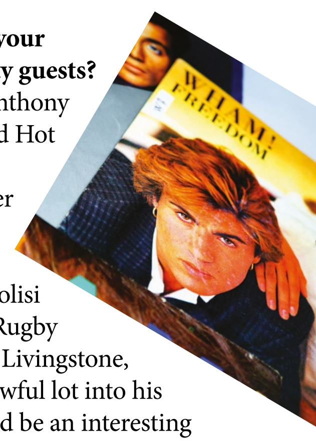
Is there a particular sport/team that you follow?
Coming from Southern Africa, rugby is a religion, and I am a passionate follower of the South African national team, the Springboks. Our 2019 World Cup victory was particularly sweet. Let's not mention the result against the England team last month *[November]*.

If you had to choose one favourite book, which would you recommend people read?
Sky Burial by Xue Xinran is a remarkable story of life in Tibet.

And what film/boxset should people see?
Blood Diamond is a great film and helped shine a light on a ruthless trade that more people should be aware of.

Is there any particular music/band that you enjoy?
It's got to be the Red Hot Chili Peppers.

Who would be your dream dinner party guests?
George Michael, Anthony Kiedis from the Red Hot Chilli Peppers, the endurance swimmer and UN Patron of the Oceans Lewis Pugh, Siya Kolisi the South African Rugby captain, and David Livingstone, who crammed an awful lot into his 60 years. That would be an interesting night.



Is there an inspirational quote/ saying you particularly like?
"Be yourself, everyone else is taken." – Oscar Wilde

Written by Sophie Smith

The investment landscape in 2022

While bonds will suffer as rates rise, equities should deliver decent single digit gains as strong corporate profits offset a decline in stocks' earnings multiples

For all the fears that markets are at a turning point, next year is likely to result in a continuation of 2021's trends, albeit with 'less of the same'.

The economic and market recovery triggered by the removal of Covid-19 lockdown measures is intact, if in its final phases.

Record valuations, tighter monetary policy, expansionary fiscal measures and surging inflation point to modest gains for equities in 2022 following the market's robust recovery from pandemic lows.

A US rate hike next summer will push up global bonds yields, though the magnitude of the move will be mitigated by the fact that the US Federal Reserve and other central banks remain concerned about maintaining growth and employment rather than sticking narrowly to their inflation remits.

Based on our asset allocation framework, which takes into account economic conditions, liquidity, asset class valuations and technical readings, we expect equities to deliver single-digit returns for global stocks in 2022, with strong growth in corporate profits more than offsetting a contraction in equities' earnings multiples.

Conditions for bond markets will be tougher, however, with US Treasuries (which set the trend for the fixed income market generally) expected to post losses on the year even though yields on the 10-year note will struggle to rise above 2 per cent.

With real yields on inflation protected bonds at an all-time low, this part of the market will also fail to deliver for investors.

We believe the global economy will remain strong – at the very least returning to pre-pandemic trends of activity – with both growth and inflation above trend for another year.

Consumption of services should pick up, closing the gap with goods consumption – and there's significant upside here: hotel bookings and air travel reservations are still less than half of their pre-pandemic levels.

At the same time, supply bottlenecks should ease with the lessening of mobility restrictions in key Asian economies. Not only will this feed end demand, but it will also allow for depleted inventories to be restocked.

Equities: Mid-cycle tug of war

For equities, the easy road is coming to an end after three years of stellar double-digit returns.

However, we remain cautiously optimistic. Within equities, we expect cyclical value markets and sectors to outperform in 2022 as economies continue to re-open and bond yields rise.

We remain very cautious on emerging market equities (and emerging market assets in general) in the short term. The current pace of growth in developed markets, especially in the US, makes the hurdle for EM outperformance very high when adjusting for the risks inherent in investing in the developing world.

However, we think a rotation back to emerging markets is likely in the second half of 2022, contingent on improved macro-economic momentum and an end to – or significant slowdown in – the pace of monetary tightening across the developing world.

Fixed income:Another challenging year

Fixed income investors should brace themselves for another challenging year. As the global economy recovers from the Covid recession, supply bottlenecks and rising energy and commodity prices are pushing inflation higher, prompting major developed and emerging market central banks to tighten monetary policy.

Markets are pricing in the possibility that central banks in the US, euro zone and the UK will have raised interest rates by at least once by the end of next year.

In this challenging backdrop for the asset class, Chinese government bonds continue to stand out with an attractive yield, a proven track record of diversification benefits and relatively muted inflation dynamics. What is more, they are denominated in a currency that we believe should appreciate over the long-term thanks to powerful structural trends.

Written by Pictet Asset Management chief strategist, Luca Paolini

Retirement Living Standards: A new target

From Netflix subscriptions to annual holidays abroad, Natalie Tuck looks at what retirees need to save to be able to afford life's luxuries based on the PLSA's updated Retirement Living Standards

The Pensions and Lifetime Savings Association (PLSA) first launched its Retirement Living Standards (RLS) in 2019 to help savers picture what income they would need in retirement to afford life's necessities and luxuries.

Two years later and the association has updated the standards, increasing the annual income needed for all categories. The update is as a result of the PLSA's bi-annual partial review of the standards – it will undertake full reviews every four years.

The updated standards now also take into account the changing attitudes towards lifestyle since the Covid-19 pandemic. The association commissioned the Centre for Research in Social Policy to produce reports on the impact of Covid-19 on people's plans for retirement and the retirement living standards in the UK in 2021; it found that many respondents felt the loss of freedom had highlighted the importance of foreign travel and financial security.

Furthermore, the pandemic has reinforced savers' belief in the importance of having choice and opportunities. The RLS have three tiers – minimum, moderate, and comfortable, with the standards designed to help people understand what they want in retirement and what the cost could be.

The annual budget for minimum RLS has increased by £700 for a single person since they were launched in 2019, up to

£10,900, and by £1,000 for a couple, to £16,700. Much of the increase was due to rising transportation costs, which increased by 10 per cent over the two years, while the minimum tier also now includes a budget for hairdressing and a Netflix subscription.

The moderate level of RLS also increased over the same period, by £600 for a single person to £20,800 and by £1,500 for a couple to £30,600. In the moderate tier, the eating out budget increased, alongside rises in council tax and inflation.

For a comfortable retirement, single people's annual budget has increased by £600 to £33,600, while a couple's budget rose by £2,000 to £49,700. Increases seen at the moderate level were also included in the comfortable tier, while additional costs such as annual maintenance and the servicing of a burglar alarm were included for the first time.

Overall, the PLSA expects around three-quarters of single people are likely to achieve the minimum standard, while it should be achievable for all couples. Around half of single people can expect to meet the moderate standards, and approximately one in six single workers should achieve a comfortable retirement level.

PLSA director of policy and research, Nigel Peaple, says the standards were updated to ensure they "remain relevant" with the new standards reflecting "real world price changes and real-world expectations about lifestyles in retirement".

"By doing this we hope the updated standards will encourage people to think about whether they are saving enough for the retirement lifestyle they want and, in particular, whether they are making the most of the employer contributions on offer in their workplace pension."

There are 50 pension providers, schemes and organisations making use of the RLS and the PLSA estimates that over 14 million people see them referred to in communications about pensions and retirement planning.

"As seen from our first ever RLS awards, many adopters are using thought-provoking and engaging methods – such as embedding the standards in annual benefit statements and retirement income tools and creating personalised video pension statements – to showcase them to savers and we are looking forward to seeing more take forward our work and use it in new and creative ways," Peaple says.

"Additionally, our Friends of the Retirement Living Standards help fund the necessary further research to ensure the standards remain relevant now and in the future by providing support to the work being undertaken."

Written by Natalie Tuck

Focus on the UK LBO market

BlackRock considers the benefits of international diversification within private market investment

Empirical evidence shows that limited partners exhibit home bias when selecting PE fund managers[1]. This behaviour is reflected in selecting both fund managers domiciled in the same region and in preferences for investments located in limited partners' geographical proximity. From the geographical exposure perspective, investors are facing a trade-off. Investing close to home brings informational advantages as well as better access to fund managers. On the other hand, geographical diversification can enable better risk-adjusted performance of their private market programmes. This article focuses on the UK buyout market and provides a historical analysis of the UK and the global leveraged buyout (LBO) market performance and furthers the discussion around benefits of international diversification in private market investments.

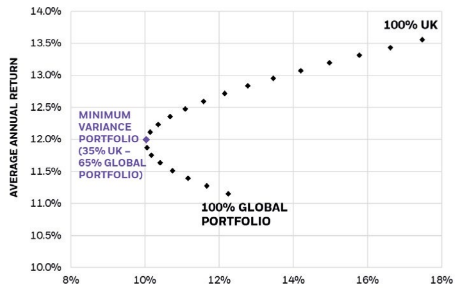
We looked at the eFront Insight universe of the 20-year history of quarterly returns of regional pools of LBO funds to quantify the correlation structure between different regions.

Table 1 *– Correlation coefficients between the quarterly returns of the eFront Insight universe of funds pooled in the UK and regional LBO markets (in EUR)*

Correlation with UK LBO returns (in EUR)	
WE	0.83
US	0.76
SCANDINAVIA	0.76
FRANCE	0.69
DACH	0.65
SOUTHERN EUROPE	0.64
APAC	0.58

Source: eFront Insight, As of Q2 2021. The table shows the correlation coefficients between quarterly returns in different geographical regions with common historical span (Q1 2001-Q2 2021). An end-to-end return calculation is a standard IRR calculated over a set quarterly period rather than since inception. The starting period for an end-to-end IRR will convert the ending NAV to a negative value and consider it as the initial cash flow. All the returns are net of fees. The currency used is EUR. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Figure 1 *– Efficient frontier for the portfolios combining the eFront Insight universe of UK focused LBO funds and the constructed Global portfolio mix (50 per cent US, 30 per cent Western European and 20 per cent APAC focused eFront Insight universe of LBO funds)*



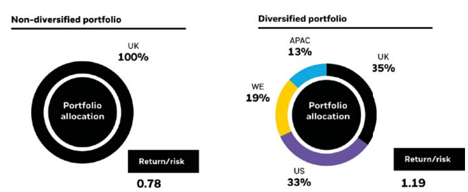
Source: eFront Insight, As of Q2 2021. The chart displays the efficient frontier based on correlation coefficients between quarterly returns in different geographical regions with common historical span (Q1 2001- Q2 2021). An end-to-end return calculation is a standard IRR calculated over a set quarterly period rather than since inception. The starting period for an end-to-end IRR will convert the ending NAV to a negative value and consider it as the initial cash flow. All the returns are net of fees. The currency used is EUR. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Getting exposure to less correlated markets enables the benefits from limited partners diversifying their buyout portfolios away from their local region. As shown in Table 1, the observed buyout funds investing in large regions such as Western Europe and the US exhibited comparatively higher correlation of performance with the UK focused LBO funds. Investing further away in the APAC region or searching in the direction of specific European subregions provides additional diversification benefits.

A look at the efficient frontier supports the theory that investing in lower correlated markets improves the risk-return profile of a portfolio. Figure 1 contrasts the historical average of annual returns and standard deviation of returns for two portfolios representing the eFront Insight universe based on the portfolio deal location, the pure UK focused buyout portfolio and the constructed global portfolio mix (50 per cent committed to the US focused LBO funds, 30 per cent to Western European funds and 20 per cent to APAC).

Zooming in on the minimum variance portfolio that represents 35 per cent of total capital invested in the UK market and the remaining 65 per cent in the constructed global portfolio shows that there is a significant increase in the achieved average return per unit of risk, improving from 0.78 to 1.19 (Figure 2).

Figure 2 *– Comparison of the historical realisations of the risk-return profiles of eFront Insight universe of regional portfolios*



Source: eFront Insight, As of Q2 2021. The chart displays the historical risk-return profiles based on correlation coefficients between quarterly returns in different geographical regions with common historical span (Q1 2001- Q2 2021). An end-to-end return calculation is a standard IRR calculated over a set quarterly period rather than since inception. The starting period for an end-to-end IRR will convert the ending NAV to a negative value and consider it as the initial cash flow. The risk is calculated as an annualized standard deviation of quarterly IRR returns. All the returns are net of fees. The currency used is EUR. The figures shown relate to past performance. Past performance is not a reliable indicator of current or future results and should not be the sole factor of consideration when selecting a product or strategy.

Written by BlackRock vice president, head of eFront research, Marija Djordjevic

In association with BlackRock®

[1] See Hohberg & Rauh (2011) for US institutional investors and Morkoetter & Schori (2021) for global pool of limited partners.

The objective of this article is to influence the trade-off dilemma limited partners are facing in defining their regional allocations, by providing rich historical regional performance and correlation data-driven analysis. The article is not intended to provide investment recommendations.

Trustees need better data for the journey to net zero

Summary
- Trustees need better data from all their partners to enable scheme assessments and comparisons.
- 23 per cent of trustees say climate change will have a 'high impact' on their investments.
- 25 per cent of schemes are actively pursuing net zero targets.

Pension scheme trustees are increasingly aware of the impact that climate change could have on their portfolios – but they need more and better-quality data to support meaningful action

Pension scheme trustees need much higher quality data on environmental, social and governance (ESG) matters to achieve climate and other goals, according to a survey by asset servicing firm CACEIS Investor Services, in association with *Pensions Age.*

Trustees from schemes of all sizes, including 7 per cent larger than £15 billion, across DB and DC arrangements were surveyed. The majority (55 per cent) were from corporate DB schemes.

The lack of standardised ESG data was cited as a major cause for concern by 57 per cent of trustees, meaning they were not able to make ESG comparisons. This was cited as the biggest or second-biggest concern when asked about the challenges in getting access to data.

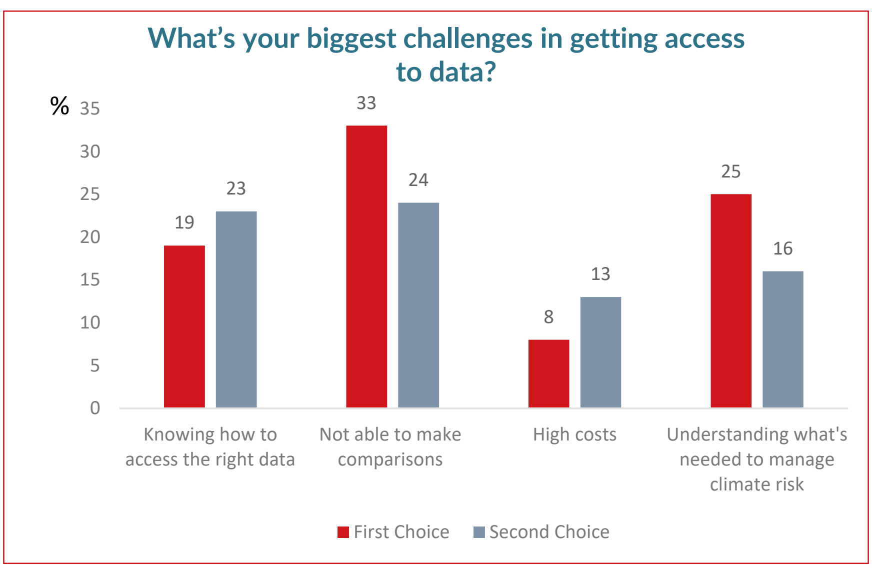
Standardised data is an important step in linking real-world climate challenge to metrics that pension schemes can use to help manage climate risks.

The survey found widespread reporting concerns: 72 per cent of trustees wanted better reporting of ESG and carbon data; 70 per cent required more information from asset managers; and 69 per cent needed better access to climate data of their investments. Sixty per cent said they needed more information about both physical risks, the impairment of assets resulting from climate change, and transition risks, arising from the shift to a low-carbon economy.

Overall, only 32 per cent of respondents said they had sufficient information to understand how climate risk could impact their investments, with 44 per cent saying it was insufficient.

"For pension schemes, climate risk governance is an increasingly important part of responsible investing," says CACEIS UK product specialist, Scott Foster. "Although UK pension schemes are in a unique position to drive change and capital flows, access to reliable data and self-sufficiency in assessing climate risks is needed to empower change and avoiding green washing.

"These survey results highlight that many schemes are still struggling with access to aggregated high-quality data, and lack the tools required to enhance the decision-making and governance processes. Closing this data gap must be a priority as regulatory and financial risks build up."



Impact on investments

The most important driver for looking at ESG and climate risk was managing investment risk, cited as the primary reason by 44 per cent of trustees, followed by regulatory requirements, by 31 per cent. These factors were also cited by 20 per cent and 28 per cent respectively as the second most important driver.

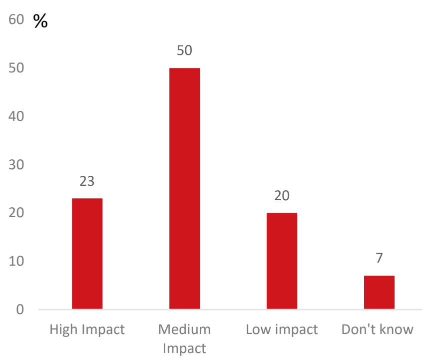
The survey also revealed trustees' main climate-related concerns for their portfolios. For 37 per cent the biggest concern was transition risk. For 27 per cent, regulatory risks were the biggest concern, while 13 per cent were more focused on physical risks.

Concerns edge up

Trustees' concern about of the impact of climate change on their scheme's investments intensified this year, although there remains a notable gap between climate impacts and investment risks. Now 23 per cent of trustees think that it will have a 'high impact', up from 17 per cent last year.

The proportion that assesses it will have a 'medium impact' increased marginally (50 per cent, up from 49 per cent) and 'low impact' decreased slightly (20 per cent, down from 22 per cent). The amount that did not know decreased from 12 per cent to 7 per cent, suggesting greater engagement with the issue.

What impact do you think climate change will have on your scheme's investments?



The relatively low percentage predicting a 'high impact' on portfolios does not tally with the extensive coverage climate change has had in the year leading up to COP 26. For example, in 2019 alone 300 billion working hours were lost globally and by 2040 3.9 billion people will be exposed to major heatwaves, according to Chatham House.

The survey found that managing climate change risk was 'very high' on 25 per cent of schemes' agendas and 'somewhat high' on a further 54 per cent. The remaining 21 per cent considered it to have a 'low impact', which seems a high proportion even if some schemes have a short time horizon remaining.

Regulatory reporting

The UK government embedded the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD) into UK law with the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021.

The new law requires trustees of occupational pension schemes to identify, assess and manage climate-related risks and opportunities, starting with those with assets above £5 billion in October 2021 followed those with above £1 billion a year later. In the survey, 33 per cent were planning to act on the TCFD recommendations and 34 per cent were 'thinking about it', including some schemes larger than £5 billion.

Trustees were asked how their pension schemes verify and manage climate risks. Only 11 per cent said they independently verify ESG risks, with 42 per cent relying on consultants and 38 per cent relying on their asset managers. Just 2 per cent relied on custodians, despite them being well-placed to provide strong governance oversight.

Likewise, only 10 per cent of respondents said they had a dedicated resource to screen ESG and climate risks, with 43 per cent relying on consultants and 34 per cent on asset managers.

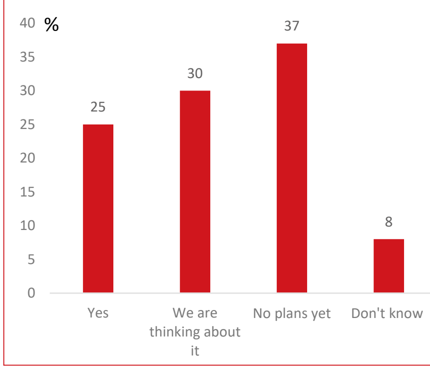
Climate risks impact schemes of all sizes, yet independent verification remains the purview of large schemes; the survey found the majority of schemes that undertake independent verification had assets of more than £1 billion.

CACEIS UK managing director, Pat Sharman, points to a "misalignment between pension schemes and asset managers". She adds: "For me, this reinforces the importance of pension schemes creating their own independent viewpoint of how their investments are impacted by the physical and transition risks of climate change."

Net zero targets

In the G20 group of advanced economies, 18 governments and one-third of companies have committed to targeting net zero emissions by 2050, according to the Energy & Climate Intelligence Unit. However, the survey found only 25 per cent of schemes are actively pursuing net zero. Another 30 per cent said they were 'thinking about it', while 37 per cent said they had no plans to do so.

Is your scheme going to adopt net zero targets?



"Companies are updating their plans to decarbonise in the future and reach net zero," says Sharman. "As an industry we need to be proactive in using this information to manage our investment decisions."

Sharman adds that data challenges "shouldn't stop the pensions industry taking action" as the quality of data was "improving rapidly".

Written by Brian Gorman, a freelance journalist

In association with

CACEIS INVESTOR SERVICES

Lost, not yet found

As concerns over the growing problem of lost pension pots continue, Sophie Smith explores what is being done to address this issue and protect member savings

The issue of lost pension pots has long been a concern for the pensions industry, with many organisations taking a renewed focus on this issue in recent months amid National Pension Tracing Day, which was founded by Punter Southall Aspire and supported by supported by Scottish Widows, Aegon, Legal and General and Standard Life.

The campaign has also received support from Money and Pensions Service, which sees more than 400 people call its government-backed MoneyHelper phoneline to track down their pensions every month.

Yet, despite industry efforts, concerns remain, with research from Blacktower FM suggesting that 17 per cent of savers are expected to lose track of one or more pensions during their working life.

There are also signs that the issue could worsen with future generations, as research from Hargreaves Lansdown revealed that one third of 18-24 and 35-44 year olds have three or more pensions. In total, the survey found that 45 per cent of savers had one pension, whilst 28 per cent had two and 12 per cent had three.

Younger people were more likely to have accumulated a larger number of pensions, with one third of 18-24 year olds and 35-44 year olds stating that they have three or more pensions, compared to 22 per cent of those aged 55-64. Hargreaves Lansdown warned that younger people are also likely to have several more jobs in their lifetime and therefore could risk losing track of several pensions.

Commenting on the findings, Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey, warned that there could be a "looming problem of people losing track of what they have", meaning that they are not going to get as much pension as they should when they retire.

She said: "The concept of a job for life no longer exists and the reality is most people will work for several different employers and accumulate a number of pensions over their working lives.

"As you shift employers and then move house, you can forget to keep your details updated and before you know it you have lost track of old pensions and this can be further complicated if an ex-employer was to be taken over and change its name, or go out of business."

Indeed, research from PensionBee revealed that savers could miss out on an estimated £64 billion in pension savings due to out of date contact details, as just 37 per cent of savers updated their addresses with their pension provider prior to moving home.

The survey revealed that whilst 67 per cent of savers understood that by not updating their provider of a change of address they run the risk of losing track of their pension savings, almost a third (32 per cent) of pension savers expected their pension provider to still be able to find and contact them.

Furthermore, whilst the majority (70 per cent) of savers still receive annual statements by post, only 37 per cent had updated their address with their pension provider(s) in advance of moving, with 28 per cent instead planning to update their contact details once their move was complete.

PensionBee CEO, Romi Savova, highlighted the findings as "extremely shocking and concerning", warning that as house moves are increasingly popular at the moment, it's "never been more important for savers to ensure that their providers have up to date contact details".

"Losing track of hard-earned savings can have a significant impact in later life, and could see millions of people working for far longer than they would otherwise need to, before they can afford to comfortably retire," she said, continuing: "Pensions are a long-term investment so changes in personal details are expected over the years.

"All providers need to offer digital solutions so savers can easily update their personal information and manage their savings in a few clicks, instead of relying on the outdated practices of the past."

And further, more sinister risks could be lying just under the surface, as PensionBee also warned that if pension statements are being sent to incorrect addresses, around 10.4 million people could be at risk of mail fraud, should their sensitive personal financial information end up in the hands of fraudsters.

Written by Sophie Smith

A long-term look

Rupert Kotowski considers how long-term goals are shaping DB schemes' investment strategies

As they increasingly target buyout, the long-term goals of defined benefit (DB) pension schemes are affecting their appetite for investment risk.

The Aon *Global Pension Risk Survey 2021/22* surveyed 137 UK DB pension schemes of widely different memberships and assets under management. For the first time since we launched this survey a decade ago, we found that more schemes are now targeting buyout (47 per cent) than self-sufficiency (34 per cent).

Timescales to achieve that target are also falling. The average anticipated time fell from 9.4 years in 2019 to 8.8 years in the 2021/22 survey.

However, as 63 per cent of respondents will depend on asset performance to reach their long-term goal, finding the right balance between risk and return remains as crucial as ever.

Improved funding levels have allowed schemes to reduce risk in their portfolio. At the same time, greater awareness of the impact of environmental, social and governance (ESG) factors on investment is also reshaping schemes' investment approach.

The funding level of three-quarters (75 per cent) of schemes monitored by Aon is now higher than before the Covid-19 pandemic, and that has helped respondents reduce risk in their investment portfolios. More than half (51 per cent) said that they expect to lower their equity exposure over the next year, while 34 per cent expect to increase their use of credit, and 37 per cent expect to allocate more to liability-driven investment strategies.

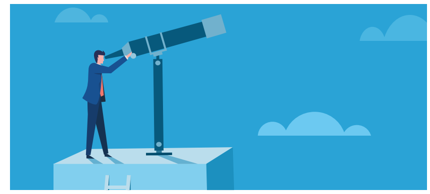
Hedging ratios have also improved as schemes look to retain the gains of recent years. Almost three-quarters (74 per cent) of respondents now have interest rate hedge ratios of over 80 per cent (of assets), compared to just 45 per cent in our 2019 survey.

As funding levels improve, schemes are turning their attention to other sources of risk in their portfolio. In particular, ESG-related risk has risen up trustees' priority lists, driven both by regulatory change and increasing awareness of the economic and social impact of climate change. A total of 92 per cent of respondents now say that they have considered their ESG policy, although they are at different stages of development and implementation.

It is positive to see that a fifth (20 per cent) of schemes have already made changes to their investments based on their ESG policy. For example, in equity portfolios, those changes include tracking ESG-specific indices rather than more traditional market cap indices, screening out persistent polluters, and investing in renewable forms of energy.

This focus on ESG looks set to grow further, with 84 per cent of respondents saying that they have already reviewed or are likely to review climate-related risks within the next two years. This includes exploring opportunities that arise from the transition towards a lower carbon environment, as well as investing for social or environmental impact (57 per cent).

We found that respondents are becoming more committed to measuring the climate-related impact of their portfolio. Nearly two-thirds (64 per cent) of respondents said that they will consider carbon metrics and targets within the next two years. As measurement evolves, ESG is likely to become an integral part of future investment decision-making and will further sharpen schemes' appetite to reduce their carbon



exposure. Understanding the current carbon footprint of a portfolio will be an important starting point for setting realistic targets and timescales.

For schemes that are not targeting buyout in the immediate future, illiquid assets remain an important part of their portfolios. The increased focus on ESG is also reflected in respondents' desire for illiquid asset allocations, which include funding energy transition projects and clean energy generation.

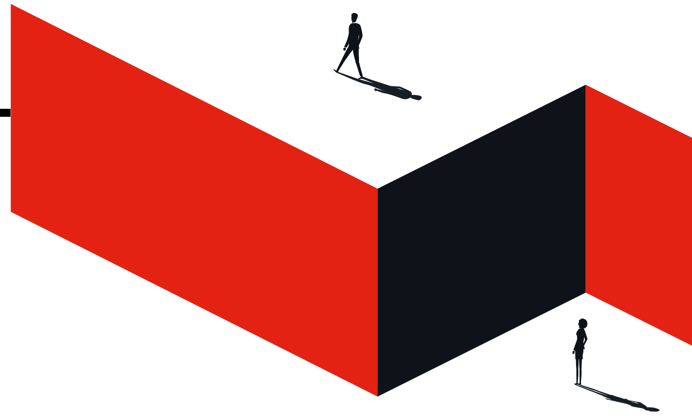
Inflation protection, diversification and good return opportunities are some of the other key benefits of illiquids. Opportunities that provide capital growth alongside a consistent income stream to help meet liabilities, such as infrastructure (34 per cent) and real estate (32 per cent), are particularly popular.

For schemes that are looking to buyout, trustees will need to make sure their investment approaches are easily matched to annuity pricing and meet insurers' needs. That will help position schemes at the front of the queue with buyout providers when there is an opportunity to transact.

Regardless of a scheme's long-term objective, as the drive towards their target gathers pace, keeping investment risk under regular review will become more important than ever. Further improving funding positions, reducing risk across portfolios, addressing ESG issues and monitoring use of illiquids will all continue to be at the forefront of trustees' minds.

Written by Aon associate partner, Rupert Kotowski

In association with AON Empower Results®



Lessons learned

The DWP has committed to rectifying issues around underpaid state pensions by 2023, Sophie Smith looks at the progress so far

The Department for Work and Pensions (DWP) has reassured the industry and savers that "lots of lessons" have been learned from the official underpayment of state pensions, confirming that the government is "absolutely determined" to rectify the issue by 2023.

Issues around the underpayment of state pensions were first highlighted in March 2020 by LCP partner, Steve Webb, after a freedom of information request revealed that "tens of thousands" of women were not receiving the correct state pension uplifts.

The problem affects those women who reached state pension age before 6 April 2016 and are covered by the 'old' state pension system, under which, married women could claim an enhanced rate of state pension when their husband reached 65 in cases where they only had a small individual state pension entitlement, with parallel rules for widows and divorced women.

A report from the National Audit Office (NAO) has also since found that years of human error had led the DWP to underpay over £1 billion in state pension payments to around 134,000 pensioners, stating that some level of human error had been inevitable due to the complex rules and high degree of manual review necessary when assessing claims.

In addition to this, the NAO warned that relevant IT systems were "outdated and unautomated", noting that DWP caseworkers often failed to set or action manual IT system prompts on pensioners' files to review the payments at a later date.

Commenting in response, a DWP spokesperson said: "We are fully committed to ensuring the historical errors that have been made by successive governments are corrected, and as this report acknowledges, we're dedicating significant resource to doing so.

"Anyone impacted will be contacted by us to ensure they receive all that they are owed.

"Since we became aware of this issue, we have introduced new quality control processes and improved training to help ensure this does not happen again."

Indeed, the legal entitlements and administrative practice exercise being run to identify those individuals who had been underpaid their state pension commenced on 11 January 2021 and is expected to be completed by end of 2023.

A recent progress update from the DWP also confirmed the number of cases identified so far, revealing that a total of 9,491 underpayments of state pension were identified between 11 January and 30 September, with those affected owed a total of £60.8 million.

It showed that, of 25,990 cases reviewed involving married women, 2,681 underpayments totalling £20.8 million were found, with an average arrears payment of £7,772.

"Of the 6,467 cases involving widows, meanwhile, 2,381 underpayments totalling £20.2 million were identified, representing an average arrears payment of £8,628. A further 4,429 underpayments totalling £19.7 million were also identified amongst those over 80, out of 6,050 cases reviewed, with an average payment of £4,455.

Speaking at a Public Accounts Committee evidence session on 28 October, DWP permanent secretary, Peter Schofield, also reiterated the government's commitment to remedy the issue by the end of 2023.

He said: "We want to assure you that we are absolutely doing what we can to take lessons on board, make changes and improve things.

"We are absolutely determined to pay this money to those who are entitled by the end of 2023."

He also reassured the committee that the DWP was "learning and developing how to run scans on these very old systems that pick up these cases", emphasising the need to "learn faster than we have been in the past".

However, Schofield clarified that the proportion of underpayments due to official error in the state pension system is "very low", estimating that it impacted around 0.3 per cent of individuals, which last year would have equated to £310 million out of a total budget of £101.2 billion.

Despite this, Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey, warned that the DWP's assertion that the issue has only hit 0.3 per cent will come "as no comfort to the estimated 134,000 pensioners who have been underpaid".

"The situation was caused by a mixture of antiquated systems and human error and DWP have questions to answer on whether lessons have indeed been learned quickly enough given the time it has taken to address a problem that has rumbled on for many years," she said.

Written by Sophie Smith

New requirements for statutory transfers

Matthew Swynnerton, who is a member of the Pension Scams Industry Group (PSIG), looks at the new requirements for statutory transfers under the Conditions for Transfer Regulations

On 8 November the DWP published the response to its May consultation on draft regulations prescribing additional conditions to be met in order for members to have a statutory transfer right. The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 will apply to statutory transfer requests from 30 November 2021.

The regulations are intended to address the issue that, under the current legislation, if a member has a statutory transfer right, trustees are required to implement it even if they have pension scam concerns. The regulations are intended to give trustees the tools to act in these circumstances.

Changes made to the draft regulations

There have been some significant changes to the regulations since the consultation, including:

- Rather than setting out four conditions, the final version of the regulations only specifies two conditions. Whilst that might seem simpler, the four conditions have been combined, and the result is fairly complex.
- The First Condition continues to provide a list of types of receiving scheme to which transfers can proceed without the trustees completing further checks. However, the list now only includes public service pension schemes, authorised master trusts and authorised collective money purchase schemes. A key change since the consultation is that personal pension schemes are no longer listed.
- The other three conditions in the consultation draft have been merged into one new Second Condition, allowing for a holistic consideration of the employment and residency links with the red and amber flags.
- The Second Condition applies to all transfers to which the First Condition does not apply and can be divided into two broad types – Type 1 and Type 2:
  - Type 1 transfers enable trustees to proceed, (except where the proposed receiving scheme is an occupational pension scheme or a QROPS), based on information they already hold if they conclude on the balance of probabilities that certain red and amber flags are not present;
  - Type 2 transfers to an occupational pension scheme or a QROPS, require specified evidence to be requested in relation to the employment link or residency link;
  - irrespective of the type of receiving scheme, for Type 2 transfers, trustees have the power to request evidence or information concerning the circumstances relating to the transfer in order to decide if the red or amber flags are present; and
  - the way that the relevant flags are assessed and the standard of proof used differs between Type 1 and Type 2 transfers.

Comment

Regulatory intervention which protects pension savers against scammers is to be welcomed and, for some time, the statutory transfer right has placed trustees in an invidious position when faced with statutory transfer requests to suspected scam vehicles. Greater powers to block transfers to scam vehicles and refer members for guidance from the Money and Pensions Service where there are signs of a potential scam will help the industry better protect members. However, the final version of the regulations is complex and contains significant changes and due diligence may not be straightforward. Trustees will need to consider their current transfer processes and take decisions on a number of issues, including:

- which cases should be referred to the trustee board, and how the trustee will determine subjective tests;
- updates needed to member information requests;
- ensuring the correct standard of proof is applied;
- the trustees' position in relation to complicated areas, including the extent to which:
  - enhanced due diligence will be required due to the difficulty of concluding "on the balance of probabilities" that no amber flags (one of which is the receiving scheme having overseas investments) are present, even where the transfer is to a "green list" scheme; and
  - discretionary transfer powers will be used
- reviewing and updating transfer communications.

Given the 30 November implementation date and statutory transfer deadlines, trustees should liaise with their administrators and take legal advice as quickly as possible to ensure that their transfer processes are updated in time.

Written by DLA Piper pensions partner, Matthew Swynnerton

In association with DLA PIPER

Widening the net

The government has proposed a solution to resolving the tax relief issue for low earners in net-pay pension scheme arrangements, but is the proposed method sufficient? Natalie Tuck reports

After bubbling under the surface for several years, the government has finally proposed a solution to resolving the net-pay anomaly that affects low earners in auto-enrolment pension schemes.

This long-known issue has impacted low earners in net-pay arrangements since auto-enrolment pension schemes were introduced. It affects those who earn over the £10,000 needed to trigger auto-enrolment but below the £12,570 income tax threshold who are enrolled in a net-pay pension scheme rather than a relief-at-source (RAS) scheme.

For those earning over the income tax threshold, the same amount of tax relief is given regardless of the type of scheme. However, due to the way the contributions are deducted in net-pay schemes, those earning below the threshold do not receive the relief. In a net-pay scheme, contributions are deducted from pay before any tax is applied, whereas with a relief-at-source scheme, the employee receives basic rate tax relief at source when they pay their net pension contribution. Despite the unfairness, net-pay schemes are popular with employers because they tend to have lower charges.

For many years the government declared that it was "not possible" to resolve the issue. However, the Conservative Party committed to resolving the anomaly in its 2019 election manifesto; two years later and a solution has been proposed. So, what does it entail?

The government had proposed four options in its initial call for evidence published in July. These included: Paying a bonus on real time data information; introducing a standalone charge to recover the top-up given on RAS schemes; introducing a requirement for employers to use both types of schemes (employee membership would be dependent on whether they earned above the income tax threshold); or, mandating the use of RAS for all defined contribution schemes.

Although option one (bonus proposal) was found to be the most popular option, it would have seen modifications to the P800 process to enable the bonus to be calculated. The call for evidence found that this would have introduced additional complexity for members, pensions schemes and HMRC. It was therefore deemed to be poor value for money.

Instead, the government is now proceeding with a top-up method that involves making changes to the pay as you earn (PAYE) reconciliation process, outside of the P800 process. This option will see HMRC notify savers that they are eligible for a top-up payment and then they will be invited to provide the necessary details for HMRC to be able to make the payment to them. The changes will apply to contributions made in the 2024/25 financial year, with claims able to be made from April 2025.

The move to resolve the issue has been largely welcomed by the industry but there is a consensus that the method is not the best solution. Former Pensions Minister and member of the House of Lords, Baroness Ros Altmann, who has long campaigned for the issue to be resolved, is pleased the government has "finally recognised" the problem and has "put forward some actual proposals to deal with it".

"As always, the devil will be in the detail and at the moment it is also disappointing that no change will happen before the 2024/25 tax year. So, for the coming years, low earners in net-pay schemes will continue to pay 25 per cent extra for their pension and have lower take-home pay than if their employer had chosen a different scheme that was more suitable for them. The other wrinkle is that the Treasury plans will require people to claim their refund and provide their tax details to HMRC to receive the money," Altmann says.

She believes the process of claiming may be very off-putting for low earners and also warns of the "serious danger" that people will be put off claiming because the process may well look suspiciously like a scam.

Written by Natalie Tuck

Tackling climate change: The role of defaults

Jon Cunliffe explains why default funds must be at the heart of any climate change strategy

There can be no doubt that the issue of climate change and its impact on the future of the planet is of huge importance to many people.

What's also very clear is that millions of us are making changes to our lifestyles with the aim of reducing our impact on the environment. We recently commissioned YouGov to ask more than 2,000 adults in the UK what they were doing to combat climate change and it was apparent that some life changes are easier to adopt than others. Our survey found that nearly eight in 10 people consider the issue of climate change important, with a similar proportion saying that they recycled in a bid to reduce their personal impact on climate change.

Nearly six in 10 have reduced their energy consumption, while a third say they are driving less. However, just two per cent of those polled say they have opted to move their pensions savings to a fund which is socially, environmentally or morally responsible – and that's even though nearly half of those polled say that they want their pension company to invest ethically on their behalf.

It is estimated that £2.6 trillion is tied up in UK pensions. Trustees who run pension schemes like ours are bound by a fiduciary duty to act in the best interests of all members when making investment decisions, and there is a firm belief climate change is a financially material concern. This means it's becoming an increasingly important factor in their consideration of this duty, as well as the thinking of both our industry and savers, particularly those who are engaged with their pensions.

The results of this survey didn't come as a surprise to us because our members have, for a long time, told us how important ESG issues – and the environment in particular – are to them. But it is also a fact that, in line with industry trends, the vast majority of our 5.4 million members remain invested in our default fund. In addition, firms scoring the highest in terms of ESG tend to be better at managing the non-financial risks of their business activities and are consequently often rewarded with a higher valuation by the market. As a result, there is evidence that better ESG scores can align with higher risk-adjusted returns.

That's the key point here – we know that many of our members want us to invest their retirement savings responsibly without sacrificing returns, and we don't think members should have to take it upon themselves to switch funds to make that happen. This has led us to focus hard on the ESG aspect of our default fund, which has recently been recognised by ESG ratings provider, MSCI. The growth phase of our default fund has been rated AA for ESG, meaning that it is now classed as a leader in managing the non-financial risks these issues represent.

This is great news because it demonstrates to savers just how effective our default option is.

Last month, the world's most influential people descended on Glasgow for the UN Climate Change Conference (or COP 26) where strategies were developed for tackling one of the biggest issues we are likely to ever face. In readiness for this much heralded event, the government unveiled a series of measures designed to put a greater climate focus on the nation's pensions.

Chancellor Rishi Sunak announced plans to implement Sustainability Disclosure Requirements (SDRs) that will see the financial services industry, including pension schemes, having to tell their savers about their sustainability-related risks, opportunities and impacts.

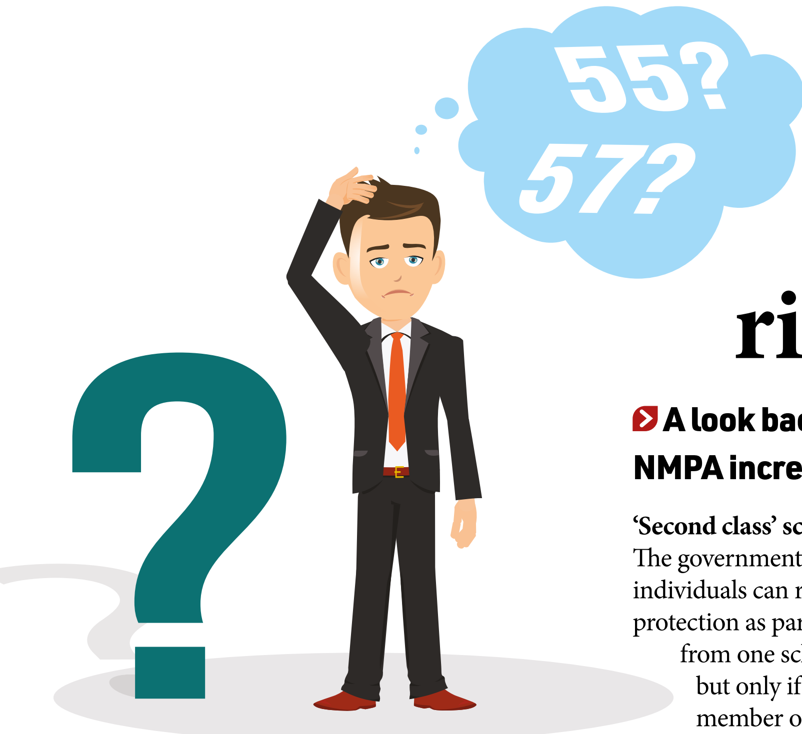
Then came the announcement of plans to ensure pension trustees measure and report on how their investment portfolios are aligned to the Paris Agreement.

Much of the important work is already being done by the pensions industry, which includes us. For instance, we have already taken steps to reduce our portfolio's net emissions by applying carbon reduction requirements on a portion of assets in a number of our funds. This reduces carbon emissions intensity and potential emissions from fossil fuel reserves by at least 50 per cent for those assets, but there is more to do and we are exploring ways of making further reductions.

We believe that climate change is a material financial risk to members' pension savings, meaning we are seeking to manage climate risk across the whole portfolio. Because the vast majority of our members are invested via our default fund, we are passionate that, rather than expecting savers to move their money to climate specific funds, all pension providers should operate in the best interest of savers by ensuring their default funds invest responsibly and work to tackle climate change effectively. We also believe that this will have the most impact in aiding the transition to a net-zero economy.

Written by B&CE, provider of The People's Pension, managing director, investments, Jon Cunliffe

In association with the people's pension



Rising age, rising confusion

A look back on the complexities surrounding the NMPA increase

Plans to raise the normal minimum pension age (NMPA) that people can access their pension without a tax penalty from 55 to 57 finally came into being this year.

A move that generated controversy throughout 2021; not for the rise itself, which was first proposed in 2014 by the coalition government, but for its 'overly complex proposals' for protected pension ages.

This complexity began in February, with the government publishing a consultation setting out its proposals for the increase from 6 April 2028. It will not apply to members of the armed forces, police or fire service though.

Under the proposals, pension schemes would be allowed to decide how and when to move to the new NMPA by 2028, meaning that some schemes may decide to raise the minimum age in their rules before 2028.

However, it stated that individual scheme members who have a right under their current scheme rules at the date of the consultation to access their pension below the age of 57 will be protected from the increase in 2028.

'Second class' schemes

The government proposed that individuals can retain their protection as part of a transfer from one scheme to another, but only if they become a member of another pension scheme as a result of a block transfer, usually defined as when two or more members transfer from the same scheme, at the same time, to the same scheme.

LCP partner and former Pensions Minister, Steve Webb, warned that the proposals risked creating "second class" pension schemes.

"Whilst the increase in the normal minimum pension age from 55 to 57 had been widely trailed, the way in which the change will be implemented could be complex for savers and for schemes and risks creating 'second class' pensions with tougher access rules depending on when they were opened," he stated.

"There will be a need for clear communication with members to make sure they understand the different rules that may apply to their different pensions. As we move towards an era of pension consolidation, members will have to be careful not to accidentally throw away protected rights to access a pension at 55."

In response to the government consultation, AJ Bell senior analyst, Tom Selby, warned that the current proposals risk creating a "retirement lottery" based on how their scheme rules have been written.

He explained: "Specifically, those who are deemed to have an 'unqualified right' to access their retirement pot at age 55 as at 11 February 2021 would be able to retain it, provided they do not transfer to another scheme from that date, unless special circumstances apply.

"This would, entirely arbitrarily, create a world where some people can access their pension from age 55 and others from age 57. Many people would find themselves in the ludicrous position of having two otherwise similar pension pots which can be accessed from different ages."

Opening a window

In July, the government confirmed its plans to legislate for the NMPA increase in the Finance Bill.

But, as a result of the industry feedback to the consultation, the government proposed some changes to the transfer rules for members to retain their protected pension age (PPA) following block and individual transfers to another provider.

Yet it clarified that the PPA is not intended to apply to the other rights members accrue in the receiving scheme, explaining that the aim is to protect transferred pension rights, "not enhance them".

The draft legislation was also expected to allow individuals, until 5 April 2023, to move to a new pension scheme where the scheme rules on 11 February 2021 already confer an unqualified right to take pension benefits below age 57.

Despite the increased clarity provided by the latest proposals, industry experts warned of potential issues, with Canada Life technical director, Andrew Tully, arguing that "what should have been a simple process has turned into a hugely complex mess".

He explained: "The process to decide which individuals retain a right to an earlier pension age is completely arbitrary, being based on the specific wording within scheme rules, which may have been written many years ago.

"It also leaves open the possibility that people will hunt around for a scheme which gives them the right to take benefits at age 55 and transfer to that before 2023. So expect frantic transfer activity over the next few years as people look to secure age 55 as their minimum pension age, irrespective of their birth date."

In addition to this, he stated that it was "disappointing" to see a continuation of the existing block transfer rules, warning that these were "complex" and could effectively stop savers from transferring to a more modern, flexible, cheaper contract "simply because they want to hang onto this right to take benefits at age 55".

U-turn

Therefore, in a Treasury U-turn, the government announced in November that it had shortened and closed the window of time during which people can either join or transfer into a scheme that can offer a protected pension age of 55 or 56, in light of stakeholder concerns.

In a parliamentary statement, Economic Secretary to the Treasury, John Glen, confirmed that the government is pushing ahead with a clause to increase the NMPA from 55 to 57 from 6 April 2028 in the Finance Bill 2021/22.

However, he announced that the window of time during which people could either join or transfer into a scheme that can offer a protected pension age has been shortened in light of industry feedback, and was closed at 23:59 on 3 November 2021.

He stated: "Stakeholders have subsequently expressed their concerns about this window running until 5 April 2023 as originally proposed, including possible adverse impacts on the pensions market and on pension savers.

"The government believes it is right to offer a protected pension age to those whose scheme rules give them an unqualified right to take their pension before age 57.

"The government also believes it is right that those in the process of transferring their pension do not unexpectedly lose the right to a protected pension age.

"However, after listening to stakeholder views on the draft clause, the government has decided to shorten the window. The window closed at 23:59 on 3 November 2021.

"Those who have already made a substantive request to transfer their pension to a pension scheme with a protected pension age of 55 or 56 will still be able to keep or gain a protected pension age assuming the transfer is completed in accordance with the current regulations.

"This shorter window will help address the issues raised by stakeholders whilst also being fair for pension savers."

Glen clarified that prior notice was not given in an effort to reduce the risk of pension scams.

"On this occasion, giving prior notice of the shorter window ahead of its closure on 3 November 2021 could have led to unnecessary turbulence in the pensions market and led to some consumer detriment," he explained.

"Some pension savers could find themselves with poorer outcomes (or even be the victim of a pension scam) if they were rushed by rogue advisers to make a quick transfer in the short time period before the window closed."

Industry experts broadly welcomed the changes made by the Treasury, with Association of British Insurers director of long-term savings and protection, Yvonne Braun, suggesting it will help tackle some of the industry's principal concerns about an orderly implementation and help reduce the risks to savers.

"The changes stop scammers from exploiting uncertainty, and also prevent market distortions as there are now no incentives to transfer purely to access a pension at age 55," she continued.

"However, most savers have more than one pension pot and millions will now have a mix, with some pots they can access at age 55, and others where they need to wait to 57, making it harder to plan for retirement."

This was echoed by Quilter head of retirement policy, Jon Greer, who said: "This complexity is all for a two-year increase in the pension age, which for the overwhelming majority isn't going to make a jot of difference. And it will still add complexity to the future pension dashboard system, and 'simpler' pension statements.

"The government should grasp this opportunity to simplify the pension system, and a good place to start is on the rules around block transfers."

Adding to this, Selby argued that the government has made a "colossal meal out of increasing the minimum pension access age", stating that whilst the change is "good news and should reduce the risk of scammers taking advantage of this government-induced confusion", other concerns persist.

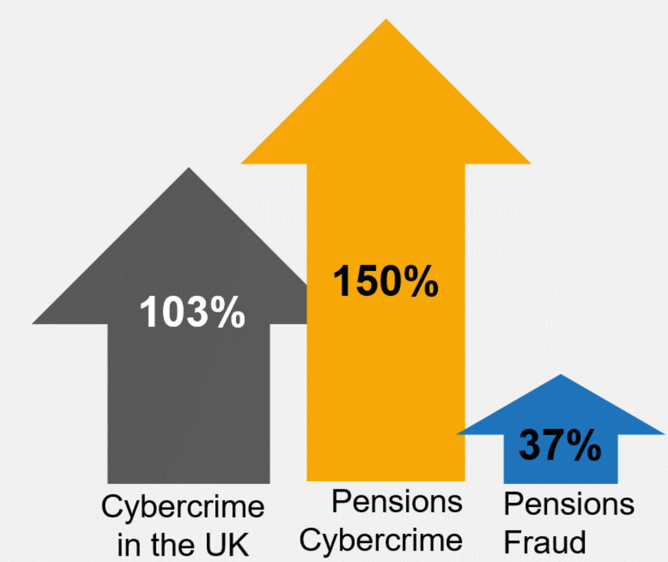
"We are left with the ludicrous situation that those people who are today in a scheme with a protected pension age and later transfer might end up in a scheme with two different minimum pension access ages," he warned. "As such, the complexity created by this change will remain."

Written by *Pensions Age* team

Fraud, cybercrime and pensions

Crowe's Judith Hetherington explores how fraud and cybercrime continue to affect pension schemes

The latest Office for National Statistics (ONS) figures for the number of incidents of cybercrime and fraud show that in the 12 months ending June 2021, there were 1,772,000 incidents of cybercrime in England and Wales, compared to 876,000 in the same period prior to March 2020, showing an increase of 103 per cent. In the 12 months prior to March 2021, the increase was 100 per cent and in the 12 months prior to December 2020, it was 91 per cent. This means that even after the massive increase in the immediate period after Covid-19, the level of cybercrime is still continuing to grow.



Instances of cybercrime and fraud from March 2020 to June 2021

The latest information, obtained after an FOI request to the Information Commissioner's Office (ICO), shows that cybercrime incidents reported by pension organisations in the 22 months between June 2018 and March 2020 averaged just under two reports a month. However, for the period from April 2020 to November 2020, (ie after Covid-19) cybercrime incidents averaged just under five reports a month, a 150 per cent increase in frequency.

For pension specific fraud activity, there has been a 37 per cent increase of reported cases in the period from March 2020 to June 2021.

Crowe national head of forensic services and counter fraud, Jim Gee, said: "We should be clear that these figures are unprecedented. The surge in cybercrime continues to grow and all pension administrators and pension schemes should be reviewing their protection and checking that it matches the significantly more dangerous threat.

In particular, trustees should be ensuring that they have assessed the extent to which they and their third-party suppliers are cyber resilient, agreeing a cyber resilience policy and a cyber incident response policy, and determining the right metrics to monitor the effectiveness of their protection going forward."

What does fraud and cybercrime look like?

The types of fraud and cybercrime incidents reported include:
- internal fraud by those running pension schemes, such as manipulation of records, to enable pensioners to receive a pension they are not entitled to or diversion of payments from legitimate pensioners
- opportunistic pension fraud, eg, close relatives of a deceased person who fail to declare their death or falsify details enabling benefits to continue to be claimed
- investment and misappropriation risks, such as corrupt insiders investing in inappropriate schemes and organised fraudsters targeting staff running pension funds
- impersonation of legitimate beneficiaries to divert payments
- hacking of systems to alter records for the purpose of fraud
- hacking of systems to secure the personal information of pension holders.

Therefore, trustees need to consider matters such as:
- what form of verification does your administrator use prior to the payment of member events?
- how frequent do pensioner existence checks occur?
- how does your administrator update member data such as changes to bank details and addresses?
- how is data transferred securely to third-parties?
- what are the key operations, IT systems

and information flows that are vulnerable to cybercrime and, have these been tested to identify such vulnerabilities?

Are schemes prepared?
Despite the prevalence of cybercrime and the potential impact on pension schemes, we reported in our *2020 Risk Management Report* that over 10 per cent of respondents do not have an incident response plan in place, and of those that do, around 25 per cent have a plan without details of a restoration process, investigation process, external communications process, or details of how a breach would be contained. There is plenty of guidance available to assist trustees in the preparation of an incident response plan and we encourage trustees, irrespective of scheme size, to ensure they have such a plan in place.

How is your scheme performing?
Our *2021 Governance and Risk Management Survey* looks at the progress that has been made over the last year on how confident the trustees of pension schemes are that they have the right processes in place to protect against fraud and cybercrime and if there is a breach, whether they have appropriate procedures in place to react in a timely manner.

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Written by Crowe pension funds partner, Judith Hetherington

In association with Crowe

A push for the long term

The government recently confirmed its finalised framework for the Long-term Asset Fund, although industry concerns persist around the charges and potential delays for members. Sophie Smith reports

After much anticipation, the Financial Conduct Authority (FCA) recently finalised the rules for its Long-term Asset Fund (LTAF) framework, in an effort to encourage greater investment in long-term illiquid assets.

The LTAF will be a new FCA-regulated fund designed specifically to help investment in assets including venture capital, private equity, private debt, real estate and infrastructure. It is expected to address the "market failure" seen as DC pension schemes failed to invest in long-term illiquid assets, despite having the investment horizon to do so.

It aims to secure an appropriate degree of protection for consumers, with protections build into the structure that are commensurate with the degree of risk from investing in a fund that is predominantly exposed to illiquid assets. The FCA acknowledged that these protections cannot remove all investment risk, clarifying however, that it secures an "appropriate level" of consumer protection for investors to whom an LTAF can be marketed or offered as part of a DC pension scheme default strategy.

"The LTAF means that scheme members now have better opportunities to benefit from potential illiquidity premiums of long-term illiquid assets," it stated. "By requiring the LTAF's redemption terms to match the liquidity of the underlying investments, we consider this will help advance our market integrity objective."

The FCA also confirmed that it will push ahead with amendments to permitted link rules, including removing the 35 per cent limit for LTAF-linked funds that form part of a pension scheme default arrangement. These amendments are expected to allow more flexibility in the use of illiquid assets via the LTAF, to enable more flexibility in the construction of DC scheme portfolios while maintaining an adequate level of protection for DC default investors.

Commenting at the time of the framework's launch, FCA chief executive, Nikhil Rathi, said: "We are supporting fresh collaborative thinking designed to improve the effectiveness of UK markets while protecting standards. If this innovative fund structure, created by our rules, is taken up by the asset management industry, it may provide alternative routes to returns for investors, while supporting economic growth and the transition to a low carbon economy."

Industry experts have also welcomed the FCA's finalised rules, yet concerns remain as to the charges involved and potential delays for members.

Hymans Robertson head of DC investment, Callum Stewart, noted that the proposal to remove the upper limit on exposure to investments for LTAFs will particularly help address one of the current constraints limiting innovation.

"As always, however," he clarified, "we should consider member needs first. This development should support greater product innovation and choice for DC schemes, and ultimately improve outcomes for members."

Aegon pensions director, Steven Cameron, also warned that an overnight 'big bang' rush is unlikely, as DC members expect to be able to switch funds, transfer between schemes or access their pensions flexibly, all without any delay or notice period.

"LTAFs will have notice periods of various lengths and the underlying assets won't have daily prices with redemptions no more frequently than monthly," he said, continuing: "One consideration will be the length of notice periods set by LTAFs with the FCA prescribing a

minimum of 90 days but with some likely to be far longer if targeting certain types of illiquid investment. Arrangements for arriving at a daily price between LTAF valuation points to feed into the default fund price will all be critical.

"Schemes will also need to explore how to manage liquidity within the default fund, when the proportion in the LTAF is not readily realisable."

Adding to this, AJ Bell head of investment analysis, Laith Khalaf, suggested that there could be cost concerns, warning that any additional long-term returns will need to be weighed up against the charges for investing in LTAFs, particularly given the charge cap on pension default funds.

"Private equity investment for example, is not exactly known for its bargain basement fees, and pension schemes will have to assess the benefit of investing in illiquid assets against any additional costs to members," he explained. "Many pension schemes have already shifted heavily towards passive funds to keep charges down, and may be reluctant to see their annual management charge creeping back up."

Written by Sophie Smith

In association with

State Street Global Advisors EMEA Head of ESG Investment Strategy, Carlo Funk

Climate change investment

Laura Blows discusses COP 26, ESG investment issues, climate reporting and net zero with State Street Global Advisors EMEA Head of ESG Investment Strategy, Carlo Funk

"COP 26 resulted in a number of developments that will impact the financial services industry," states State Street Global Advisors EMEA Head of ESG Investment Strategy, Carlo Funk, in the latest *Pensions Age* podcast, *Climate change investment.*

Arguably the most significant development from the event, even though "it's not as eye-catching as some of the other carbon reduction pledges and other headlines", Funk says, is the development of an international sustainability standards board.

This, he says, is crucial to better ESG disclosure by companies, "which will then eventually feed through to better data, better research and better investment decision-making processes".

"This is why this development of the disclosure standards board is so significant, because for the first time there is consensus between investor-focused sustainability disclosure organisations to support one single standards board," he adds.

COP 26 also saw 23 countries pledge to end the use of coal and stop financing coal plants outside of their borders.

"I think this is particularly interesting and important for investors, because it's another step for coal and the associated operations around it to be seen as potential stranded assets" Funk explains.

"Also, 105 countries joined the global methane pledge, a US-EU led initiative to cut methane emissions by at least 30 per cent from 2020 levels by 2030. This is important because methane is a by-product of a lot of fossil fuel operations and it is a very big and toxic by-product of natural gas. So this is something to also have an eye on as investors," he adds.

"Lastly, we have been moving beyond direct emissions considerations to address issues like biodiversity. There is a growing recognition that climate risk is not only about emissions, but also about protecting biodiversity and the associated environmental and financial risks stemming from biodiversity loss."

Climate reporting has been on schemes' radars prior to COP 26 though, especially with their requirement now to comply with the Taskforce on Climate-related Financial Disclosures.

"In a nutshell, pension schemes need to start measuring their carbon footprint," Funk says. "This is a significant development, because previously many market participants were thinking about mandating carbon footprinting only on corporations. Now this is changing to be applied also to capital pools like pension money.

"Additionally, and as important, but more complex, is the ruling that trustees must, on an ongoing basis, identify the climate-related risks and opportunities that can have a short-, medium- and long-term effect on the scheme's investments and funding strategy."

State Street Global Advisors recently conducted research into how investors are implementing decarbonisation strategies into their portfolios and the challenges that they face in doing so.

According to Funk, only 20 per cent of investors globally have committed to specific portfolio decarbonisation targets. "However, in Europe, more than 70 per cent say they will introduce specific portfolio decarbonisation targets within the next three years… moving away from standard benchmarks for the index portfolios to ESG or climate-tilted custom benchmarks, which is a very important finding of the study".

Of those doing so, almost half cite their responsibility to drive economic transition in order to solve the global climate crisis as the top reason for climate investment strategies, he adds.

This is an attitude change from institutional investors previously exclusively focused on risk and return, Funk notes.

"Obviously, nobody wants to jeopardise the risk and return of the pension but mentioning this *[climate crisis]* as a push factor, that's new and I found that really astonishing as an outcome."

To achieve these aims "there will need to be some bold leaps done by pension schemes". According to Funk, the quality of ESG data and performance concerns are on the top of many pension managers' minds.

Yet there are levers investors can pull to achieve their net-zero goal, Funk states. These include engagement with the investee company boards and management to drive change, divestment from certain sectors and activities, and investment in climate solutions.

He adds: "The general approach is always the same – decarbonise the portfolio over time, increase investments in climate solutions and green technologies and improve reporting, as what gets measured gets managed."

To listen to the podcast, please visit www.pensionsage.com

2021: A year in review

2021 may be remembered as one of the most transformational years in history for the sector. Recovery from the Covid-19 pandemic was pursued alongside a barrage of new regulations and consultations, with the industry never being more active in communicating and cooperating with the government and regulators. Jack Gray looks back on a hectic year

January

With the Pension Schemes Bill still making its way through parliament, the government started the year with the confirmation that occupational pension schemes with more than £5 billion in assets and authorised master trusts would be required to have effective climate risk governance, strategy and reporting in place from 1 October 2021.

Following its consultation, the Department for Work and Pensions (DWP) also revealed that the requirements would be extended to schemes with more than £1 billion in assets the following year. A consultation on bringing all other occupational schemes in scope of the regulations will be launched in 2024, following a review.

Alongside climate requirements, January saw the Dormant Assets Scheme expanded to include pensions and investments. The government estimated that the change would unlock £800 million for use in charitable causes due to the amount of dormant assets held in pensions and investments.

February

In arguably the biggest change the pensions sector has seen since the introduction of pension freedoms, the Pension Schemes Act was passed in February. It included a swathe of new regulations, powers and requirements, including extended powers for The Pensions Regulator (TPR), measures to address pension scams, climate risk regulations, a framework for the upcoming pensions dashboards and regulations for the introduction of collective defined contribution (CDC) schemes.

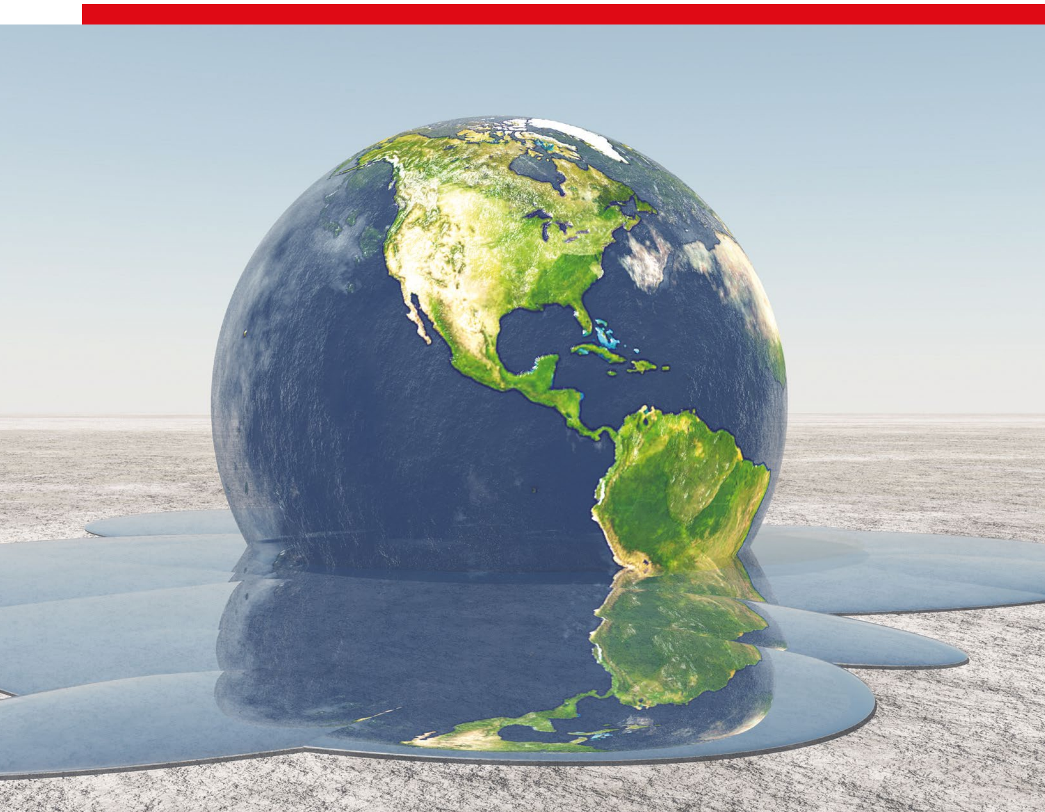
Described as a "historic day for UK pensions" by Pensions Minister, Guy Opperman, the bill was nearly 18 months in the making, after being introduced in the Queen's Speech in October 2019, and saw several failed and successful amendments.

During the month, the government also set out plans to increase the normal minimum pension age from 55 to 57 in April 2028. The hotly debated plan to increase the age at which people can access their pension without incurring a tax penalty was confirmed in July.

March

March saw Chancellor, Rishi Sunak, deliver his Spring Budget. Like many Budgets before it, the pensions industry was discussing the possibility of reform to the pension tax system and auto-enrolment. However, as is the case with many Budgets, the industry was left underwhelmed as the biggest pension announcements were the freezing of the lifetime allowance until 2026 and a consultation on removing barriers to increase DC schemes' investment in a broader range of assets.

In what would prove to be a theme for the year, TPR published a consultation on regulations introduced by the Pension Schemes Act. The regulator sought views on how it planned to use its new criminal powers to investigate and prosecute those who avoid employer debts to pension schemes or put savers' pensions at risk, with the result of the consultation published in September.



April
Addressing another key theme for 2021, TPR launched its Climate Change Strategy in early April. It detailed its plans to support trustees through the changes in climate change-related regulations and how the regulator would enforce the new requirements outlined in the Pension Schemes Act. The strategy outlined what guidance it will be issuing to help trustees adjust and TPR's aims for the role of pensions in the fight against climate change.

Meanwhile, the Universities Superannuation Scheme (USS) saga continued, with April marking the month that Universities UK proposed an alternative path to the scheme's 2020 valuation to try and bring costs down. It aimed to prevent "unaffordable" increases to contributions through scheme reform, but the University and College Union (UCU) warned the changes would likely lead to strike action, a prediction that was proved to be correct later in the year.

May
In continued work to simplify pension scheme charging frameworks, the DWP proposed moving to a single, universal charging structure for default funds of DC schemes used for auto-enrolment in May. Under the proposals, the universal charging structure would have been based on a single percentage charge for member-borne costs, but the government put the proposal on the backburner later in the year following industry feedback.

The same consultation also revealed that the government was going to press ahead with its proposed ban on flat fees on pots worth less than £100.

Progress on the long-awaited pensions dashboards was shown in May, with the Pensions Dashboards Programme (PDP) launching a call for input on the order and timings for the staged compulsory connection of pension providers to the dashboards ecosystem, in what was highlighted as a "huge milestone" by the industry. Work is still ongoing, with alpha testing beginning this month (December).

June
In June, the government continued to pursue its goal of consolidating the DC pensions market. It issued a

consultation that sought views on the barriers and opportunities for increased consolidation amongst DC schemes with between £100 million and £5 billion in assets.

The call for evidence follows a previous consultation that proposed for schemes with assets below £10 million to wind up and consolidate if they did not offer sufficient value to members.

The June 2021 consultation called for industry feedback on the barriers to schemes with less than £100 million winding up and consolidating, and asked the sector for potential solutions to those barriers.

The government also launched consultations on changes to the cost control mechanism and the discount rate methodology used for public sector pension schemes. Changes proposed included moving to a reformed scheme only design that would remove allowance for legacy schemes in the cost control mechanism and widening the corridor to 3 per cent. Later in the year, public sector unions would seek judicial reviews against the Treasury over its use of the cost control mechanism.

July

CDC pension regulations were consulted on in July in preparation for the introduction of the scheme structure to the UK market. The industry was asked its opinion on draft regulations outlining what CDC schemes must do to become authorised, to operate effectively in the market under regulatory oversight and what happens if changes must be made to their schemes. Queries were also raised around specific elements of the draft regulations, such as the proposed fee structure and schemes divided into sections.

The Aon/Willis Towers Watson merger saga was concluded in July, as Aon decided to terminate its proposed acquisition of its competitor. Following months of developments, including agreed sales to address competition concerns, the final straw appeared to be the US Department of Justice filing a civil antitrust lawsuit to block the merger.

August

TPR announced that it would not be proceeding with plans to limit pension schemes' investments in unregulated assets to 20 per cent in August. The government had been making efforts to encourage schemes to increase their investments in long-term illiquid assets and the regulator noted that consultation responses warned that the proposal could restrict such investments. TPR also acknowledged that its plan has "inadvertently" created a position that would affect well-governed schemes.

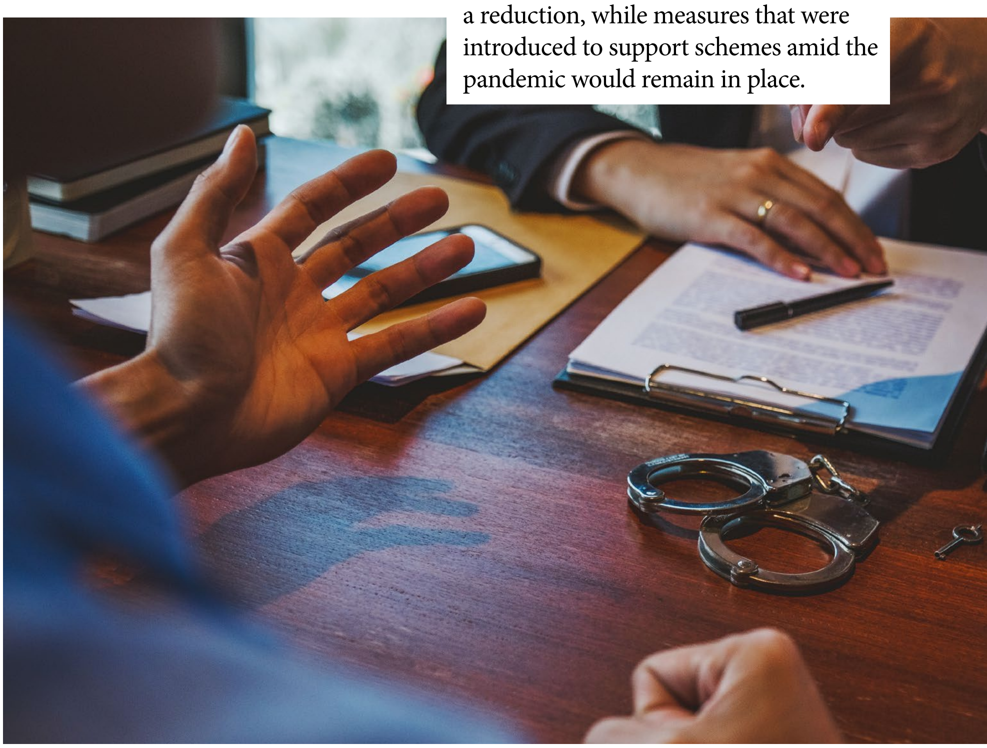
The regulator stated that it would "explore options" for achieving its original policy goal of protecting members of poorly run schemes, whilst allowing schemes with liquidity risk management plans and prudent investment strategies to maintain exposures to unregulated assets.

September

Regulations introduced by the Pension Schemes Act continued to be fleshed out in September with TPR's update on how it plans to use its new criminal powers to prosecute those who put people's pensions at risk and its consultation on its approach to its other powers introduced by the act. TPR published a detailed case study illustrating how it expects to use its new powers and identified common scenarios where it would not usually expect to consider the use of the powers.

The consultation focused on three draft policies, outlining its approach to overlapping powers, monetary penalty powers, and information gathering powers, including the use of section 72 notices, and new interview and broader inspection powers.

Meanwhile, the Pension Protection Fund (PPF) published a consultation on the levy rules for 2022/23, which estimated that there would be a £105 million fall in the levy to £415 million. It revealed that 82 per cent of schemes that pay a risk-based levy are expected to see a reduction, while measures that were introduced to support schemes amid the pandemic would remain in place.



October
October's Autumn Budget announcements were overshadowed by the announcement that simpler annual benefit statements would be introduced from October 2022 and that the government was planning to introduce a statement season. Simpler statements were initially proposed to come into force in April 2022, but the government set back the implementation date following industry feedback. At the Pensions and Lifetime Savings Association Annual Conference, Opperman confirmed that he intended to legislate for a statement season, whereby all pension statements would need to be sent out during a specified time period.

The Autumn Budget contained a long-awaited potential solution to the net-pay anomaly, whereby low earners in net-pay arrangements would receive top-up payments in respect of contributions made from 2024/25 onwards. A government consultation on further changes to the regulatory charge cap for pension schemes was also announced, which aimed to unlock institutional investment to drive innovation.

November
Despite an already busy year, November could prove to be perhaps the most impactful month for the pensions industry in 2021 after February's Pension Schemes Act. Regulations on trustee powers to block suspected scam pension transfers were revealed, alongside the confirmation that the rules would come into force on 30 November. Situations where a transfer should be blocked or investigated were outlined by the government, although some warned that MoneyHelper could face a capacity crunch if trustees adopted an "ultra-cautious" approach to the regulations.

November also saw the government U-turn on its normal minimum pension age plans. The government abruptly closed the window of time during which people could either join or transfer into a scheme that can offer a protected pension age of 55 or 56 following stakeholder concerns. The window was initially proposed to run until 5 April 2023. The government confirmed it would be increasing the normal minimum pension age to 57 in April 2028.

The government also confirmed that it would ban flat fee charges as part of a combination charge on default DC pensions used for auto-enrolment with pots worth less than £100 from April 2022. The change will apply to both active and deferred pots. Alongside this, the DWP stated that consultation found a "broad majority" was opposed to the introduction of a single, universal charging structure for DC default funds used for auto-enrolment and would put the proposal on the backburner while considering its next steps.

Adding to an already jam-packed month, public sector organisations GMB Union, the British Medical Association (BMA) and the Fire Brigades Union (FBU) all sought Judicial Reviews against the government over the use of the cost control mechanism on public sector pension schemes. All three claimed the Treasury was making pension members pay for the cost of the McCloud ruling through the cost control mechanism.

Written by Jack Gray

Summary
• DB schemes have performed well during the pandemic. This means that many are now able to focus on their endgame strategies.
• ESG is an increasing consideration, despite not being mandated by regulation.
• The forthcoming DB Funding Code will expect schemes to outline their long-term strategies and plans, even if some feel that trustees for looking for simplification.

Endgame: Investment areas of focus

Pete Carvill explores the investment priorities of DB schemes as they approach their endgame

The writing for DB schemes, as they approach their endgames, has been on the wall for some time, with an increased focus on this area in recent years.

Writing in *A New World for Defined Benefit Pension Schemes* in October 2020, Insight Investment said: "DB pension schemes face several evolving challenges as they mature and the regulatory environment evolves. These trends are sharpening the focus on how they invest to achieve their goals."

Attention has been external, too. As Abrdn wrote in 2019: "The Pensions Regulator (TPR) has also increased its focus on the endgame. The expectation here is that trustees and employers will set a long-term funding target with a clear strategy for achieving their long-term goals. This involves, recognising how the balance between investment risk, contributions and covenant support may change over time, particularly as schemes mature and their funding position improves."

All this underlines the most-basic obligation of a pension fund, ensuring that it invests wisely enough so that it can meet the needs and obligations of its members. Traditionally, the final stages of pension investment have been about lower risk and consequently lower reward to guarantee safety. Ironically, it is where the potential for failure may be at its highest.

"As you're approaching the endgame,"

says Russell Investments head of strategic client solutions, David Rae, "the risk of making a mistake is potentially catastrophic. That's why there is this large focus on risk management, and why we still use the same techniques around diversification, limiting concentration, and understanding how we invest, along with trying to assess how all that will behave under different future scenarios."

One scenario that few, if any, predicted was the global pandemic that has shut down the world for two years and counting. And, yet, the investments of DB schemes seem to have performed well during this turmoil.

"Many schemes finished 2020 with a healthier funding position than the one they started with," says Insight Investment head of solution design, Jos Vermeulen.

A move to bonds

He attributes this to the investment strategies of the big funds. "Schemes going into the global financial crisis had about 70 per cent of their assets in equities," he says. "That's now down to less than 20 per cent on average in the UK. And when it comes to liability hedging, they were doing 20-30 per cent of their liability and trading inflation risk. That's now closer to 80-90 per cent."

The good performance by schemes' investments during Covid, says Rae, has been a boon in one sense. "They have the opportunity now," he says, "to focus more on the endgame."

Strategies vary, but there are common themes across the DB sector. Encouragingly, a recent study from Aon – *The DB Pension Risk Management Journey* – found that a majority (54 per cent) of respondent schemes say that they believed they could meet their long-term targets by adhering to the current funding plans.

Those plans seem to follow a similar route. Aon wrote in *A New World for Defined Benefit Pension Schemes*: "Consistent with our finding that schemes are progressing towards their long-term targets, pension schemes continue to de-risk their investment strategies, with significant monies moving out of equities into less risky asset classes, driven by improving funding levels. This has led to increasing allocations to LDI, credit and increasing hedge ratios. Accessing new opportunities through fiduciary solutions for specific asset classes is also increasing in popularity."

Shifting away from equities is not a surprise, given the nature of the investment, says Aon partner, Emily McGuire.

"Companies can raise money through debt," she says, "such as bonds, with bondholders getting paid back first. That makes it a more-secure investment, even if the earning potential is lower. There's not as much risk. But if you invest in a company through shares, anything can happen."

ESG

While a fund's investment aims have been paramount, ESG investing has been increasing in popularity. Those pressures have been both internal – Aon reports that 92 per cent of schemes have considered ESG in relation to its investments, with 20 per cent making adjustments as a result – and external, with the Task Force on Climate-related Financial Disclosures (TCFD) mandating that schemes with more than £5 billion in assets have to report their investments' climate impacts from 1 October 2021.

The shift towards a more-open conversation around ESG seems set to continue. As Allen & Overy wrote in its recent *ESG for Pension Schemes,* "We also expect additional requirements and guidance in the near future on ESG issues – and in relation to climate change in particular."

But regulation is still largely hands-off when it comes to investments. The TCFD directive only enforces disclosure of the climate impacts of investments, and not the investments themselves. At the time of writing, there is still no push for specific allocations on ESG themes.

If there is an impact on investment strategy, Vermeulen makes the case that it will be an indirect one. "There is clearly an effect," he says, "because there is increased demand to report on these metrics and this raises awareness, which leads to engagement and action. It's a first, positive stage that leads to discussion. That itself may lead onto longer-term actions and positive outcomes."

At least one firm, however, is already reporting increased customer engagement on this front.

Legal & General Investment Management's (LGIM) head of client solutions, Laura Brown, says: "We are seeing an increased appetite from our clients to understand the ESG characteristics of their investment strategies, to consider the impact investments can make, and to upgrade specific mandates to include net-zero alignment. ESG is discussed in every single client meeting we attend and there has been a sea change in trustee understanding of and engagement on this topic."

This engagement may already be shifting the needle. "LGIM's research that the typical DB scheme is currently aligned to a 3°C outcome so there is a lot of work to be done to move closer to the 1.5°C target," Brown says.

DB funding code

Much closer on the horizon are TPR's revisions to the *DB Funding Code of Practice,* a move that has been in the works since the UK government's *Protecting Defined Benefit Pension Schemes White Paper* in 2018.

The revisions, in the TPR's own words, are to "[...] clarify the standards we expect trustees and employers to apply to meet legislative requirements".

"Greater clarity," the regulator said in its consultation document from March 2020, "is required to ensure the flexibilities in the DB funding regime are used appropriately, to embed and drive good practice in relation to the management of long-term risks, to ensure DB schemes' efficient run-off phase, and to support more effective and efficient regulation."

According to Secor investment strategist, Devan Nathwani: "The upcoming DB funding code will provide a framework whereby trustees can formally define a long-term objective for the scheme, whilst ensuring the scheme's investment strategy is appropriate for achieving this over an appropriate time-horizon."

"In practice," Nathwani says, "we expect trustees will be looking to deploy more sophisticated strategies, such as equity downside protection, to allow them to continue to allocate to growth assets without excessively exposing the scheme to a worsened funding position during market crises."

Others were more pointed in their expectations. LGIM head of insurance solutions and strategy, Matt Webb, says that trustees were increasingly looking to simplify the complexity of their investment mandates to relieve the governance burden.

He added: "We therefore expect that the *DB Funding Code* will further accelerate a migration of scheme's investment strategy towards endgame investment strategies focused credit and LDI, and ultimately to target buy-in or buyout."

Written by Pete Carvill, a freelance journalist

In association with Capital Cranfield, the people's pension, Dalriada. A better way

DC roundtable

CHAIR

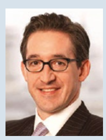
Andy Cheseldine, Professional Trustee, Capital Cranfield
Andy joined Capital Cranfield in 2017. Before this, he acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience in consulting on DC and DB pensions and liaising with regulators throughout the pensions industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He served on the PLSA DC Council 2013 to 2019 and now chairs the PQM Standards Committee and the joint industry Small Pots Coordination Group.

PANEL

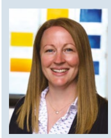
David Lunt, Head of Business Development, B&CE (The People's Pension)
Dave's team is responsible for employer and intermediary relationships and the transfers of workplace arrangements to The People's Pension. Dave is an energetic and experienced speaker on pensions issues, building on 30 years' working in financial services for pension scheme providers and a non-departmental public body. He's also a member of the Personal Finance Society. He is a sought-after speaker at industry events and is a regular contributor to the pensions press.

Chris Roberts, Accredited Professional Trustee, Dalriada Trustees
Chris is a director at Dalriada Trustees and a professional trustee who set up the Manchester office in 2015. Chris previously worked for two large benefit consultancies and as administration manager for a large in-house pension scheme in the charitable sector. A strong project manager, his experience includes mapping and training all administrative processes to an overseas service centre. Chris understands all aspects of pension provision from the ground up. He is accredited as a professional trustee by the Association of Professional Pension Trustees.

Ben Roe, Senior Partner and Head of DC Consulting, Aon
As a senior partner and head of the DC consulting team at Aon, Ben has significant client advisory experience. He works with a number of key UK trustee and corporate clients on all aspects of DC provision. He has a particular passion around making sure that members have the right support to make informed choices at retirement. He is currently leading a team developing an automated, online, 'robo-advice' solution that will enable sponsors and trustees to provide cost-effective support to DC members at retirement. Ben also sits on Aon's global DC committee.



Matthew Swynnerton, Partner, DLA
Matthew is a partner at DLA Piper and heads the London pensions team. He advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the *Combating Pension Scams Code of Practice,* which received widespread praise.



Donna Walsh, Head of Proposition Deployment, Standard Life
Donna has responsibility for the deployment of Standard Life's workplace propositions. She has been heavily involved in the company's workplace developments over the past 10 years and is passionate about improving the experience for members, employers, trustees and advisers. A qualified actuary, Donna has more than 20 years of experience across a variety of roles with Standard Life. She is a regular contributor to the pensions press and a popular speaker at key pensions industry events.

In association with

AON Empower Results® DLA PIPER Standard Life

DC roundtable

DC dynamics

Our panel of DC experts discuss ongoing developments in relation to DC member engagement, financial wellness regulation and diversity

Chair: What are the panel's thoughts on the DC charge cap consultation outlined in the recent Budget?

Walsh: The majority of pension schemes, we feel, are already under the charge cap. We do welcome increased choice, diversification and flexibility; and we're already considering illiquids within our default solutions.

There's definitely some sentiment in the market around what that would do to price; and with such competitive prices within the market now, would clients, trustees and members be willing to pay a higher price for this should charges increase as a result?

There are other considerations too such as daily pricing and treatment of performance fees. So, the question is more around will the consultation on the charge cap truly address the challenge. Irrespective of what happens with the consultation and the charge cap, the inclusion of illiquids is something we are considering anyway.

Swynnerton: It is interesting. We've had consultations on this before and they've led to some changes. The question I'd pose is: what are the true barriers to illiquid assets and asset classes? Is it charges or is it other things that are off-putting, such as their opaque nature and member concerns around them? For DB schemes, where we don't have these kinds of restrictions, or the restrictions aren't problematic, they're not an area that those schemes tend to invest in. So, I wonder if the focus is right. We shall see.

Roe: I don't think charges are the main barrier; alongside the complexity and opaqueness, it's about making sure that these assets can be daily priced and readily available on platforms which DC schemes are using.

Also, we think as much focus is needed on value rather than just cost. But overall, on a positive note, this could be an important first step. There are big benefits from the illiquidity premium, lower correlation to listed markets, so whilst it's probably not the main concern and the main barrier, it could be an important first step on the journey.

Roberts: For me, it's more about outcomes than cost. Thinking about this objectively, a default is for everyone, the cap affects the default; the illiquids are going to be a relatively small part of a big vehicle and most of the master trusts and other providers are bulk purchasers which means they're going to get pretty good rates on illiquid assets. So, moving it up may inadvertently move others up. There are some funds that are linked to the cap even though maybe they don't have to be, so it may affect value in other areas by bringing the cap up.

So, perhaps in the consultation they could look at the cap only going up if you're meeting the illiquid components, because it's the only real driver for pushing it up, in my mind. It's all about outcomes, not cost, so let's focus on what members are getting at the end.

Lunt: We see this as having limited relevance in reality. The work done by the Productive Finance Working Group is broadly sensible in encouraging investment in unlisted assets.

Scale is the big issue here – scale allows you to purchase unlisted assets at a sensible price but it's only a small part of the portfolio. Trustees are worrying about fee drag but intermediaries do so as well. There's a very high premium, when you're recommending schemes, on low charges so, from where we sit, we just don't see the great relevance of this overall, but we think it's sensible to be invested in those unlisted assets.

Member engagement

Chair: What is the ultimate 'moment of truth' to provide funds from a pension – are we focusing members too far into the future?

Lunt: We are, as an industry, talking to ourselves somewhat around these issues far in the future. As part of our death claims governance group in my organisation, I see the ultimate moment

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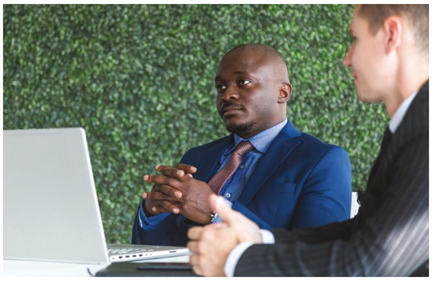

of truth for most savers is when someone in their family dies, not when they retire.

We know that most people live in the present, we all do, and we're not thinking about what happens in the future. But the ultimate moment of truth is: do people do the right thing up-front with their pension so that, when somebody dies, they get the money they need right now?

What I see is, if we haven't got a nomination form from a member, when somebody dies then we have to, as trustees to the scheme, try to establish who should get that money. Even if there is a nomination there, you still have a process to go through and people have very complex lives which means that there can be delay and frustration at a time when somebody needs that money, because that is their money.

As an industry, I am sure we all want to put the right money in the right hands at the right time when somebody dies as that's the ultimate moment of truth. We all talk about retirement but, in reality, pensions need to be perceived by people as their money and a simple vehicle for saving up to spend later in life. When somebody dies, a few thousand pounds at that point can be critical and as an industry, we're failing people because we're not talking in their language about things that are important.

There have, sadly, been a lot of additional early deaths as a result of Covid-19 lately and our death claims team are working extremely hard – it is a terrible situation and if we had up-to-date nomination forms, it would be so much better for those members. If we get people to engage and they give us a nomination and maybe sign up to the website, we can get money to the right people when they need it – we need to connect with people's lives today.

Walsh: I completely agree – it's about finding the hooks to engage people today and protecting your loved ones is a good hook. It's how you engage the member in the first place and, with that, the importance of nominating a beneficiary and then really making it as easy as possible.

Lunt: Also, if they nominate somebody, it's in their mind that it is their money, it's not their company's money. Getting them to sign the nomination form is making that first step of saying, "I'm saving up and it's my money," and that's one of the critical steps in this process. All the other stuff can drive off of that.

Swynnerton: Andy *[Cheseldine]*, your question brought to my mind the DWP's recent consultation on a stronger nudge towards pension guidance at the point where the members are accessing their benefits. From my perspective, that raises the question, what is an application to access benefits? It could be a range of things. It seems that the DWP wants to leave that to schemes to decide but, for it to work, it needs to be at a relatively early stage of the process so that, if guidance is obtained, it is actually then factored into a decision before the decision is made.

On these roundtables previously, we have talked a lot about engagement being vital, and the pandemic has brought a sharper focus for people on what their savings are looking like and, for some, they'll wish that they'd done more. Everyone's been given a taste of retirement in a way, over the pandemic period.

But anything that overcomes inertia is good and, under the proposals, trustees will have to arrange guidance and it will be complicated for members to opt out of that requirement because they'll need to take an active step to do so. As we've seen with automatic enrolment, inertia is one of the biggest barriers to people focusing on their retirement and automatic enrolment has been successful there.

Related to this, we've also got changes to annual benefit statements coming up and that will also be helpful. Because there's no current prescriptions or requirements in relation to what statements look like, they are often long, complex, full of jargon and difficult to understand. So anything that streamlines that and results in a shorter, more succinct document will be good.

The other aspect of this that's topical is the possibility of statement seasons, which is also a positive development. People have pots in various different arrangements and getting this kind of information at roughly the same time from different schemes will enable them to more easily compare their benefits and take an holistic view, although if the dashboards are successful, that will be less of a concern.

Chair: Donna *[Walsh]*, what are your thoughts on whether we are focusing members too far into the future?

Walsh: Retirement for some is a long time into the future, so it's about helping members to feel confident, in control and empowered to make financial decisions across all life stages. To do this well, we have to truly understand members and make sure we help them with what is important today.

We talk a lot about financial wellness and the importance of broadening solutions around helping overall financial wellness – for example, we have just launched a Homebuyer Hub online coaching tool to help people save for their first home. With that being fully integrated into the mobile app, every time someone goes into that tool, they will also see their pension.

Our recent report, *Bringing retirement into focus*, which we will talk about later, showed a correlation between planning and confidence. Fifty per cent of people who said they were planners were confident in making financial decisions, compared to 16 per cent of non-planners; and then the most worrying statistic for me was that 73 per cent of people taking part in this research said they were doing little or no planning.

So, for me, this is about broadening out solutions to members, solutions that will help them across all life stages – to help them understand more about what is important today but foster a savings habit at the same time.

Roe: I completely agree. If you're talking to a younger individual, it's about focusing on how much they're saving and where their income is going in terms of pensions versus other savings vehicles. It's hard to try and explain retirement options to a 25 year old – it's just not going to make any difference.

One area where we're seeing particular interest and an increase in engagement is around responsible investing. Hearing good news stories about the positive impact of the companies that schemes are investing in is having an uptick in engagement from individuals – it's then about building off the back of that.

For older members, it is all about focusing on the key decision and engagement points around the point of retirement. From that perspective, individuals have been defaulted all the way through and are left to go it alone and make a key decision at retirement, which is often the hardest and most significant one of all.

Roberts: One of the big issues I feel is the tinkering that's been going around the system. We just need to think about A-Day and then the lifetime allowance changes, and then at every Budget we wonder whether they will go for higher rate tax relief. It's really hard as a saver to engage because you don't know what the framework is going to look like when you get to retirement, so it's important that we leave the framework as close to in place – while it's working – as we can. All this tinkering is unnerving, even for the sophisticated saver.

Financial education is also key – we've been saying for years that, from school onwards, people need to understand what a pension is and it should be part of the curriculum. When you speak to friends about pensions their levels of understanding even on a basic level of what they need to do towards retirement is miles off where it needs to be.

Bringing retirement into focus

Chair: Standard Life's recent report *Bringing retirement into focus* assessed the attitudes and expectations of nearly 5,000 people across five generations, and identified differences between different generations, gender and a correlation between planning and confidence. What can we learn from this report and what changes are needed to be made to the DC space to address some of the more worrying figures highlighted?

Walsh: We want to help members feel more empowered to make financial decisions and, to do that well, you have to understand them and what motivates them; what do factors such as their cultural background, gender and location impact how they feel about life, aging, saving and retirement. Deepening our understanding of members will help us to ensure we take an inclusive approach to communication, by appreciating diverse backgrounds, feelings, views and needs.

Our research covered just under 5,000 adults in the UK to help us understand different attitudes to saving and also, for those who are in retirement, what they wish they'd known years earlier.

One of the key findings, as I mentioned earlier, was that 73 per cent are doing little or no planning; and we also discovered a correlation between planning and confidence.

Interestingly, the gender difference with financial confidence actually surfaces across all generations, with the younger generations being most marked. For example, 52 per cent of Millennial women versus 66 per cent of Millennial men felt confident about making financial decisions, and 49 per cent of Gen Z women versus 60 per cent of Gen Z men. We all know about the gender gap today and with gaps in financial confidence persisting in the younger generations more must be done to address this before it results in worse financial outcomes for more generations of women.

Gen Z also came through as the most caring and responsible – 62 per cent are happy to save now to save for loved ones in the future. They also came through as most caring and responsible about their investments too.

Then it was a mixed picture for retirees – 26 per cent wished they had

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saved more, and 20 per cent wished they had known they didn't need as much as they thought.

Chair: There are clearly some very interesting insights there – what do we do now with those insights?

Walsh: There are four key things we need to do as an industry. First and foremost, we have to be relentless with personalisation, to make sure we're as relevant as possible to everyone, because everyone is different.

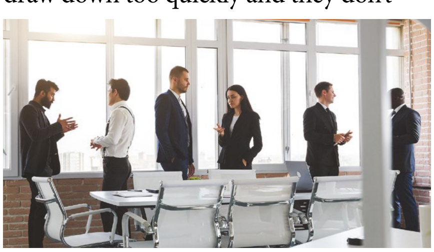
Secondly, we have to bridge the gender gap; we have to build confidence, especially in women, before it becomes worse for future generations.

Third, we have to understand and articulate the power of planning. We need to think about how we get younger people onto the savings journey earlier, because there are clear emotional and financial benefits.

Finally, we need to look at how we do more as an industry to support those in retirement; we must continue to effectively communicate and give individuals a breadth of options, so not just support them in the run-up to retirement, but all the way through retirement as well.

Lunt: The finding that three quarters of people aren't doing retirement planning very much aligns with the *New Choices Big Decisions* research that we've been doing at The People's Pension over the past five years, where we've been following a cohort of people.

What we've seen within that is, when people do make decisions, they draw down too quickly and they don't



think about the consequences and their planning is haphazard. The difficulty is we're never going to be a nation of financial planners and I'm not sure if we're ever going to get to that point where we educate everybody to be in that position. We also have a buy now, pay later culture.

If you think about it, who understands the tax rules, or do they just rely on their employer to do their pay? Do they ever check the numbers with the HMRC? The answer is probably not.

Also, maybe it's also about personas rather than age groups.

Perhaps the actual solution to all this is making sure that the savings amounts through auto-enrolment are higher and of the right level; and that the products on offer are straightforward and lead people down a path so that they don't have to work so hard to get to this point.

Roberts: It is interesting research, and it brings out some answers that we'd expect and some that we wouldn't. What I'd like to see with this type of research is to look forward five/10/15 years because, what people think now might be different to what they think when they're 40 or when they're 60 years old. We need to set the pensions landscape based on everyone in the pension saving community and also consider how their thoughts and views may evolve over their life path, because it's a lot easier to be more caring when you're younger.

When you've had a hard working life and you're thinking about retirement and you've raised your children, maybe you do start to think differently as you age and we need to consider that as well rather than just what they're thinking on day one.

The only way we can do that is by engaging with people, and by doing research like this. The focus on education again is important – and planning becomes more and more important the more you age. Getting at it earlier makes it a far easier problem to deal with and utilising inertia, as we have done with auto-enrolment, is one of the first steps.

Roe: Picking up on the point about the gender pension gap, a lot of our clients are thinking quite hard about this and we're working with them on it. It's quite complex once you delve deeper into it and there are a huge number of factors that influence that gap – lower levels of pay, the fact that women tend to have more career breaks, they are more likely to be part time, and so on.

There are lots of little steps that schemes need to think about, for example look at the data, work out where any discrepancies are and how to address them. Some examples include using more inclusive language in communications as well as targeted messages and personalisation helps try to address the gap.

Finally, advice has a huge role to play when people get to retirement. A lot of people want to be told what to do and so advice is important. Whenever we've done research in the past, talking to members of schemes, they're almost looking to trustees or scheme sponsors to help them provide that support.

So, that whole area again is one that we, as an industry, need to address. We need to work out how we can make that support available at a cost effective level for individuals who want it.

Chair: Interestingly, 20 per cent of people said they didn't need as much money in retirement as they thought they would?

Walsh: We were surprised by this and a number of other statistics in this report, but this is going to be an ongoing piece of research – we will be doing deeper dives into any statistics that stand out to us; we will be doing more research to find out the whys behind some of these figures.

Another interesting figure was that 26 per cent of Gen Z had done a great deal of planning and thinking about how much they might need in retirement – again, another one that surprised us and another one that we'll be doing a bit more research on to get a deeper understanding there.

We found in another piece of research earlier this year that a large proportion of people saying that they were getting their financial 'advice' from the likes of YouTube, Facebook and TikTok, which was quite worrying given the rise in the prevalence of social media scams, so we need to definitely do a deeper dive on that one too.

Financial wellness

Chair: What can be done in the area of financial wellness/education to help people with financial decisions across all life stages?

Roe: It's good that we're starting to see much more focus on financial wellbeing and that's incredibly positive – there's lots of good education and guidance, support and tools that are available.

There are two key points I would highlight here. Firstly, it's important that companies have a coherent strategy. Often, when we're working with companies, we find that they've got lots of different things spread around the business, and it's all quite fragmented from a member perspective. Some of it might relate to the benefits programme, some from the pension provider, so a lot of the work that we're doing at the moment is about understanding what is available and making sure it's all connected. Making sure members are aware of what's available and where they go to find it – and ideally, it's all in the same place.

Secondly, we need to think about how we reach those who most need the support. We tend to find that those who are already engaged are the ones that make most use of the support available. But how can we engage with those who don't feel comfortable managing money, let alone thinking about pensions or compound interest?

We're starting to think about how using behavioural finance can help here – by personalising the journey for individuals based on their own levels of understanding and feelings about money, it can help them adapt and make better financial decisions.

Roberts: This is also about getting people access to advice. At Dalriada, we're keen on the idea of midlife MOTs, bringing in more milestone points where members are encouraged and have access to cost efficient advice to make sure that they're on the right path. Providing more and more engaging communication, in a personalised way, is also really important – finding new and exciting ways of getting engagement. From the provider side, it is very encouraging to see the developments in that area because a lot of the SME employers are doing next to nothing and that's a problem because, ultimately, they're going to find that their employees are not able to retire when they want them to.

Workforce generational issues are all going to come to bear, so we really need to focus them on that problem and make sure the SMEs are thinking as much as the FTSE100s as to how to get their members cost effective advice because people want to be told what to do, and it's important we get them access to that.

Lunt: It's an interesting conundrum – we know that, in general, the level of maths ability in the UK is very mixed. We're asking people to make really complex decisions, financially, which a lot of people just aren't set up to do. And

yes there are a lot of employers out there that are very small that are going to do the minimum.

There also aren't enough advisors in this country to actively advise people. So, it's got to be provided by the structures that we, as providers, put in place – guided pathways that are straightforward so that, if people don't make a sensible or any sort of decision, that the place they find themselves in, in a default position, is a best rule of thumb that we can do on their behalf.

What's also key is focusing on the simple stuff, and getting away from all the jargon in our industry, because it means nothing to so many people. We have got to talk in English, in simple terms. Not to dumb things down, but make it simple and straightforward so everyone can better make a decision.

If you have 200 funds to choose from, it is daunting and people can lose sight of the planning goal. If you have two or three simple choices that you can go to, that decision path is much easier.

Walsh: There are two things here that are really important. First, it's about supporting people with what's important to them today.

I agree also that it needs to be in a way that they understand and the big thing for me is building trust – if you build trust with them by helping them with something today, that can help them move forward for tomorrow.

The importance of advice was raised earlier – I agree, advice will have its place for many, but a lot of people

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won't take advice either. So increased guidance is key. How can we help people by increasing the guidance available to them, perhaps by looking at holistic guidance and potentially bringing partner wealth into the picture as well?

Swynnerton: As I mentioned earlier, the pandemic and lockdown have given everyone a taste of retirement in a way, and it's given people food for thought in terms of ensuring that they've got the resources necessary to provide the standards of living that they want. The question is, how do make that advice available and accessible?

There have been some positive developments. We've got PLSA guidance, *The Employer's Guide to Talking About Workplace Pensions*, which is aimed at helping start that conversation earlier, which has got to be positive. The midlife MOTs have also already been mentioned, and that's a positive development, plus the announcement of the funding boost to help schemes provide those.

So, the situation over the past 18 months or so has brought some of these issues into sharp relief. It has been a regrettable situation, of course, but perhaps one of the positives that has come out of it is that focus and now it's about capitalising on that.

Provider choice

Chair: Where does ownership structure and corporate imperatives sit in the decision process? Does a scoring tick-list based on the here and now cloud the longer-term view?

Roe: The whole provider selection space/DC marketplace is incredibly competitive and it is often really fine margins that decisions are made by, so there's always been a focus on the financial strength and commitment to the market and it's just another factor that comes into that decision making process. How important it is depends on where the client gets to and how important that is in the overall decision that they're making, but it varies on a case-by-case basis and is becoming more important.

Walsh: You will only get onto a shortlist if you are strong, resilient and are committed to the market. For me, however, a company's social purpose and their financial resilience can also have a really strong and positive impact on colleagues within the business too. That then motivates us to look after customers well and innovate to improve experiences.

So, it's more than just how financially strong you are for the future from an external perspective; it has a massive impact from an internal perspective too. If you can get colleagues bought into your social purpose and that you're here for the long run, then in my view you're on to a winner.

Lunt: It is also about looking at what's behind that organisation. We've already seen through master trust authorisation situations where members were with one scheme and then they were moved to another and that scheme has been consolidated to another already.

So, there's a thing about thrive and survive here and one question is how big is that scheme that I'm looking to use? Are they in it for the long haul for themselves?

Some companies might not have all the elements of their member proposition fully refined but have the building blocks and resource to deliver. It's a bit like ESG investing where we look to fund managers to demonstrate their vision, roadmap and activity for the long-term change rather than having all the knobs and whistles there now.

Who is backing that organisation? Are organisations backed by venture capital; if so, what's going to be the call on that, what happens if they don't get to the scale that they aim to get to, what's the impact of that? Are the people behind that company looking to build it to sell it and then what happens?

Those are the kinds of things that are really important in looking at where you place a scheme because members might find themselves not where they were expecting, and the employer might find the scheme not where they were expecting either.

So, don't just look at the here and now, look five/10/15 years out at that organisation and what it's trying to deliver. Are they trying to deliver big profits to the owners of that business, the shareholders? I think it's critical.

Pension Schemes Act 2021

Chair: What is the current state of play in relation to the elements of the Pension Schemes Act 2021 that impact DC schemes, specifically in relation to pensions dashboards; transfer rights and pension scams; and the climate change regulations.

Swynnerton: On pension dashboards, we are expecting a consultation from the DWP on regulations this winter – and they have said that the regulations are likely to come into force in 2022. The point to note here is that timing is fairly tight, so there isn't a huge amount of time after 2022 before compulsory onboarding begins because that will happen for some organisations in 2023. So, the message there – and the message from the DWP as well – is that data providers should start their preparations as soon as possible in the background.

On pension scams, new measures to help protect pension savers against the threat of scam transfers came into force on 30 November.

On the whole, we as an industry – and me as an individual and also as a member of the Pension Scams Industry Group – welcome the regulations that will give providers and trustees the ability to stop transfers where there are scam concerns. It's something we've been lobbying for, for a long time. Saying that, the regulations that we've ended up with are quite complicated and there is quite a lot for administrators and trustees to digest.

On climate change, the TCFD reporting requirements are now in effect. So, for large schemes and master trusts that means compliance from 1 October for some schemes with assets over £5 billion and where their scheme year end date is after 1 March 2020; compliance will happen a year later for schemes with assets over £1 billion; and there will be a review of smaller schemes from 2023.

Roberts: It's worth acknowledging that the more governance we put in place, the more detail we often want to give the members, and the less engaging and more confusing communications become. So, we need to step away from compliance box-ticking towards member engaging communication and not feel like we need to regurgitate it all to them just to prove we've done it.

Chair: ESG has become central to defaults – but how do we bring this alive for advisors/employers/members?

Roberts: The big issue for me here is about the industry catching up in terms of data, and actually being able to get at the numbers and to be able to show realisable change. Until the data output is improved, it's a real challenge for trustees to properly evidence what they're doing and provide that really strong, engaging member communication showing the positive difference.

Once we crack the data problem with the investment industry, the trustee job will become a lot easier. We've got a clear mandate from our members as evidenced by multiple surveys across the industry, so we just need to get the data, work it, engage and move it forward to deal with the members' concerns in that area and for the greater good.

Chair: From a consultant's perspective, how easy is it to identify those fund managers or scheme providers that are effectively just greenwashing/ticking boxes?

Roe: It really comes down to what sits behind the commitments that either fund managers or asset providers are making – the specific plans that are in place. Data is also key – although the data is not always there yet.

Trying to see what managers are actually doing and also making sure that it's broader than the 'E' of the ESG as well. So, not just climate change but what about biodiversity, social equity and so on – but this whole area is travelling really quickly and it's great to see.

It is a really good news story, good for engagement and members are expecting this of pension schemes now, so it is good that all this is happening.

Lunt: In terms of engaging members, it's not all about just having a climate policy – it's about action and about showing what you are doing; demonstrating, for example, that you are tilting away from carbon and demonstrating that you are actively removing things from the portfolio. Saying what you have done is key.

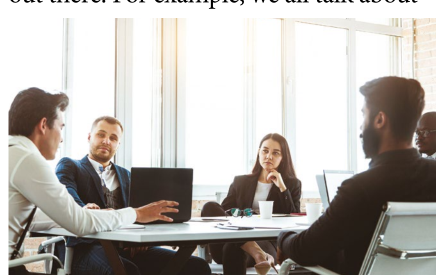
We recently announced that we have taken about a quarter of a billion pounds worth of funds away from organisations that we didn't feel were doing the right thing on an ESG basis, and we removed about 150 investments from our portfolio on that. That's a really strong thing to have done.

The difficulty is how to effectively tell stories off the back of what you are doing so people can actually feel it; I'm not sure if we've got that bit. That's going to take time to do but that's the key end result we need to get to.

Walsh: I totally agree – we need to make it easy for members to understand the true impact of what we are doing and I don't think we've nailed this as an industry yet. One of the statistics that really jumps out for me, when we talk about our 2030 interim targets, is we talk about reducing carbon emissions to the equivalent of 6 million households, or a quarter of the households in the UK!

When we say that externally, people sit up and take notice because it's something that actually resonates with them. So, we have our targets, but how do we then take that message to members to say, "by doing this, this is the impact that you have"? That's the challenge. Campaigns such as Make My Money Matter can help us with that.

Swynnerton: I completely agree, we need to make this as easy and as accessible for members as possible. But we also mustn't forget the trustee side of things. It is quite a complicated area where I don't think there is a lot of help out there. For example, we all talk about



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'net zero', but what exactly does that mean?

We also have the age old question about how you reconcile climate change concerns and requirements with the trustees' fiduciary duties. That's an area where the guidance still seems very confused and contradictory in terms of what a fiduciary duty means – does that mean maximising returns for the scheme, as it traditionally has, or to what extent can you argue that it's actually an abrogation of the fiduciary duty to not take climate change risk into account? It would be really helpful and really move this on for there to be clearer guidance on those concerns.

Chair: From my perspective as a trustee, the ESG argument has been won; there's a financial benefit to members to being invested in those areas.

Roberts: Financial benefit is certainly the way of getting the argument over the line, but the position has definitely been won. Everyone understands it now, employers are taking it seriously and we're now seeing the outcome in funds that are branded sustainable.

So, I'm certainly not seeing any challenge on the larger boards. On the SMEs, there is slightly more work to be done, but on the majority of the assets, the battle has been won.

Diversity

Chair: What can be done to address the diversity shortfalls in the industry/on master trust boards etc?

Walsh: I think we are making improvements in the gender split on many boards, but diversity means more than that.

It's great to bring in different views, backgrounds and perspectives and generally, as an industry, we have got a lot more to do from an overall diversity and inclusion perspective.

We need to think about diversity and inclusion across all levels, not just at board level. As an example, attracting different people with different backgrounds to roles through recognising language in job adverts that will do just that.

Roberts: I agree, we have made strides on gender diversity, but we're still not there because the breadth of candidates available from both genders is heavily balanced to the males. BME inclusion is also extremely low – and non-existent on some boards – and life experience and looking at other angles is also almost non-existent in other boards.

It's a little bit of an echo chamber in the industry – we all have broadly similar views in a lot of areas. You need to go outside the pensions industry to bring diversity of thought because we're trying to decide what's right for such a diverse group of members. Doing so just as our little industry without taking soundbites and input from others is not going to drive best outcomes for all these people.

Age diversity is another one – I'd like to see people in their teens/twenties encouraged to get on boards because, when you look at non-executive directors as your non-affiliated trustees, it does push you to a sub-set of the market, which is not diverse in any way, shape or form. So, diversity of all kinds needs to be addressed to get the best outcomes for members and to get healthy challenge to our well-conceived industry views.

The other thing that I want to see more of is experience of being a DC lifer. If you look at the subsets of the industry, most if not all of the board members have big DB pension pots – they don't understand how to build a pot from zero to get to retirement through a working career, and that empathy with the challenge faced by the DC membership is something I think we need more of.

Roe: Trustee boards are looking at this more carefully now and trying to think about the skills and the makeup of the trustee board to work out what gaps there might be. So, we're certainly seeing an increase in that, particularly on the larger boards.

But also, with some of my clients, the company and some of the trustees are going out of their way to seek out diverse candidates.

This is not just with the wording of their job adverts, but they are providing candidates with some support and training to get them comfortable with applying and making it very clear that they're looking for people with diverse backgrounds to help with the diversity of the decision making process. This has helped to get some new people involved and some new thought processes in there.

Lunt: For me, it's like a stalagmites and stalactites approach. There's the top down of the trustee boards looking for people, but we as a pensions industry need to see young talent from our diverse populations of people right at the start of their careers and look to bring those people through to be in a position to have the confidence that when those job adverts are there to go for them. So, it's a two pronged attack that's needed as far as I'm concerned.

Member communications guide:

Getting the message across

Featuring:

- How technological adoption will not spell the death knell for traditional comms just yet
- The importance of creating a personal connection with pension comms, even in a digital world
- How pensions providers need to raise their game, as consumers demand entertaining communication
- Company profiles

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Summary
• The Covid-19 lockdowns have increased the take up of digital technology to communicate with pension scheme members.
• Digital comms can provide up-to-date information to members and provide accurate member-behaviour data to pension schemes.
• Despite the digital comms growth, paper comms still have an important role to play, still being favoured by many pension scheme members.

Lockdowns have been the tipping point for the pensions industry to finally embrace digital comms to members, but technological adoption will not spell the death knell for traditional comms just yet

In September of this year, Hymans Robertson unveiled research suggesting that the pensions sector has finally embraced technology when it comes to member comms. In a survey of defined benefit pension trustees, the consultancy found that 59 per cent of respondents said that digital communications should be used to engage with members' needs – up from 5 per cent in 2020.

The survey confirmed what many have suspected; lockdowns and the resulting working-from-home phenomenon have acted as a tipping point for online and electronic scheme communication. Not only has the traditional envelope desk drop been made redundant for almost 20 months, but the financial implications of the Covid-19 crisis has forced companies to cut costs, one of which was sending pension information through the post.

Speaking about his company's findings, Hymans Robertson head of member outcomes, Ryan Markham, says that although there was a growing trend towards digital before lockdowns became a tool of government, the past year has brought home how valuable digital communications can be in reaching members at a critical time. "A great example is using digital communications to give re-assurance to members on service or pension payment continuity during lockdown, as well as highlighting the increased risk of scamming activity. We found that schemes who had invested in digital held up far better than those that hadn't. We expect the learnings from Covid-19 to accelerate the trend to digital and for DB scheme in particular to start catching up."

Digital-led communications agency Making Giants partner, Marliane Owen, echoes Markham's assessment. "The industry has been slowly moving towards a more digital approach to communications, but the pandemic has certainly accelerated that move. Almost overnight, the only way that we were able to communicate with people outside our homes was through the internet. As a result, we've seen massive levels of take-up for digital communications across all demographics."

This unprecedented adoption of digital avenues has opened up new opportunities in member engagement, argues Gallagher MD of the UK retirement practice, Roger Hattam. The pensions communications agency has been encouraged by the fact that the laggards have now accepted digital as the leading platform through which to communicate. "Not simply because it is cheaper and faster," he says, "but because it opens up a world of opportunity to bring the message to life in a way that a printed piece of paper dropped through the letterbox, which gets put behind the clock for six months, doesn't."

Gallagher often helps schemes to attach a video or modelling tool to a digital message that enables members to interact with their scheme. "It drives a call to action," explains Hattam. "You can actually click a button and amend or tweak something right away, rather than coming back six months later, when the letter has turned yellow, and the time frame to act has expired."

Another major benefit of digital is that it allows schemes to better trace what members are opening, reading and acting on. All in all, says Owen, the situation is a win-win for everyone involved. "Not only do our members want to receive their communications digitally these days, but they can also prove a more manageable and cost-efficient medium for pension managers and trustees," she says. "Without the costly printing and postage bills that have long been associated with benefit statements and annual newsletters, digital communications enable schemes to invest their time and money in alternative means of reaching members, like videos and social media."

Delivering the goods

When it comes to digital, Markham says that there are a range of approaches that schemes can take. These will depend on the demographic of the membership and the trustees' engagement strategy. Member email addresses are a great way of keeping in contract and promoting digital channels, while microsites, online video, personalised videos and apps all have a role to play too.

However, there is no point launching a digital campaign without some clear goals. Landscape creative director and founder, Ryan Sales, says that without a strategy for content and measurement, schemes will simply be shooting in the dark. "The platform needs to be right for the scheme with the ability to upscale and evolve," he says. "Content needs to be attractive and relevant to the channel, so if you just lift and shift the newsletter article online you're missing an opportunity."

Markham agrees. Schemes need to make the digital experience significantly better than old school forms of communication if they want to encourage digital adoption. "Attaching what used to be your printed newsletter as a PDF attachment to an email is not going digital and, it could be argued, is significantly worse than sending a printed copy through the post that at least draws attention to itself by landing on the doormat."

He also suggests that the resurrection of the QR code due to the prevalence of the government's Track & Trace system could work in schemes' favour. Prior to Covid-19, the QR code was going out of fashion. Now, however, people are much more used to the idea of scanning a printed code with their phone to access digital content.

The best part of digital for communicators is the analytics and insight says Sales, which provides a clear window into what members want – and how they are behaving. This vital data can then be used to increase engagement and potentially lead to better outcomes for members.

But is the industry actually geared up to provide widescale digital comms? "It's in a better place than it was 18 months ago," says Owen. "But there's still a way to go." A big hurdle that the industry faces, according to Owen, is administration systems that cannot facilitate or integrate with digital communication solutions. That is something the industry will address, but it will require investment and time.

Finding the right balance

Although digital is now clearly in the ascendancy, this does not mean that paper will be phased out any time soon. As Gallagher head of digital, Sam Charles, points out, a scheme has to have a nuanced approach when it comes to reporting to members, particularly when you have a diverse workforce. "There might be a huge subset of your staff who are factory or manual workers, or checkout staff," says Charles. "Or because of the nature of the work, there may be a high staff turnover."

As a result, the most reliable way of passing on communications is doing so manually, as there may be no reliable means to contact them digitally. In addition, supplementing digital with print can have great value in a multi-channel approach. "People are so overwhelmed with emails and apps on their phone," explains Charles. "It is such a crowded space that print can also be a differentiator at times, if done well. It can actually be the thing that grabs your attention and makes you go online and signposts you in the right direction."

Hattam adds that paper may be quite a while away from disappearing from pensions communications for one very obvious reason – many members still want it. "It goes back to strategy and demographic," he says. "What is really the best method for that person? That should be the overriding driver. And by definition you are communicating with some of the oldest people in the country *[who may typically prefer paper communications]*. Ultimately, if we regard ourselves as marketeers in terms of communication, then the first principles of marketing is know your audience and know the channels that your audience reach in order to give them the message that you want to influence them with."

Nevertheless, he adds, that does not mean that schemes should not continue to pursue their digital strategies – and even try and convert members away from being overly reliant on paper.

"We live in a world where people have got used to audio, visual and other aspects of things, even at quite late demographic in life," he says. "I think we should challenge ourselves and challenge the industry to not think simply in terms of binary options in the way that we communicate to people."

Written by Marek Handzel, a freelance journalist

Communicate. Connect. Empower

Marliane Owen explains the importance of creating a personal connection with pension comms, even in a digital world

We're all human, we thrive on personal connection. It's in our DNA.

However, when it comes to retirement benefits and lifetime savings it's easy to forget that we're talking to humans and we often don't consider how to create a personal connection.

We're living in a world that's becoming increasingly more digital. Whilst digital has become the world's most powerful medium of communicating, it doesn't create connection in itself.

For example, a recent study suggests that over-60s who relied solely on telephone and online contact felt lonelier throughout the pandemic. When it was used as a supplement to face-to-face contact, they instead experienced enhanced mental wellbeing. This begs the question, is digital all that? How do you create connection in a digital space?

It's important to recognise its limitations while celebrating the benefits digital brings. Tools like Zoom may never be quite as effective as a face-to-face presentation, nor will chatbots provide the same satisfactory experience as speaking to a real person on the other end of a helpline. But it does provide a platform for quick and easy communication in a way that we couldn't even contemplate 10 years ago.

Digital has many faces, meaning it's never a case of one-size-fits-all. There's a degree of nuance needed with your digital strategy that considers communications, data and operational strategies and limitations to empower your members to make decisions and help them save for their future. It may not be perfect from the outset, but digital platforms offer trustees opportunities to connect with their members on a deeper, more personal level.

So, how do you make the leap from paper to online? Enter, the QR code. For a while it led a quiet existence, before experiencing a boom in popularity through the pandemic. Its ease of use – a simple camera point and shoot – means you no longer require an app.

The two main benefits are 1) directing consumers to exactly where you need them to be on your site and 2) the tracking capabilities of personalised QR codes. When each member receives their own personalised code you'll know if someone has seen your campaign, who they are and where they saw it; providing key insights for your future communications.

We're continuing to help schemes maximise this tool. Many schemes have a data gap and the QR code can direct members to a site to securely provide their email addresses for future campaigns.

Trustees are often concerned about alienating their pensioners by providing scheme information in a digital format. This may have been true some years ago but we're all spending more time online and, usually, through mobile devices.

Perhaps a surprise, 73 per cent of over 65s own a smartphone. Not quite as high as over 90 per cent for every other age group, but it's a percentage that is continuing to grow.

With your members and employees spending more of their time online, you need to meet their evolving expectations. More time means they become more sophisticated and demand more from their schemes. If you don't offer digital solutions that they've come to expect, you run the risk of further alienating an already disengaged audience.

You have the opportunity to empower your members by providing them with the information they're looking for in the place they're looking for it – online.

Here are some other numbers worth considering:
• 75 per cent of users judge a website's credibility based on the website design.
• 88 per cent of people are less likely to return to a website after a bad experience.

And, they do all the above within just 0.5 seconds. Quick indeed.

The importance of fintech is not to be understated, but it still needs to fit into what you want to achieve along with your overall strategy for pensioners and deferreds alike. Whether it's those currently engaged or yet to be empowered.

So which tools are most effective? One that continues to flourish on websites is video. According to a report by regulator Ofcom, in 2020 UK adults spent nearly one third of their waking hours watching television and online video. And as you can expect in the year of the lockdown, the daily average screen time was five hours and 40 minutes, up 47 minutes on the previous year.

People spend 88 per cent more time on a website with video content than a website without. But, it's all about how you use the tool itself. As with all online content, you need to make a fast (and we mean fast) impression. Ten seconds is the standard benchmark. And with the emergence of apps like TikTok, our attention spans are lessening even further.

If an average consumer won't finish a two-minute video, what are the chances they'll finish a member booklet or newsletter? Or even open it in the first place?

Digital is your opportunity to support and empower your members to make the decisions that are right for them.

Decisions such as:
• should they start contributing more at an earlier stage?
• whether they should change investment to align with their personal beliefs
• how they want to receive information about their retirement. Would bite-sized chunks work best?
• understanding how their pension fits into their overall financial planning
• should they contribute less whilst they build a house or when they start a family?

For pensioners a digital solution could be about creating a community, ask questions or update details. Digital can assist trustees in shaping the way they support their members and provide greater insight into how their members make decisions, along with their needs and wants.

But it's only effective with the consumer at the heart of that process. They're human at the end of the day, so you should focus on connecting with them emotionally and test your approach as often as possible.

The journey may feel overwhelming. So, where do you start? We've put together our top tips to really connect with your members.

1. Know your audience!
It's not a one-size-fits-all – use the data you have to engage and connect in a way that is relevant to your members.

2. How can we help?
Understand what support would be most useful. Online forms or feedback sessions are a great place to start as well as an opportunity to engage.

3. Fill in the gap
Make it easier for your members to get online. Link online and offline by sending a postcard with a QR code to an online form.

4. What's in it for me?
Be clear about what your online offering is supposed to achieve. Providing information vs helping them make decisions. Or even better, do both?

5. Dare to be different
Don't let your messages get lost amongst a sea of emails. Grab their attention with something bold that will resonate with them.

6. Who are you?
Brand is important and reflects who you are and how you want to be seen. Make sure you can be recognised. If a member can't clearly see who a communication is from they might just ignore it.

7. Seen but not heard
Keep information short and to the point. You may think you've ticked all the boxes by including everything but if your members don't read it then it's meaningless.

8. Emotion empowers
You're talking to people not robots. A puppy may work better than a pound sign to grab attention.

9. Tools not rules
Individual help by phone or in person can be supported with digital tools like calculators, chatbots and videos. Allow members to find helpful information, any time, any place.

10. Don't put it off
The longer you wait to begin, the longer it's going to take. Speak to us today to find out how we can help sprinkle some magic on your communications.

At MakingGiants, we believe that emotion empowers and that connection can be created online. We'd love to speak to you about how we can help you and your members.

Please get in touch here.
magic@makinggiants.com

Written by MakingGiants managing partner, Marliane Owen

In association with MakingGiants

Member communication – to make it work, make it digital

As consumers demand entertaining communication from retailers, restaurants and social media, pensions providers need to raise their game

The pandemic and lockdown saw a significant increase in the amount of time that the people were spending online – up from just over three hours a day in September 2018 to just over four hours in April last year. Since then, we've continued to conduct online meetings, go shopping and stream movies from our sofa or 'work' armchair.

However, one thing most people haven't been doing is to check on their pensions. Research published by Canada Life this May confirmed what most pensions professionals already know. In the previous 12 months, two-thirds (67 per cent) of UK adults had not logged into their pension online. This figure rose to over three-quarters (78 per cent) for those aged over 55, while over half (56 per cent) of adults said they hadn't received a pension statement that they had read.

Vital though pensions might be, it seems that most people are simply not interested in knowing about them. According to recent survey by the PLSA of its membership, more than a quarter (26 per cent) believe that improving member communications will be a major trend.

Yet despite talk by government and the industry about making it more accessible and engaging, pensions providers are still struggling to work out how. It's time to fully embrace digital.

Raising the bar

It's hardly surprising that most people are so willing to spend time looking for clothes, holidays, garden furniture, movies or checking on their bank accounts. Consumer product websites are simply so much more appealing. Pensions are clearly a different proposition but, when it comes to audience engagement, the pensions industry can still learn from these digital experiences 'outside' of work. If the experience of the company pension is vastly inferior to that of a fitness app for example (they both try to motivate with real time numbers on some kind of dashboard), there's always going to be a credibility gap that's never likely to be filled.

Company internal communication platforms have improved over the past few years with far more interesting content and with that more opportunities for employees to become actively engaged in them. With the growth of fintech, even banking has become more easily accessible and appealing to customers.

Scheme websites shouldn't be left behind. Pensions meet an essential human need and their message – here's how much money you have and here's how much more you'll probably need to put away – is a very simple one. There's no reason why the pensions industry can't take advantage of the exciting and rapidly evolving opportunities presented by digital communication and engagement and start to lead, rather than follow.

Small, bite-size chunks

As the volume of information aimed at us everyday increases, we prefer to consume content in small, bite-size chunks rather than in large unwieldy blocks of text. Members are no different – they like to dip in and out of content whenever they want. Retailers and entertainment providers know that audiences are increasingly device-agnostic – they want to be able to access information on their phone or via a laptop or tablet, depending on whichever device they have closest to hand. 'Second screen watching' is common amongst Gen Z – they're multi-tasking by using multiple devices at the same time. If we as communicators want to grab their attention (and we absolutely need to), we must find a way to compete with this.

Members expect the sites that they visit to work within the confines of a smartphone screen in the same way that they do for a desktop computer. Similarly, if they update their information or start a transaction on one device or even a chat with a robo-adviser, they expect this to be consistent across all devices and touch points.

Learning from social media

There are a number of reasons why social media is revolutionising the way in which we communicate with each other. First, it's visual and so makes taking on board information quick and easy. It allows us to express our thoughts and to share our activities and experiences and to connect more easily than ever with other people. It entertains and informs us, and, thanks to the use of algorithms, we know that it'll show us things that are relevant and interesting to us. It's also based on storytelling, as the most corporate users of social media space know all too well. Finally, it's immediate – we can do all of the above with a simple matter of clicks or taps. If pension communications started to apply these simple concepts then we would be recognising what needs to happen to increase engagement and challenge member apathy.

Regular updates

Consumers also expect to have easily accessible regular notifications from their chosen brands. They will expect a pizza or grocery delivery service to let them know when their order will arrive and whether it's subject to any delay. Part of the appeal of Uber is that passengers can track their car's position in real time. Pensions work on longer time scales than either of these services and involve considerably more money. However, consumers still expect to be able to see how their enquiry with their pensions provider is progressing. Has it been received? Who now has ownership of it? When might it be answered or resolved? Regular, easily understandable updates should be readily available and digital makes 'Nudge' theory notifications straightforward to implement.

With its immediacy, variety and opportunities for interactivity, digital content can be used to complement the traditional paper update. It can be more tailored to the needs, interests and life stage of the recipient. It can also contain video and rich content as well as text. This can enable the kind of storytelling that not only engages audiences but helps them to understand some of the more esoteric aspects of pensions.

More than just a newsletter

There are more searches for video than for text on the web these days and visitors are likely to spend more time on a site that has video content. Videos should be short – preferably less than about 60 seconds – with the emphasis on entertainment, since these days a staid, stale information piece just won't cut it. Landscape's MoneyZingers (moneyzingers.com) are short 15 second videos with tips about looking after money based on the American social scientist Harold Pollack's argument that you can fit all you need to know about money on an index card. Animations also work well to explain abstract concepts such as inflation risk and compound interest.

Modelling tools with sliders, dynamic charts plus polls, quizzes and games, can help members understand more deeply how their pension works. They can input their own information (ideally a platform will know who they are and do it for them) to do their own calculations and see the relevant data represented in a visually engaging way.

Engaging with all members

Digital also offers new opportunities for engaging different types of member, be they active, deferred or those that are already taking a pension. Because it's non-linear users can take the initiative, so that they can access the information that is relevant to them rather than having to passively accepting what the scheme assumes they want to hear. It's also easier to update personal information and to signpost to other sources of authority and widen the knowledge base.

A flexible, personalised, multichannel approach joins up all communication activity, including the tried and tested channels like e-marketing. Pensions schemes should be thinking now about how their digital content can be integrated with the forthcoming pension dashboards. If it works as we all hope, it will play a key part in simplifying pensions.

Track and learn

From the scheme's perspective, the greatest advantages of digital communication are the accurate, detailed, real-time analytics that it produces. Fund administrators can understand exactly what members are looking at, interested in and concerned about. This means that their communications can be more relevant, more engaging and more likely to elicit a response when required.

Consumers are demanding more from the brands that they interact with and digital communications is essential to satisfy these demands. Now is the time for the pensions industry to embrace the exciting new opportunities that it presents.

Written by Landscape founder and creative director, Ryan Sales

In association with

Landscape.

Company Profiles

MakingGiants

We're delighted to have the chance to update you on what's been happening at MakingGiants.

"Who is MakingGiants?", I hear you say. You might know us as Ferrier Pearce; we're really proud of our history and the team we've built along the way. But in 2020 we had a bit of a facelift; a new look for a new digital era.

We're a digitally led pension communication agency driven by research and insight. We craft thoughtful strategies and creative solutions with the audience, your members, at the heart of all we do.

We believe that emotion empowers and drives decision making. This underpins our work within the pensions and lifetime savings sector. We combine our in-depth knowledge of the retirement sector with our insights, understanding of consumer behaviour, and financial education expertise to craft communications strategies that maximise engagement and enable behaviour change.

We're a full-service agency, which means we can support you from strategy to execution. Whether it's digital hubs, on and offline pension newsletters, or reward and benefit videos, we'll work with you to deliver jargon-free campaigns that resonate with people and enable them to make the choices that's right for them.

We work with a range of clients to provide day-to-day solutions, one-off campaigns and annual communications. When you visit our website makinggiants.com you'll see examples of our work for a range of clients.

No challenge is too big or small for us and we're certain our best work is still ahead of us. If you have a project you'd like to chat through, reach out to us and let's get started.

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MakingGiants

Landscape

Landscape is an award-winning design and digital communications agency. Our mission is to change perceptions of the value in saving for later life by focusing on engagement, language and financial wellbeing. We support organisations through intelligent design, creativity, strategy, planning, digital communication, effective content and data analysis.

Our expertise includes:

- Digital experiences such as websites and portals
- Interactive tools and calculators
- Financial education
- Accessibility & diversity
- Member data analysis & insight
- Business as usual communications
- Sustainability & ESG

We've been helping pension schemes, trustees and employers engage their members for over 10 years. We believe that the status quo has not been helping members prepare for life after work as best as they can and so we're not defined by our experience just in pensions – we take inspiration from other sectors to balance knowledge and expertise with a fresh and consumer focused approach.

Money is the biggest stress for employees and consequently many lack confidence in planning for life after work. It's now more important than ever that members can see information about their pension when and where they want. They expect workplace communications to be as useful, user friendly and engaging as when online banking or ordering a pizza.

Interactive content such as tools, games and video delivered through dynamic digital experiences helps remove the barriers to engagement, and financial goals become more tangible. When these are used in tandem with more traditional communications such as statements, emails and newsletters, pensions begin to make more sense.

We're results driven, so whichever channel is being used, we track, analyse and report to help us truly understand how members actually behave and what they really need. This can highlight 'nudge' opportunities that will move members from default positions to making decisions and taking actions.

Get in contact if you want your members to really engage with their pension.

www.yourlandscape.co.uk
0120 7692 7001

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Summary

- Pension schemes, particularly older DB schemes, are finding it more difficult to find new member-nominated trustees, in part because of a disconnect between older schemes and a sponsor's workforce and/or management; in part because trusteeship has become more complex.
- Increased regulatory demands and the threat of prosecution may be discouraging members from seeking to become trustees.
- More schemes are using professional trustees, including as sole corporate trustees – but some candidates are also discouraged by the increasing demands of the job and by accreditation requirements.
- Schemes, employers, policymakers and pension industry bodies must work together to improve recruitment, training and support for trustees, succession planning and the diversity of trustee boards.

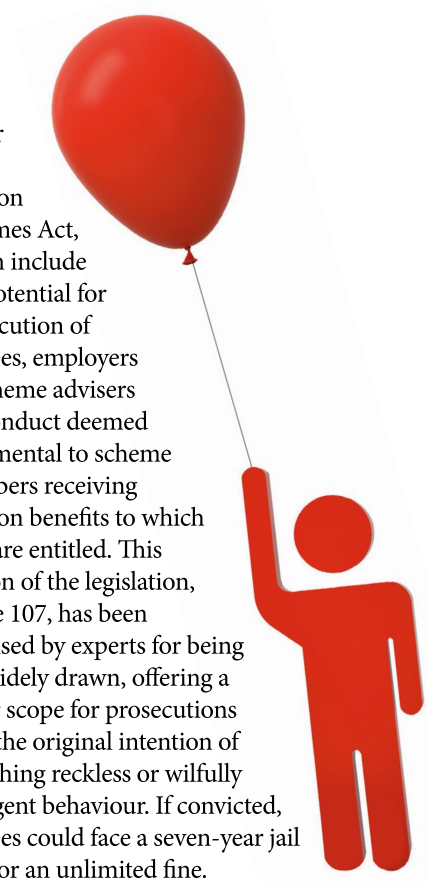
Attracting trustees

Trusteeship has become more complex and demanding in recent years. Amid worrying signs that more current and prospective trustees are deciding not to serve in the role, David Adams asks if the professional trustee industry can help to meet growing demand and considers what else can be done to ensure a steady supply of new trustees are able to deliver effective scheme governance

One theme of 2021 has been economic and social problems caused by labour shortages, of HGV drivers, agricultural workers and nurses, for example. But there is one such shortage that has received very little publicity, yet could ultimately cause problems for millions of people: a shortage of pension scheme trustees. Almost nine out of 10 employers (88 per cent) expect pension schemes will struggle to find new trustees, according to research published by the Association of Consulting Actuaries (ACA) in November. More than three quarters of employees (76 per cent) expect more trustees to consider leaving the role, as the pressures and responsibilities associated with trusteeship increase.

"It's undeniable that the pool of available lay trustees, both employer-nominated and member-nominated, is shrinking," says professional trustee firm Capital Cranfield managing director, Neil McPherson. One key reason is the disconnect between the current workforce of a sponsoring employer and DB schemes that may be closed to entrants and future accrual. Over time, fewer scheme members will still be working for the employer, which may, in turn, object to senior managers spending a lot of time serving as trustees for a legacy pension scheme.

As the ACA research identified, the most challenging elements of trusteeship, such as helping the scheme to prepare for de-risking activities, may also be discouraging would-be trustees. Pensions and Lifetime Savings Association (PLSA) deputy director, policy, Joe Dabrowski, also highlights the potential implications of the regulator's new powers granted under the Pension Schemes Act, which include the potential for prosecution of trustees, employers or scheme advisers for conduct deemed detrimental to scheme members receiving pension benefits to which they are entitled. This section of the legislation, clause 107, has been criticised by experts for being too widely drawn, offering a wider scope for prosecutions than the original intention of punishing reckless or wilfully negligent behaviour. If convicted, trustees could face a seven-year jail term or an unlimited fine.



"Whether *[the regulator]* exercises these powers or not, they may act as a red light for current trustees or people thinking about becoming a trustee," Dabrowski warns.

PTL managing director, Richard Butcher, outlines the impact this can have on the member-nominated trustee recruitment processes that his company runs for schemes. He says there are occasions where there will be more than a dozen people being put forward as potential trustees, "but it's much more normal for there only to be a handful, or one or two".

That is bad news for schemes in general, because member-nominated trustees often make such important contributions to effective scheme governance. "They are there to remind the board what members want, what they are going to be unhappy about and what decisions look like from the member's perspective," says Association of Member Nominated Trustees (AMNT) co-chair, Maggie Rodger. She also highlights the important role member-nominated trustees can play in using the right tone

in member communications, while their presence on the board also reduces the risk of groupthink by increasing the diversity of the board, in background, age and experience.

The AMNT is among a number of industry bodies seeking to address the decline in numbers of member-nominated trustees, by promoting the benefits of trusteeship for individuals, as a way to learn valuable new skills linked to management, finance and communications and more.

"*[Member-nominated trustees]* need support from their schemes and sponsors," says Rodger. "They need to feel that time spent in trusteeship is valued by their employer.

"We need to encourage people to think they could do it, rather than just waiting for them to apply."

Call a professional

A failure to find enough member-nominated trustees is one of several reasons why many schemes turn to professional trustees to fill gaps in the trustee boardroom, or to provide a different form of trusteeship, as professional corporate sole trustees (PCSTs).

The Pensions Regulator executive director for regulatory policy, David Fairs, highlights two specific instances where working with a professional trustee can be a good option. "Where a scheme is considering a more complex investment structure, or a potential buy-in or buyout, bringing an experienced professional trustee to the board can be beneficial," he says.

Figures obtained from the regulator by Lane Clark Peacock (LCP) under the Freedom of Information Act show that whereas in 2015/2016 around 20 per cent of DB schemes had professional trustees on the board, by 2020/2021 they were present on almost one in three boards (32 per cent). There has also been a growth in use of PCSTs: about one-third of schemes using professional trustees employ them as corporate sole trustees.

Ross Trustees trustee director, Manpreet Sohal, points out that a PCST is not really a sole trustee in the sense they are working alone; they are supported by a team of experts at the professional trustee firm, specialising in the covenant, or on investment, for example.

But there is also some evidence

that some of the factors making it difficult to recruit member trustees are leading to some professional trustees resigning. A startling 62 per cent of DB scheme professional trustees intend to step down within the next three years, according to research published by Charles Stanley Fiduciary Management in September 2021. More than half of those who say they intend to leave (56 per cent of this group) cite the increased regulatory burden as a reason.

A (still only voluntary) requirement for professional trustees to seek accreditation, through one of the programmes created in 2020 by the Association of Professional Pension Trustees and by the Pensions Management Institute, may also be contributing to a decline in numbers of professional trustees. "The bar for accreditation has been set too low, in my opinion and should be ramped up – but the fact you need accreditation is putting some people off," says Butcher.

Yet this should also lead to an improvement in the capabilities of the professional trustees who remain. All the professional trustee firms say their firms are being contacted by a steady stream of well-qualified candidates. "Most of our appointments are people who are mid-career who have taken a decision to become a professional trustee, but have backgrounds as senior, experienced professionals," says McPherson. They may have worked in consultancy or fund management, or as actuaries, lawyers or covenant advisers, for example.

The perfect combination

What further support should schemes, employers and the professional trustee industry be receiving from the regulator or other policymakers or industry bodies, to ensure a steady supply of effective trustees?

"For me, it's about continued support from the regulator in terms of the Trustee Toolkit, making that valuable and relevant to incoming trustees; and continuing to set out expectations of governance standards that trustees are expected to meet," says Independent Trustee Services director, Hetal Kotecha. "Is that over-burdening trustees? In a sense it is, but the governance requirements are there for good reason. There's a judgement call to be made in terms of how they are applied to individual schemes."

Sohal thinks the regulator is right to maintain a focus on increased diversity. "The regulator is definitely trying to put across the message that in terms of diversity we need a wider net," she says. This includes increased diversity in age: "We don't want people to think that being a trustee is something you can only do in your 60s."

Fairs confirms that the regulator is "looking to attract individuals to the trustee role that may not have previously considered it".

The PLSA is also committed to encouraging and supporting would-be trustees. "We will continue to help with training, trustee guides and pushing the governance envelope where we think things need to be improved," says Dabrowski. "We can also help with mythbusting around challenges that might put people off becoming trustees; and by supporting younger people interested in becoming trustees."

Whether they are scheme members or professional trustees, the best trustees are worth their weight in gold, so schemes and sponsors must continue to recruit and train new member-nominated trustees and to put effective succession planning processes in place *[see boxout]*. All trustees need time to learn how to perform their role effectively and to build up the knowledge and expertise they need.

"Good governance is a combination of things: technical skills as well as more general skills, plus commercial acumen, intellectual curiosity; and being ready to challenge your advisers," says Dabrowski. "It takes a lot to be a really good trustee." The right candidates are out there – the challenge is to find and support them. But schemes, their members and sponsors that succeed in doing so, will be able to reap valuable rewards for years to come.

Written by David Adams, a freelance journalist

Succession planning for trustee boards

Good succession planning is essential for effective scheme governance. "Having a succession plan in place encourages trustees to think about things like having staggered terms of office, so you don't have experienced trustees all stepping down at the same time," says Independent Trustee Services director, Hetal Kotecha.

Succession planning should be based around audits of the skills, knowledge, strengths and weaknesses of the board. "The more planning that can be done, the better," says Kotecha. "If you have descriptions for key roles, like committee chairs, then if the people in those positions move on, it is that bit easier to find someone to fill that knowledge and skills gap."

He also suggests using the member-nominated process to create a 'subs bench' of people waiting to become trustees. The 'subs' can join trustee meetings as observers and can start to work their way through the Trustee Toolkit.

Succession planning should also help to improve the diversity of the board, in accordance with guidance from The Pensions Regulator, but also to gain the benefit of a broader range of experience and perspectives around the board table. But achieving this will depend in part on a well-planned recruitment campaign, designed to encourage candidates from a wide range of backgrounds to apply.

Rising to the challenge

Pensions Management Institute (PMI) director of policy and external affairs, Tim Middleton, looks back at the biggest issues of 2021 and how industry training can help pension providers tackle these challenges

When you look back on 2021, what do you consider to be the biggest pension issues of the year?

The major issues are mostly associated with the Pension Schemes Act 2021.

Climate change reporting currently affects just the largest of the UK's pension schemes, but will ultimately be a duty for all trustee boards.

We await some clarification about the changes to the funding regulations for defined benefit schemes. However, during 2022 we can look forward to an improved regime governing funding and that will give confidence to sponsors and trustees.

Similarly, we await further clarification concerning the new sanctions regime for those who those who 'recklessly endanger' a scheme's funding. Whilst we have moved on from the uncertainty of the start of the year, there is still much to be resolved.

Further progress has been achieved in the development of the pensions dashboards. However, there remains some distance between what the government wants to achieve and what the pensions industry regards as technically possible, and next year will have to be spectacularly productive if the intended deadline of 2023 is to be achieved.

The Royal Mail has now been given the clearance to develop the UK's first collective defined contribution (CDC) scheme. This has the potential to be a major watershed moment in the history of workplace pension provision.

The PMI plays a vital role within the industry, helping it to be trained and ready to work effectively in an evolving sector. How can it help its members keep abreast of these developments you mentioned facing the industry?

Even through the obstacles presented by the pandemic, PMI has endeavoured to keep our members advised of developments within the workplace pensions sector. Our webinar programme provides regular information about a range of topical and occasionally controversial topics. Finally, we have very recently recommenced providing traditional conferences and seminars.

Following on from this, what areas of focus would you say pension professionals should maintain an interest in, for their own professional understanding and development?

Certainly, ESG is going to be a permanent focus for trustee boards. Another area of focus for 2022 and beyond is diversity and inclusion (D&I) on trustee boards as this will help in improving governance standards.

Last year saw the PMI launch APTitude, an accreditation service for professional trustees, and this summer saw it move onto offering a lay trustee accreditation. Please tell us more about this lay trustee accreditation; why was this created?

APTitude was a service that PMI was committed to as a result of its work within the Professional Trustee Standards Working Group. The Pensions Regulator (TPR) had instigated this

journey in 2017, and we began the formal accreditation of professional trustees early in 2020. Once that service began, we were contacted by a number of lay trustees who were keen to demonstrate their own commitment to good governance. Recognising their good work – and encouraging others to follow suit – is part of our ongoing commitment to TPR's 21st Century Trusteeship objectives. Improving governance standards is in everyone's best interests.

This year also saw the PMI offer a range of educational products and services through its PMI academy and launch a Diploma in Pension Trusteeship in the autumn. Could you tell us more about each of these please, what they are, why they were created, and what take up has been like?

We remain keen to help pensions professionals continue their career development. The Diploma in Pensions Trusteeship (DPT) was developed for a number of reasons. One was that accreditation for lay trustees was based on the same qualifications as APTitude, and we believed it necessary to introduce a new trustee qualification to allow professional trustees to establish some 'blue water' between themselves and their lay counterparts. Additionally, we have been reviewing the routes open to members for achieving associateship and fellowship, and saw DPT as filling a gap that would enable those working as professional trustees to achieve that.

By regularly updating and expanding the accreditations and training products, what impact would you say this has on the industry? Can it help shape the nature of the sector for instance, by making the industry more accessible increasing the diversity of people working within pensions?

Our range of qualifications is geared strongly towards improving standards and helping professionals ensure that they are appropriately qualified for the ever-changing needs of the industry as a whole.

Finally, what areas within the industry do you think may need new educational services from you in the future – eg accreditation for the management of CDC schemes?

Once CDC has become clearly established – which would realistically mean once it is no longer confined to single-employer private sector trusts – PMI would certainly consider the viability of a CDC qualification. It is also possible that there will be a requirement for greater understanding of the preparation of TCFD reports. PMI is continuously monitoring developments within the industry; if new educational requirements arise, PMI will be swift to respond.

Written by Laura Blows

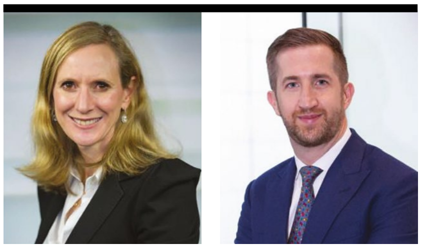
ESG-driven investment strategies: *UBS head of infrastructure equity Europe, Bronte Somes, and head of infrastructure research and strategy, Declan O'Brien, discuss with Pensions Age ESG's impact on infrastructure investing* ***p74***

Infrastructure - incorporating ESG: *Abigail Williams explores how pension funds are incorporating ESG into their infrastructure investment considerations* ***p76***

ESG and infrastructure focus:

Building sustainability

UBS head of infrastructure equity Europe, Bronte Somes, and head of infrastructure research and strategy, Declan O'Brien



ESG-driven investment strategies

UBS head of infrastructure equity Europe, Bronte Somes, and head of infrastructure research and strategy, Declan O'Brien, discuss with *Pensions Age* ESG's impact on infrastructure investing

In the following interview, Bronte Somes, Head of Infrastructure Equity Europe, and Declan O'Brien, Head of Infrastructure Research & Strategy, at UBS Asset Management, Real Estate & Private Markets, discuss ESG's impact on infrastructure investing.

1 How can institutional infrastructure investors gain exposure to ESG?

Declan O'Brien: The options for institutional investors to gain exposure to ESG have never been greater. The public markets, for example, have seen net new money into sustainable investment funds increase from USD 17.5 billion in the first quarter of 2018 to almost USD 140 billion by the fourth quarter of 2020[1]. That is more than the total capital raised from all real asset funds. Real assets are also experiencing an increase in sustainable offerings, though that sector is at an early stage of maturity so a bit harder to track.

We can easily see that real estate is leading the way, due to more efficient buildings, and the increase in both subsidised housing and measurement of the social impact of assets. However, infrastructure is beginning to catch up and, potentially, offers more interesting opportunities in the future to take advantage of the more secular trends in the economy, such as decarbonisation, digitalisation, the need to support aging demographics, as well as healthcare and housing.

The ability to directly invest in and control these assets to target sustainable outcomes is an advantage of this sector. When you invest directly in infrastructure, you aren't just investing in a company with favourable ESG ratings, you are investing in assets in the real economy that can have a positive environmental and social impact.

2 Which infrastructure sectors are most effective in delivering an ESG outcome?

O'Brien: As you know, the infrastructure sector is really a collection of very diverse subsectors with very different ESG profiles. When it comes to supporting ESG goals, infrastructure is particularly well situated to support the environmental component. The biggest change over the past decade has been in the decarbonisation of the energy space and electricity sector, which requires new and more efficient infrastructure assets.

The next frontier likely is going to be in the transportation space. If you look at the UK and most European economies, the electricity sector has almost halved emissions over the past decade, whereas the transportation space has basically stayed the same. So, we see a big opportunity in clean transport. But ESG is more than trying to mitigate environmental impact, and we often need to balance the different components.

3 Can you give me an example of the need to balance?

O'Brien: Some transportation assets, such as airports, tend to have a high carbon footprint, but clearly provide important social and economic benefits to a region. It is important when you look at these less environmentally friendly assets to look at ways of improving the ESG profile over time. We also look for subsectors that provide social benefits without a large carbon footprint, such as healthcare assets and fibre networks in rural areas, which help to close the urban/rural divide.

4 How is UBS incorporating the "G" component in its strategy?

O'Brien: In terms of governance, we tend to look for small- to medium-sized companies where we can get a majority position. It is very important to have control when setting the strategy, as well as having access to data that is required to make informed ESG decisions and satisfy regulatory requirements. If we didn't have the majority position, I think we would struggle to get the data needed to meet those requirements.

Bronte Somes: Our latest strategy, which at the moment comprises two renewables, a fibre asset and a data centre, is a prime example of how the decarbonisation and digitalisation trends can become investor opportunities

5 Have ESG considerations become a must-have rather than a nice-to-have?

Somes: ESG has definitely moved from being a nice-to-have, to being an integral part of a transaction and is actually used to drive action and outcomes. In the past, ESG was a little bit of a check-the-box exercise. Now, our due diligence process includes ESG aspects. We have an ESG template that we need to complete and present to our investment committee as part of the pre-acquisition due diligence. Then, in the first hundred days after purchase, we work with an ESG specialist to assess the asset and areas for improvement. We formulate KPIs, which are used to measure ESG performance, and will report on those key metrics to our limited partners (LPs).

O'Brien: We need to track these KPIs properly and ideally try to find ways of linking improvement to remuneration. This all requires investments in additional resources, people and better data reporting systems.

6 How is your business adapting to the evolving ESG landscape?

O'Brien: Integrating ESG aspects in our due diligence has allowed us to focus not only on the opportunities of ESG, but the risks as well. The Task Force on Climate-Related Financial Disclosures (TCFD) provides a practical framework to assess the asset, both in terms of the risks and opportunities from transitioning to a low-carbon economy, and we are working with management teams to integrate best practices into business plans going forward.

Somes: We are already building ESG into our business plans. We have refined our investment strategy as we have become more focused on decarbonisation and digitalisation, and that is reflected in our recently acquired and soon-to-be acquired assets. In fact, we have targeted a portion of our portfolio to be sustainable investments and to achieve a minimum level of the GRESB benchmark. In addition, we have a list of excluded investments, specifically oil, coal and nuclear. This all looks slightly different in the US versus Europe because the US is a little bit behind Europe as it relates to the "E" part of ESG. But, arguably, the US is ahead in the social aspects of ESG. Eventually, the two will align. Europe will pick up more of the "S" and the US will pick up more of the "E" out of necessity, as well as managers and LPs wanting to head in that direction.

O'Brien: This focus on ESG is flowing into the new strategies side of the business, as well. There is support from the organisation to look at inventive ways of creating scalable, sustainable strategies. There is a real effort to stay ahead of the trends and come up with innovative solutions that give investors the types of strategies they are demanding.

7 What are LPs demanding in ESG-driven infrastructure investments?

Somes: LPs are expecting managers to thoroughly consider the ESG aspects of an asset during acquisition, to remedy any issues post acquisition of these assets, or to pass on an asset where an ESG issue can't be addressed. LPs are also expecting their managers to report on ESG metrics and to satisfy the ESG reporting frameworks, hence the increase in human capital resources and other tools that managers need to fulfill these requirements for LPs.

O'Brien: The level of data requested from LPs and consultants has increased exponentially, and that is something we are taking into consideration when designing what metrics we are starting to track. Doing this on a bespoke basis is extremely inefficient, so we have invested in people and a data system that allow us to track these key metrics across every asset from due diligence through to exit, which we think is going to be extremely beneficial in the long-term.

8 How are the different regions emphasising ESG differently?

O'Brien: As Bronte noted earlier, Europe is a bit ahead on the environmental side, while the US has focused more on the social and governance issues. In Europe, the risk of owning less-environmentally friendly assets is rapidly growing. For example, the price of carbon has almost doubled in Europe in the past 12 months, so owning assets with a large carbon footprint will become increasingly expensive. You are also seeing rapid energy transition, with more and more governments signing up to net-zero targets. On top of that, you have regulation, such as the EU Sustainable Finance Disclosure Regulation (SFDR). While it remains unclear whether enforcement is going to be a carrot or a stick, it is clear that the European Commission didn't go to the trouble to design all of this regulation to then have it ignored. There are also societal elements, where Europeans are more anti-hydrocarbon than Americans. With all of that working together in Europe, it leaves the US quite a long way behind.

But things are moving in the right direction. If you look at carbon pricing, for example, certain US States do have a carbon-pricing market. These prices are still probably too low to make a meaningful difference, but they have been increasing, and even the National Institute of Petroleum says they would potentially support carbon pricing. However, given how cheap gas is at the moment, it is very difficult politically to sign up for anything like the same sort of commitments that Europe is able to make. I think Europe has got a lot to learn from the US in terms of some of the social metrics, but clearly in terms of the environmental side of things, Europe is quite far ahead. And if they manage to implement a carbon border, the EU will only provide further impetus to the ambitious decarbonisation plans.

[1] Source: Preqin; UBS ISS Market Intelligence (SI); May 2021 * Real assets capital raised based on Real Estate, Infrastructure and Private Debt

Note: All data as of June 30, 2021, unless otherwise mentioned. Past/expected performance is not a guarantee for future results. This article presents the authors' opinions reflecting current market conditions. It has been prepared for informational and educational purposes only and should not be considered as investment advice or as a recommendation of any particular security, strategy or investment product.

Summary
• An increasing number of pension funds recognise the central importance of infrastructure investments in ESG strategies.
• A useful approach for funds is to develop understanding of critical ESG issues in infrastructure portfolios and establish long-term strategies to influence their investment and management strategies.
• Pension fund investors should clearly and regularly communicate their ESG priorities and data requirements to infrastructure funds and asset managers.
• ESG Management Systems like ISO 14001 can be useful tools.
• Observers expect to see more sustainable and ESG impact strategies across the board, and infrastructure is well-placed to deliver in this area.

Infrastructure: Incorporating ESG

Abigail Williams explores how pension funds are incorporating ESG into their infrastructure investment considerations

A growing number of pension fund investors now recognise the central importance of infrastructure investments in ESG strategies. So, how best can fund managers incorporate ESG considerations into their infrastructure investment decisions? And what trends and developments can we expect in this area in the coming years?

Long-term strategies

According to GRESB director of infrastructure, Joss Blamire, pension funds should initially understand what the critical ESG issues are for their infrastructure portfolios and set long-term strategies around what impacts they want to have in order to influence their investment and management strategies.

"Thankfully, infrastructure managers are increasingly realising that producing clear and detailed ESG disclosures and reports gives them a competitive advantage when seeking investment from ESG-conscious investors," he adds.

GLIL Investment Committee member, Patricia Rodrigues Jenner, observes that infrastructure is an asset class with "inherent ESG credentials" as it provides services for communities and creates value for society.

"Currently, many early-stage infrastructure assets with ESG potential have an unacceptably high-risk profile for pension fund investors as they do not yet offer stable returns for members. But with continued government prioritisation and early investment, hopefully in time the availability of ESG assets suitable for pension funds will increase," she adds.

Management system

If the objective is to have a strong, balanced ESG positioning, UBS Asset Management, Real Estate & Private Markets' head of infrastructure research and strategy, Declan O'Brien, says, then the principles of an ESG Management System like ISO 14001 are "useful, robust and systematic".

Here, the first place to start is undertaking an appropriate ESG materiality assessment, based on sector, as a way to prioritise the most significant potential ESG impacts and opportunities, for example, SASB or GRESB Infrastructure, says O'Brien.

"Ideally, stakeholder interests and priorities will also be considered in the materiality mapping stage. Based on this, appropriate policy approaches, KPIs and targets should be set. The next stage … is to ensure alignment with relevant ESG regulation, and have appropriate risk management controls and processes in place.

"Monitoring, measurement, and reporting results is also crucial and routine ESG audits are good practice. Active stakeholder engagement is required, as well as understanding and implementing ESG improvement programmes, with the aim of ongoing continual improvement," he adds.

Transition scenarios

For Redington head of stewardship and sustainable investment strategy, Paul Lee, climate change is the key ESG issue for infrastructure investment because, by its nature, all infrastructure is exposed to physical climate change risks.

"As long-term illiquid investments in physical objects that often cover significant tracts of land, infrastructure can face the full force of the additional extremes of nature caused by our overheating planet. Infrastructure investments that are not built to withstand these future extremes may not last the time period that is expected of

them," he says.

Lee also observes that some infrastructure assets, specifically roads and airports, face significant transition risks in various climate scenarios as travel may become less favoured.

"Considering these potential impacts when making long-term illiquid investments is vital. In contrast, other infrastructure assets will be heavily favoured in most transition scenarios. Clearly that's true of renewables, but rail is also likely to fall into these categories. While the pricing of some renewables assets is becoming unattractive, our current research in the space indicates that there are opportunities, including include smart grid technologies, power storage and hydrogen opportunities, which still have beneficial risk/return characteristics," he says.

"Most infrastructure is also challenged with regard to climate because cement and concrete is by its nature significantly carbon intensive. Given that much infrastructure investment currently relies on new builds and the heavy use of concrete, this is a major issue. Unless new technologies emerge, the very creation of many infrastructure investments will have a significant carbon footprint. This may make some less attractive to investors seeking to deliver a net-zero agenda," he adds.

Progressive policy

According to O'Brien, infrastructure can often be perceived as an esoteric asset class, where each asset contributes to ESG in a different way. For example, at a regional airport, recurring carbon emissions are clearly high, but the economic and social aspects could also be locally important – meaning there would be a vast impact on the livelihoods of rural economies, employment and innovation if the airport was starved of capital and closed.

"In such cases, a progressive ESG policy could improve the assets in the areas that you can control, as well as carefully managing relations with local communities who may be impacted by noise. One key component would be to compile a carbon footprint … so that you can understand what is driving emissions. However, this will only get you so far with 'E' focused investors, given that the nature of the asset will mean it is a high carbon emitter," he says.

Whether it be for an asset or a fund, O'Brien stresses that the key challenge is collecting and interpreting data. Within infrastructure, this is "least challenging when you are the majority owner of an asset and can collect the data at source" – but "the further you are away from the ownership of the asset, the more difficult it is to collect the data required to assess its ESG credentials, and in turn, drive change in its ESG performance".

Future trends

Bfinance senior director, infrastructure, Anish Butani, reports a growing trend amongst investors and managers around making a tangible impact when allocating to infrastructure.

From the investment side, O'Brien expects to see more sustainable and impact strategies across the board, and believes infrastructure is well-placed to deliver on these.

"We expect more specialised funds, for example, focusing on investing solely in 'sustainable' infrastructure assets like energy transition assets. We also expect to see more multi-asset sustainable strategies where a fund will invest in sustainable assets across private markets in order to create scale and diversification," he says.

"Another key trend is data, in terms of its availability, quality, and the dynamic analysis of it. With the huge focus on greenwashing and for regulation such as SFDR, data is front and centre for ESG investing and is only going to become more so. Investors that commit to understanding data now, and focus on asking for the right data, as well as managers who invest into sourcing and providing quality data, are going to be able to keep up with the shift," he adds.

O'Brien also points out that climate risk analysis and reporting is becoming increasingly important, and is arguably the largest evolving area for ESG strategies.

"Investors are still transitioning. Many are still comparing sustainable funds with traditional funds, so returns are still the predominant consideration. If it is green and generates a high alpha, then everyone is happy. We're starting to see this status quo shifting, where investors have an impact bucket, meaning that a fund will only be considered if it meets the impact criteria. The investor will then choose the best risk/reward fund within the universe of impact funds rather than within the wider investment universe. This fits well with the multi-asset sustainable thesis as impact begins to get its own allocation," he adds.

Blamire also points to an ever-increasing recognition of the value of making progress in key ESG aspects to make infrastructure more sustainable for the future, prompting an increase in demand for more reporting from investors, asset managers, governments and wider society in general.

"This is leading to increased pressure for reporting to be standardised and mandatory much in the same way as financial reporting has been over the last century. However, ESG reporting is still maturing so there is still work to ensure that any mandatory requirements also meet the diverse needs of investors and reflect real world ESG impacts of infrastructure investments," he adds.

Written by Abigail Williams, a freelance journalist

In association with UBS


Switching on to a master trust

Schneider Electric pension manager, Jerry Gandhi, and pensions administration manager, Richard Taylor, tell Francesca Fabrizi about the DC scheme's recent move to a master trust, and the positive changes it has meant for the scheme going forward

Why did you move to a master trust?
Gandhi: The reason for going down the master trust route was, when we were evaluating all the work we were doing, we felt that the costs being incurred on the DC side were ever increasing, while the ability to focus spend on member outcomes was ever reducing.

The culture of the organisation is about empowering people – our strap line is 'Life Is On', and that means life is on for those working for the organisation even into retirement. So, we wanted to look at how we could truly make that happen. Owning the pension scheme was a really important part of what we wanted to do but ultimately, after much deliberation between the trustee and the company, the decision was made to look at all the options available in the marketplace. We wanted to see if there were better ways of delivering our DC scheme, for the benefit of our members.

Ultimately, master trust provided us the best of all the things we wanted.

Taylor: We didn't just look at this from a pension scheme point of view either – we wanted to take a holistic approach and consider financial wellbeing as a whole. The pandemic has highlighted the importance of financial stability, so we wanted to make sure we had the best technology, and that our members had the best tools, to be able to understand and manage their pension in the best way possible, but alongside their overall financial wellbeing.

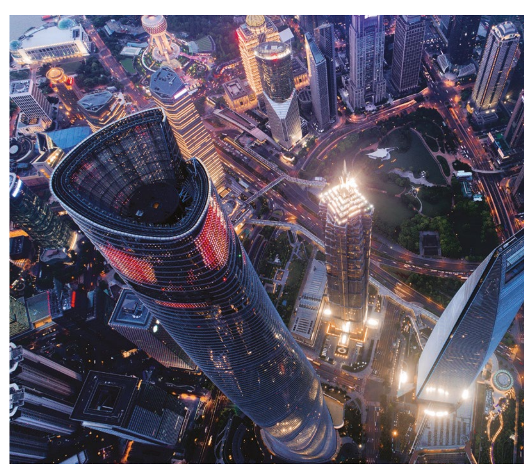
How did you choose which master trust to go for?
Gandhi: With the help of an independent consultant, we created a substantial and meticulous wishlist of everything we wanted, then went to market. We wanted every master trust out there to have the opportunity to pitch for it, on a no names basis initially, and that led to a list of approximately 16 potential providers.

Following further dialogue with those providers, we distilled that list down to six who we then met with in person. After those initial meetings, we drew up a shortlist of three, and carried out site visits where we met their teams and learned about everything they could offer us. They were all excellent but, in the end, we went for an offering that we felt our members could most relate to, and a company that we felt was the most capable and suited partner, not just a provider – and that was Aon. That partnership was critical.

With Aon, it was very much about how we could work together on the process and where that would lead us – having a common vision for helping our members achieve quality financial outcomes into retirement. To ensure the trustees and the company could feel confident with the change, a robust transition plan for the move to the master trust was provided. This underpinned the relationship that we'd have with them, not simply as supplier and customer, but very much a partnership including the future development plans and the option to integrate financial wellbeing into the offer to our members.

Taylor: It's important to note, when we went to market, we didn't go out thinking we were going straight into a master trust. It was only when we got the initial responses back that we realised everything we wanted to do, i.e. spend less time on compliance issues and more time helping our employees, would be best matched to a master trust, and we would still have the control and partnership that we wanted.

How involved were the trustees?
Taylor: At the very beginning, we set up a working group which included some of the trustees, so they were involved right from the start. We also put in place a project plan, which they were also involved in, so they could fully understand what was going to happen



with the existing funds that we had, what their responsibilities were, how it was going to work and so on.

We involved everybody that we needed for the journey right from the very start – that meant we also had buy-in from the start. That was important – to make sure we didn't do all this work and then suddenly fall down at the last hurdle because nobody wanted to do it.

The trustees were truly empowered – and so our trustee board and indeed the management of the company felt positive about the change because they were involved from the outset.

How did Covid affect your plans?

Gandhi: We had planned to do our consultation in April 2020 and launch in June but, because of the pandemic, we put everything on hold. The last thing we wanted to do at a time when people were really feeling personal and work-related pressures was add to that. The change to the pension scheme was going to be a positive move for them – the members were going to get better value and truly benefit from the new pension scheme, and we wanted them to see it as a positive.

Towards the end of the year, in October, we decided it was the right time to get things moving again. We had planned a whole circuit of onsite meetings which had to of course go online, but we had a phenomenal attendance to those. The debate was very intense, a lot of the scepticism at the beginning turned into a lot of positives about the value-add that we would be gaining.

Then, on the 31 December, we closed the old scheme, and on 1 January 2021 launched the new one.

Taylor: Also, during that period between April and October, we didn't sit back and do nothing. We knew the change was going ahead, we knew it was the right thing to do, so we used that opportunity to make sure our comms were absolutely perfect, and all anticipated questions could be answered, to ensure everything was well prepared.

We're a digital company so we wanted to make sure that we used the digital tools that are available. We updated our website with a special master trust page that hosts all the information. There were certain documents that we had to send out by post but everything else, where possible, we did electronically.

Gandhi: Because we paid for the administration costs, the servicing costs, and the governance costs in the old world, all those costs were being transferred into the new scheme. However, ultimately, the AUM charges for members under the new structure were more competitive than under the old scheme and it covered our administration costs.

So, we were upfront and honest – it was saving the company money, yes, and the member was not going to be paying more, so it was a win-win. However, that allowed us as a company to refocus some of that spend on engagement and member communications over and on top of what the site would provide.

What made the move a success?

Gandhi: Communication and accessibility have been key to the success of the scheme moving to a master trust – online Q&As and factsheets being updated regularly; questions posed being responded to within days. Sustainability was also vital – part of our ethos is to minimise the use of anything that has a detriment to the environment or people, so that was also part of the equation.

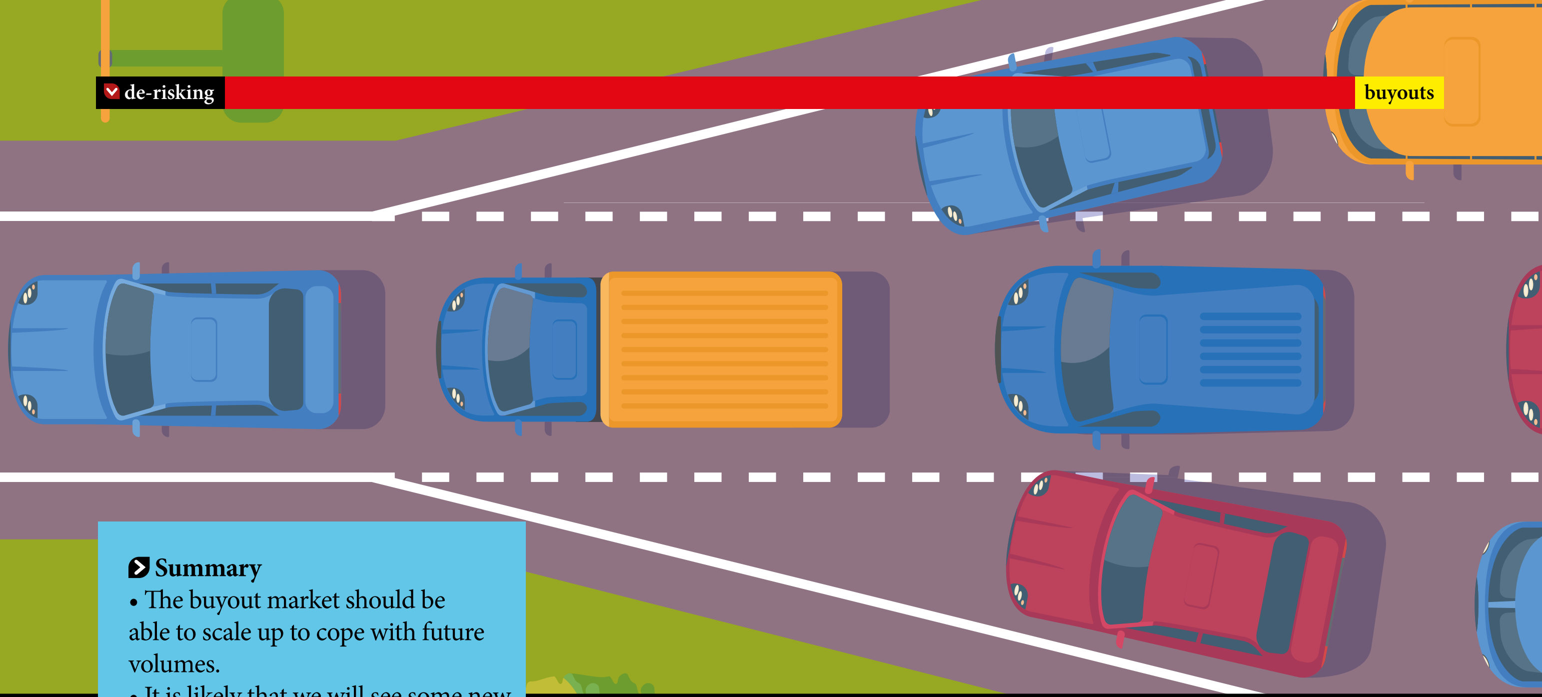
Having clarity of what we wanted to do also assisted in the success – being very open about trying to understand who and what out there could provide that for us and being very clear that going forward it had to be a partnership. We weren't looking to just pass the scheme off to a master trust – we needed co-branding and co-capability to communicate.

Taylor: Also, we have very good member engagement. We have a communication plan that goes all the way through to the end of 2022, and we keep adapting that.

We're doing all sorts of information sessions. We're trying to hit our new joiners so that they don't miss out on the important information. We're recording videos to go into the induction programme for pensions. We are planning early, mid and late career webinars. There's a lot that we're trying to do. I sit down with our graduates within a couple of weeks of them joining to talk pensions and you'd think that they wouldn't have much engagement, but actually they are extremely engaged particularly on issues relating to ESG – they are interested in how can they responsibly invest. So they are very engaged. So it's working well. There's a lot of positivity.

Gandhi: That brings us back to my original point – 'Life Is On' and that sustainability of life while working is imperative. We want to look after our people, we want to ensure that they can enjoy the many years of working with us into retirement and do it in a sustainable way. What we have now with the master trust is something which, building on it, will allow for full financial wellbeing for all members.

Written by Francesca Fabrizi



Summary
- The buyout market should be able to scale up to cope with future volumes.
- It is likely that we will see some new entrants, but the bulk of business will be with existing insurers.
- Pricing is likely to remain competitive.
- The market is likely to be worth £40 billion p.a. over the next five to 10 years.

Buyout bottleneck?

As a buyout is increasingly the end goal for DB schemes, Maggie Williams explores the capacity of this market to meet demand

The next decade could see a revolution in defined benefit (DB) pensions. According to Aon's recent *Global Pensions Risk Survey*, buyout is now the leading long-term aim for DB schemes, with 47 per cent of schemes in the survey planning to transact, in an average of 8.8 years. That could mean a very different DB landscape by the end of the 2020s.

However, intention and reality can be very different. For schemes to achieve those long-term aims, funding levels, scheme governance and insurer capacity will all have to align.

The statement of schemes' intent shown in Aon's findings is backed up by projected funding levels: "We anticipate a large increase in the number of schemes reaching buyout funding level in the next 10 years, with a significant proportion in a five to 10 year period," says Barnett Waddingham partner, Gavin Markham.

However, he cautions, "that depends on investment performance being as expected, along with contributions and insurer pricing as well. So, this is just an expectation – it will be subject to individual schemes' position and experiences."

Even with those caveats, it is clear that demand for buyout is set to increase substantially in the next decade. With just eight key providers in the market to handle the volume, can the market cope?

"There has been some scaremongering and concerns that capacity will dry up," says Aon head of bulk annuities, John Baines. "I think that's overstated. We have seen the market scale up very quickly in the past in response to doubling of demand between 2017 and 2018, and again between 2018 and 2019."

But Baines admits that there will be risks: "From an administration point of view, taking on what will be huge swathe of schemes over the next few years will be challenging for insurers, and so will raising the appropriate capital. However, the market has shown time and time again that it can rise up to these challenges and deliver."

The next few years could also see multi-billion pound 'mega schemes' start to transact, which could have a temporary impact on capacity, says Baines. "There will be peaks and troughs – capacity won't be a steady figure. We've not seen any very large schemes come to market yet, and if one or two decided to transact in the same year, that could have an effect on overall capacity. But that is a short-term, not a long-term, issue."

Baines believes there could be new entrants into the buyout market, hoping to benefit from the projected surge in transactions. "To date, capital has tended to flow to existing insurers rather than new insurers setting up, and I think most of the capacity needed will continue to come from existing insurers. But I think it's inevitable that we'll see some new players."

The Pensions Regulator's recent

authorisation of Clara-Pensions will open up new long-term options for schemes, which could also help to alleviate capacity issues in the buyout market. And River & Mercantile group co-head of solutions, Ajeet Manjrekar, believes there will be future innovation as well: "We expect more entrants and alternatives to buyout – beyond commercial consolidators – to cope with emerging demand."

While insurer capacity may not be an immediate issue, there are other roadblocks that could affect transaction volumes and timings. The most significant of these is insurers' investment strategy. "Insurers need to source sufficient suitable assets to support the level of demand. Although they are increasingly looking at a wider range of investments that may deliver the required risk adjusted returns, there may need to be regulatory action that helps increase the flexibility of assets that insurers can use," says Markham.

"The main pinch point is likely to be availability of high-quality assets that provide good yields," says PIC chief origination officer, Jay Shah. "Currently we are in a very low-yield environment for both government bonds and public corporate bonds."

Shah says PIC currently invests £10.9 billion in privately sourced debt, such as social housing, renewable energy and universities, which provide the yields the insurer needs. "But we would like to invest much more." He cites regulatory barriers, such as Solvency II, as a structural issue that limits further investment, as well as "the government's approach to infrastructure planning, which is not focused enough on the long term. Resolving these issues would give us high quality assets to help secure future pension liabilities".

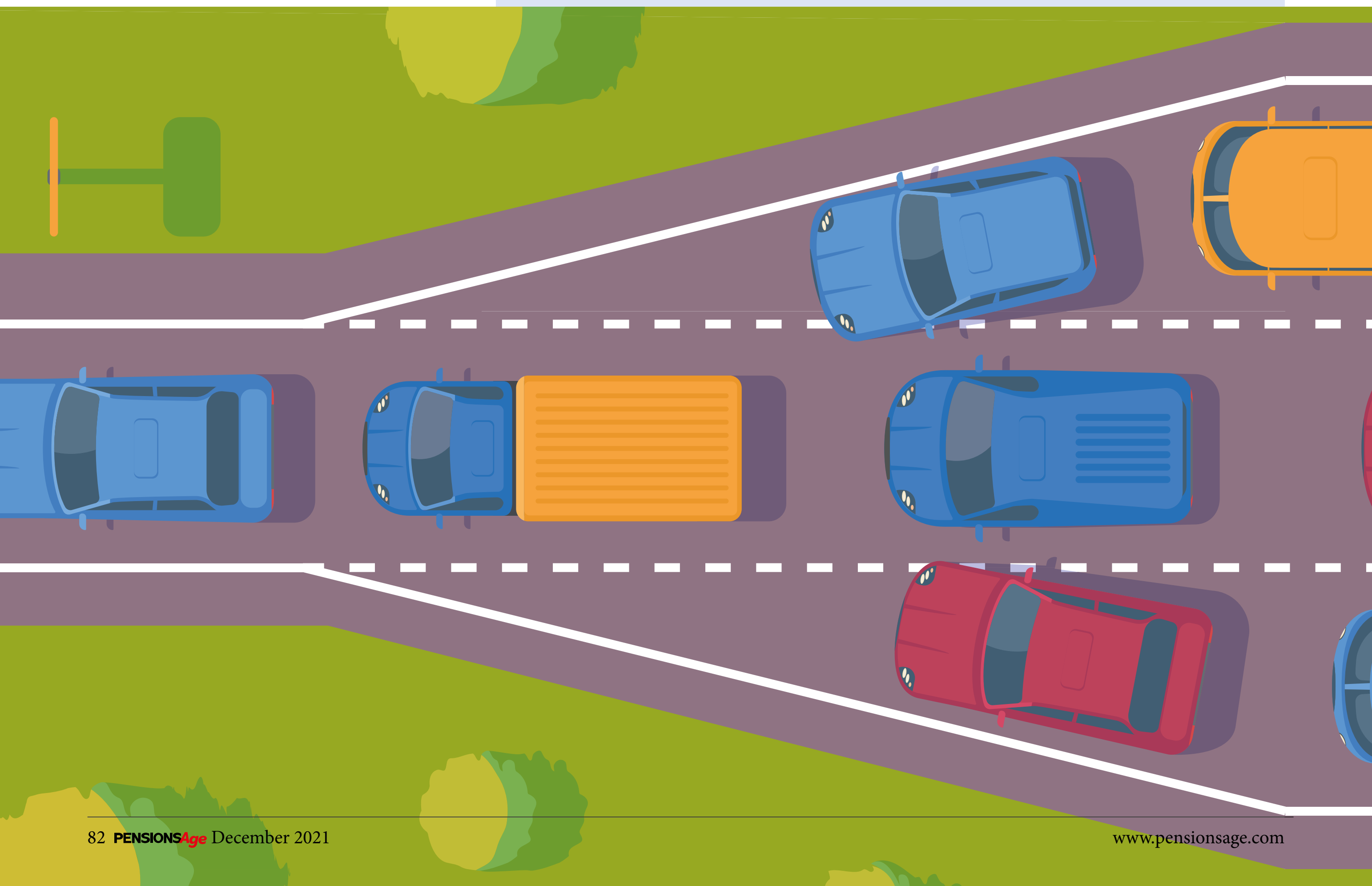
In addition to asset availability, Shah also sees potential shortages in

How big? The projected size of the buyout market

To date, the growth of the buyout market has been an uninterrupted success story. A decade ago in 2012, just £4.4 billion of business was written. In 2020, even against the backdrop of Covid-19, transactions took place worth £30 billion.

As for the future, PIC chief origination officer, Jay Shah, says: "some of the most experiences pension consultancies are doing lots of work to estimate the size of the buyout market in the long term." They will be considering scheme funding levels, company contributions and investment returns, understanding how long schemes will take to get to buyout and their appetite for transacting at that stage.

"Their results are consistent with our view that this is likely to be a £40 billion p.a. market over the next five to 10 years, increasing in the longer term as more schemes reach buyout. We saw 2019 reach a peak of around £40 billion, followed by £30 billion in 2020 and there will probably be a similar figure for 2021."



specialist, experienced professionals – both at insurers and advisers – as a future concern, as well as the possibility of increased demand for longevity insurance.

Bottlenecks such as availability of assets and skills will inevitably raise questions over pricing. "The impact of these limitations on buyout pricing will largely depend on how they are overcome," says Shah. "But it is likely that some pressure will be mitigated by the competition between insurers and the need to keep pricing affordable."

Baines is also confident that pricing will remain consistent "In the recent busy years, pricing has been as good as it's ever been. Even if we see a meaningful increase in activity as anticipated, I would expect pricing to remain competitive."

"When we've had busy periods in the past, it hasn't flowed through into increased levels of pricing," adds Markham. "However, if demand does become very high, a pricing increase is an obvious brake. From a scheme's perspective, that probably means just waiting a bit longer. As populations mature and a greater proportion become deferred members, then that will typically reduce insurance costs anyway."

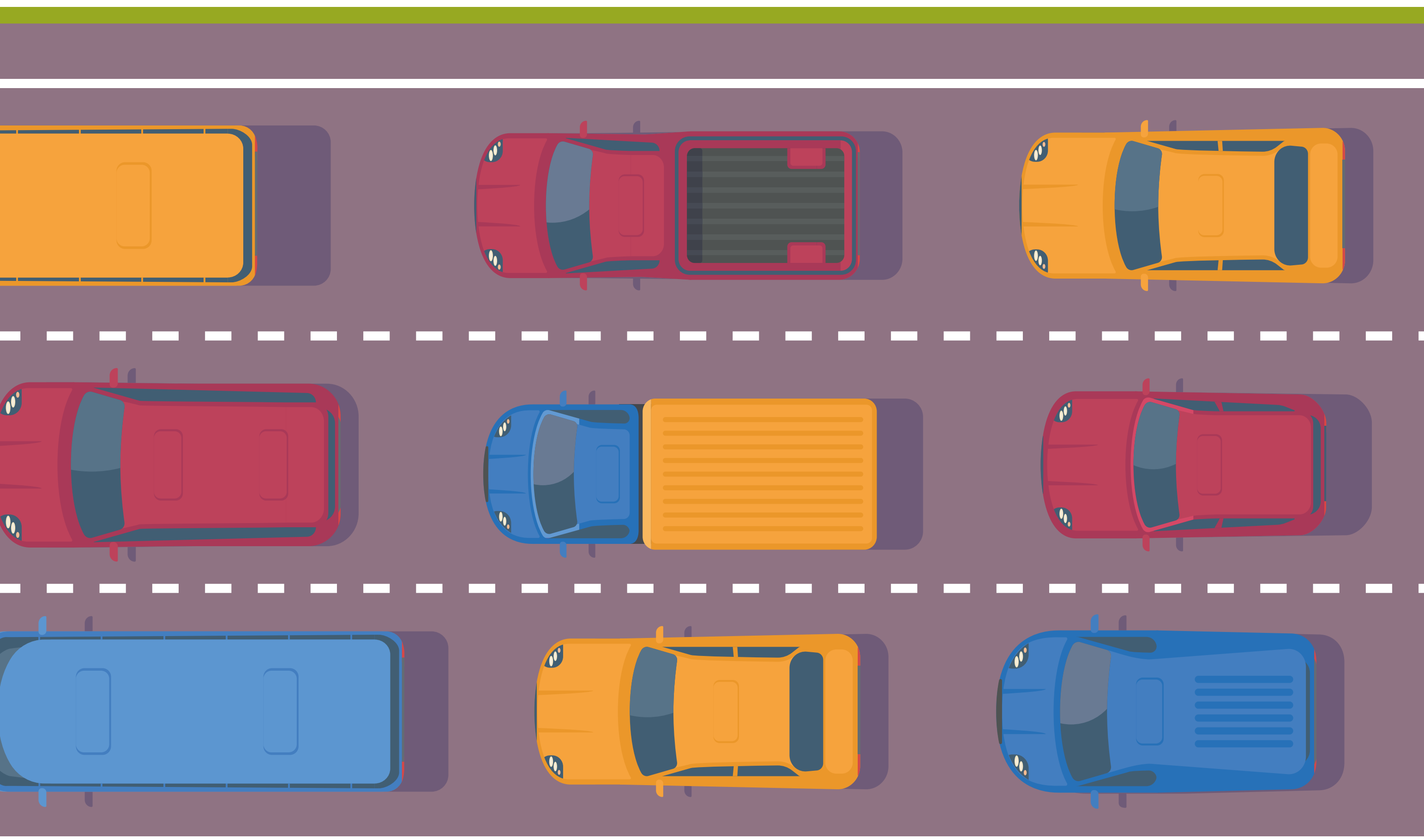
Baines adds that, while Aon's research shows an 8.8 year average time to buyout, across all schemes that is likely to mean transaction within one to 15 years.

"That's not quite as intense as expecting everyone to transact at once," he says. However, market conditions will mean many schemes make positive gains at the same time. "Most schemes de-risk in a similar way, using similar sorts of assets. If we have a year where market pricing or economic conditions are particularly attractive, or longevity moves in a certain direction and that reduces liabilities, it will affect all schemes in a similar way. That's one of the reasons why we think next year will be very busy. A lot of schemes this year have seen a meaningful improvement in their funding position which will drive a lot of activity."

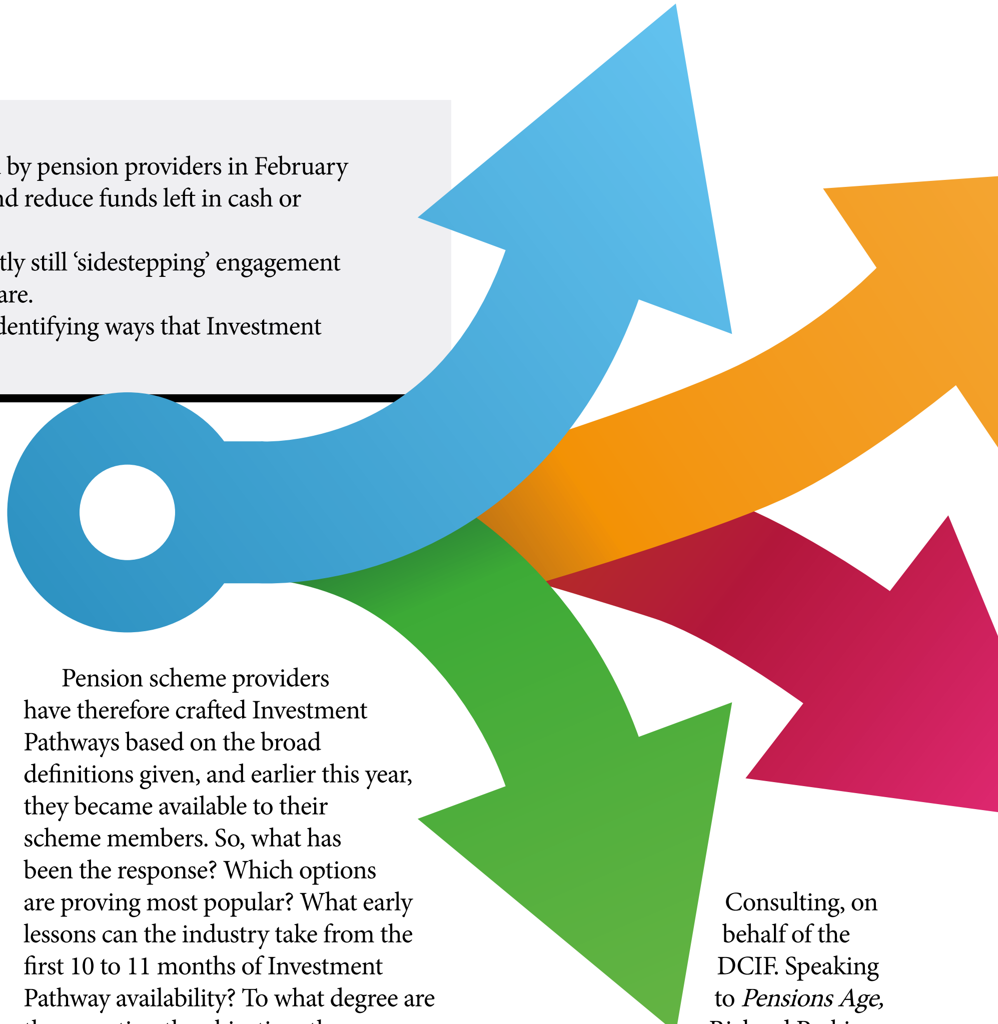
As well as market conditions, schemes' general readiness to transact will also have an effect. "A major roadblock can be that a scheme is ready from a funding standpoint, but still needs to clean up its data, complete benefit specifications and deal with GMP equalisation. Our advice to schemes looking at buyout in the next 10 years is to start getting ready now," Manjrekar says.

The volume and size of schemes now targeting buyout means that the bulk annuities market will remain as buoyant as ever over the next decade. But, despite the potential for temporary disruptions from mega-transactions and market conditions, schemes have little cause for concern over capacity, pricing or insurer availability over the long term.

Written by Maggie Williams, a freelance journalist



Summary
• Investment Pathways were introduced by pension providers in February 2021, aiming to increase engagement and reduce funds left in cash or cash-like investments.
• Early research suggests savers are mostly still 'sidestepping' engagement with their pensions to continue as they are.
• Providers are supportive but already identifying ways that Investment Pathways could be improved.



Pathways to engagement

Are Investment Pathways working? Andy Knaggs speaks to pension providers to gauge the early response levels and experience of the new 'ready-made' pension investment options

Investment Pathways were introduced by the Financial Conduct Authority (FCA) from the start of February 2021. Ahead of this, FCA said an estimated 100,000 savers were entering pension drawdown without taking advice each year, amid concerns that many people approaching and reaching retirement age were simply taking tax-free cash and/or leaving pension funds in investments that might not give them the optimum pension pot when they retire.

Pension providers were required to give pension savers a choice of four 'ready-made' retirement investment objectives to follow for the next five years. They could choose to: 1) Leave their money untouched for the next five years; 2) Use their money to set up a guaranteed income within the next five years; 3) Start taking money as a long-term income in the next five years; or 4) Take out all their money in the next five years.

Pension scheme providers have therefore crafted Investment Pathways based on the broad definitions given, and earlier this year, they became available to their scheme members. So, what has been the response? Which options are proving most popular? What early lessons can the industry take from the first 10 to 11 months of Investment Pathway availability? To what degree are they meeting the objectives they were designed for?

Sidestepping

The Defined Contribution Investment Forum (DCIF) released details of the Investment Pathways research it commissioned in early November 2021, based on feedback from providers. The research found that "most members are sidestepping Investment Patthways altogether", with the majority choosing to remain invested as they already are.

"While this meets one of the FCA's objectives for Investment Pathways, namely that members don't end up in cash after taking their tax-free lump sum, it misses their second objective, that members give thought to how they wish to use their remaining retirement savings," said the DCIF's press release.

The research and subsequent report was carried out by Richard Parkin Consulting, on behalf of the DCIF. Speaking to *Pensions Age*, Richard Parkin referred to "laudable aims" coming up against a "perennial challenge" – namely, the difficulty of increasing people's engagement in pensions and retirement provision.

"I think it was very laudable, but a lot of people's mindset is about taking tax-free cash – they are very clear and confident about that, but they haven't got a clue about what to do with the rest of it," says Parkin. "What I have heard is that it is very difficult to engage people in thinking about the future. It's the perennial challenge. If someone knows what they want to do, Investment Pathways can be very good, but it's a much bigger problem with human behaviour: How do you get people to engage with retirement?"

Immaturity

So, what of the pension providers – what has been their experience thus far with Investment Pathways? Fidelity International points out that it launched the pathways for its workplace and retail customers in October 2020 – some four to five months before the official launch date.

Fidelity International head of pension products & policy, James Carter, says it is important to note the relative immaturity of the DC market in terms of the size of DC pension pots accessed, and the likely degree of reliance on DC pensions for lifetime income. He references FCA retirement income market data that suggests that "many DC pots are being accessed at a relatively early age, simply to take tax-free cash", most likely while the recipient is still working, subject to auto-enrolment and/or still accumulating. Any view of take-up of Investment Pathways needs to be considered in this light.

"My early observation is that the four objective-based solutions do resonate with customers when offered," says Carter. "The key is to keep customers engaged so they reconsider their investments when making defining decisions about their retirement. My view is that it will be some time before pot sizes grow and emerging retirees become more reliant on DC pots for lifetime income – it is then that a truer pattern of behaviour will be observed.

He adds that Fidelity is extremely supportive of Investment Pathways, and that it is important to remember that they were introduced to prevent the poorest outcomes that were being observed in parts of the market – for example, consumers being invested wholly in cash when in drawdown. "When used, they can improve outcomes for non-advised consumers, particularly those in workplace schemes who are not confident in choosing, or are not wanting to choose, their own investment funds."

Carter concludes by observing that Investment Pathways were not intended to replace or reduce the need for independent financial advice, particularly where a pension saver has complex requirements.

Refinement

Interactive Investor head of pensions and savings, Rebecca O'Connor, says she believes there is already a case to review some of the pathway options – specifically that Pathways 2 and 4 "need refinement so they are more appealing". The provider reports that less than 5 per cent of its customers entering drawdown have chosen an Investment Pathway instead of sticking with their current investment strategy. Pathways 1 and 3 have been most popular, while Pathway 2 is proving the least popular.

"Very few people are planning to take an annuity or access all their funds in the next five years at the point they start thinking about drawdown," says O'Connor. "That's a sign of the times – early retirement is a rare thing these days and the lack of uptake of these options backs this up. Most people are making these decisions, presumably, at age 55 – still relatively young and far off actual retirement.

"We have always been supportive of the rationale for Investment Pathways, particularly now that inflation is rising, and the risk of keeping pensions in cash rather than invested in the markets is more of an issue. However, the early data suggests that the vast majority of people accessing pensions for the first time are not considering pathways as an option. Hopefully we will see an increase in use and uptake over time, but the Money and Pensions Service (Maps) may need to do more to promote the benefits and boost understanding."

Complexity

Low levels of engagement are also reported by PensionBee, although it points out that as a "modern, simple to use provider with a carefully curated, small plan range", many of its customers are "already in a plan that meets their needs and retirement objectives".

PensionBee chief engagement officer, Clare Reilly, believes that the introduction of Investment Pathways has also brought about something else: unhelpful levels of complexity. She says: "The real problem with Investment Pathways is that the products themselves are wildly incomparable, including on the Maps tool. Providers have translated the FCA guidance for each pathway in completely different ways, that create much additional complexity for a saver. They cannot compare a pathway option across different providers because it's like comparing apples with oranges or lemons. It's deeply unhelpful for savers.

"Also, it's still hard to get the information you need on what's under the bonnet for each plan, adding complexity again to something that should be really simple and consumer-friendly."

Conundrum

The industry, it seems, wants Investment Pathways to work, but ongoing experience is starting to shape ideas on how they can be improved to work better. While Reilly suggests they are already too complex, O'Connor suggests that the regulator could introduce additional pathways that are similar but with different time frames, to reflect the wide variety of needs and life circumstances. The choice/complexity conundrum is a difficult one.

But let's conclude with a qualified positive outlook, put forward by O'Connor: "For that small number of customers who are choosing a pathway rather than putting their pension in cash, the benefits will be really important, so it's important to note that the initiative will already be helping some people avoid the risk of cash and that's a success, even if it's not many people yet."

Written by Andy Knaggs, a freelance journalist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The Maxwell effect

Jane Marshall looks at the lasting impact of the Maxwell pensions scandal, 30 years on from his death

After Robert Maxwell died in mysterious circumstances 30 years ago, £400 million was discovered to be missing from pension schemes in the Maxwell corporate group. The revelation prompted a shockwave of concern about pensions security. Public and politicians demanded that something was done. It was inevitable that there would be an official DTI investigation.

When the report was eventually published it held Robert Maxwell primarily responsible. A strong personality with a reputation for bullying, he exerted as much control as he could over group companies and pension schemes alike – the take of an insider quoted in the report was that "RM will control pensions until he dies". He operated on a 'need to know' basis, opposing disclosure of his business affairs as a matter of principle. The corporate group structure was complex, and the use of a nominee company for making investments obscured the identity of the beneficial owner.

The pension funds were used as a piggy bank to support Maxwell's private business interests. Schemes took risks and provided support on terms that commercial lenders would have refused to accept. Soft cash loans were made to Maxwell's private companies and pension assets used as collateral for unsecured loans which benefited the private companies. Other dealings were made for the benefit of the employer.

The government established a review into the law of pension schemes, chaired by Professor Roy Goode. Evidence was gathered from a wide range of respondents. The Goode Report concluded that trust law (with appropriate legislative clarification in some areas) remained a suitable basis for regulating pension schemes. No major changes were needed. The government accepted the recommendations and in due course introduced the Pensions Act 1995.

Evidence to the Goode Report had included many suggestions about how pensions security could be enhanced, and some of those ultimately found their way into the new legislation. An industry regulator was introduced for the first time. Civil and criminal penalties could be imposed on trustees and advisers, whose respective roles were clarified and enhanced. Controls were introduced on funding levels. Existing statutory provisions on investment were consolidated and updated and new duties imposed. Member-nominated trustees became mandatory with certain exceptions. Unsuitable persons could be disqualified from acting as a trustee. And a new obligation was imposed on actuaries and auditors to 'blow the whistle' if they had reasonable cause for concern about the operation of the pension scheme.

At the time, the Pensions Act changes were widely considered to be measured and proportionate, but although many of the changes were useful in themselves, they were not directly relevant to the issues that led to the misuse of the Mirror pension funds.

The schemes were not underfunded – discussions had taken place about the use of the surplus. And while there was now power to stop unsuitable persons from acting as pension trustees, Maxwell would doubtless have mounted a robust legal challenge if any attempt had been made to stop him from doing so. The report noted, with an air of frustration, that regulators cannot act without hard evidence which will withstand scrutiny in court. Member-nominated trustees would have been in no better position than others to understand opaque investment dealings. Transactions were concealed from trustees and their true purpose obscured.

Would the Pensions Act changes have prevented Maxwell's misuse of pensions assets and the hardship of members which resulted? They would certainly have made it more difficult. Self-investment above prescribed limits had already been prohibited, but greater transparency emerged as a result of the legislation. Trustees, reminded of their responsibilities, would almost certainly have insisted on more frequent meetings. (Only five full meetings of the MGN scheme trustees had taken place between 1988 and 1991). The focus on the role of advisers, and in particular their whistle blowing obligation, would have probably caused them to consider more closely the way in which the schemes were being run and invested, and whether appropriate disclosures were being made.

But if someone is determined to do wrong, they will ignore or find ways round any law and regulation. There have, after all, been laws against murder and theft for as long as anyone can remember but all go on with distressing regularity. A gulf remains between public expectations of what the law and regulation can achieve and the reality.

What then has been the Maxwell effect on pensions governance 30 years on? The principal outcome has been an unstoppable drive towards member protection. Scheme members are better protected than ever before against underfunding, adverse corporate activity and governance failings. In retrospect the Pensions Act 1995 was only the first step in the process, although conceived and seen at the time as a balanced long-term response to the Goode Report's findings. Since then, pensions law and regulation have increased in volume and complexity and a much tougher pensions regulator with greatly enhanced powers has emerged. The 1995 Act was conceived as evolutionary rather than revolutionary and designed to build on the trust law framework which had gone before. However, it proved impossible to withstand the clamour for more legislation and stronger regulation in the face of corporate insolvencies and restructurings widely perceived to subordinate the interests of scheme members to financial considerations. That there might be two sides to the story, or that things sometimes aren't that simple, is often lost in public debate.

There have been less obvious effects on pensions governance. Paradoxically, reforms that focus on the trustees' central role in scheme decision making have created a risk environment that on occasions appears to discourage independent thought. Greater perceived risk and complexity means that it is increasingly difficult to persuade members and those most closely connected with the company to take on the trusteeship of their pension fund. This has led in turn to an increasing trend for schemes to appoint sole professional trustees- the best solution for some schemes, but by no means all.

The final Maxwell effect is the difference in the pensions landscape then and now. Then the scene was dominated by final salary provision, often on a self-administered basis. Now, few final salary schemes remain open in the private sector; DB active membership is now largely the preserve of the public sector. Complaints about the cost and complexity of the regulation that began in 1995 and which gathered speed over subsequent years are sometimes overstated. However, the combination of increased regulatory cost and risk over the past 30 years has undoubtedly been one of several factors persuading many private sector employers to move from defined benefit provision. The Pension Schemes Act 2021, which came into force on 1 October 2021, is the latest link in the chain of legislation that began after Maxwell. It introduces tougher regulatory powers and sanctions, including new criminal offences, and brings a wider range of corporate activity under regulatory scrutiny. Lawyers will have a field day. Employers will draw their own conclusions.

While all regulation in some way penalises or inconveniences the majority in order to try and prevent the wrongdoing of the minority, it may also have unforeseen consequences. There is nothing new under the sun.

This is an edited extract of a longer article, available on the PAT website.

Written by Pensions Archive Trust director, Jane Marshall


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ESG: Ever evolving

Our sustainability panel looks at how sustainable investment is evolving in the pensions and investment arena and who is driving the ESG agenda

Chair: What do we define as sustainable – from a relatively narrow climate change focus to a broader Sustainable Development Goals (SDGs) agenda? And should the focus be on climate or on wider environmental, social and governance (ESG)?

Halfon: That's an interesting question. We tend to break down our very large offering into all of the ESG factors, then we add ecosystems on top of that. For us, ecosystems cover some of the SDGs, for example, the ocean and water systems, the land, food and forestry, to name a few.

When we talk to our clients, we first like to see where they are in terms of their understanding and processing of all of these acronyms, and also where they would like to focus. If the client really understands the discussion, we can then narrow the focus of our work with them. If they want to stay at a high level, we will do that. So, we work with what the client is giving us.

Then, as we all get more and more sophisticated, we try to nail down exactly where we would like to position our work with them. We tend to take the client on a journey where, in the end, we help them define their objectives and refine exactly the asset allocation and investment strategy they feel comfortable with.

That means that we have to explain, we have to spend time defining exactly what each of the SDGs, each of the ecosystems, each of the factors we use as contributors to ESGs, really mean.

Lenders: We find it useful to make sure that people understand there's a very strict difference between three forms of ESG. One is ethical investing, where you don't really care too much about the financial implication of your choices – for example, you hate tobacco, you hate alcohol, and you take it from there.

In theory, that's likely to limit your universe of opportunities so, all else being equal, that probably has a negative tilt on performance – except in phases where everybody starts embracing the same disgust for certain things, which then creates some flow into end performance.

The second involves looking at the materiality of one's portfolio in relation to its impact on the rest of the world. Do I try to take my investors on a journey whereby we are going to save the planet? Here, again, financial performance is a secondary objective and, if you think that you are investing with the flow, and you are pre-empting something bigger that's going to unfold, perhaps triggered by governments, there is probably also going to be some financial reward, but that's not the priority.

Then there's a third approach to ESG, which has become mainstream and is more what we practice.

As an asset manager, we take our guidance from a report issued at the end of 2019, *Fiduciary Duty in the Twenty-First Century*, which stipulates that, as an asset manager, we should be listening

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CHAIR

Michael Clark, Accredited Professional Pension Trustee, CBC Pension Services

Michael is the founder and owner of CBC Pension Services, which specialises in providing professional trusteeship and secretariat roles since 2012. Michael has worked with a wide range of companies including FTSE 100, master trusts and SMEs carrying out a different roles and managing projects including professional trusteeship for DB schemes and master trusts, trustee secretariat and education and auto-enrolment advice. In, 2020 Michael became the first professional pension trustee to be accredited by the PMI.

PANEL

Julien Halfon, Head of Pension and Corporate Solutions, BNP Paribas Asset Management

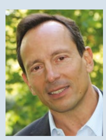
Julien joined BNP Paribas Asset Management in 2018 from Mercer where he spent 6 years as principal. Prior to that, he worked for Goldman Sachs, Aon, P-Solve and Lazard. With investment banking and consulting experience stretching over 26 years, Julien has spent over 15 years advising institutional clients on structuring and implementing pensions and insurance solutions for national and cross-border clients.

Mark Hedges, Professional Trustee, CCTL

Mark joined Capital Cranfield in 2021 after a career spent at the Nationwide Building Society. He is a trustee for the £6.8 billion Nationwide Pension Fund (NPF) and has investment experience across all asset classes. He was previously CIO of NPF with responsibility for implementing the investment and liability hedging strategy of the fund. His experience includes establishing Nationwide's secured funding programmes, its Treasury investment strategy, acquiring student loans, and originating social housing and more.

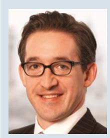
Veronica Humble, Head of DC Investments, LGIM

Veronica is head of defined contribution (DC) investments at LGIM. She is responsible for investments and ESG within the business, working across investments, product development and client solutions. She is also a member of the L&G mastertrust investment committee and an investment expert for LGIM's DC clients. Veronica joined LGIM in 2012 and has worked in a number of different investment roles. She is a popular conference speaker and a regular contributor to the pensions and investment press in investment and sustainability issues.



Pierre Lenders, Head of ESG, CFM

Pierre heads ESG integration at Capital Fund Management (CFM) as part of the research team, having joined the firm in 2019. Pierre had previously launched Prius Partners, a FinTech set to quantify the intensity and financial effectiveness of ESG integration within any investment process using granular position and ESG scoring data. Since 1986, he's held various positions in investment banking, capital markets technology and fund of hedge funds, on the direct trading, investment & selection side, and gradually embracing responsible investing as financially savvier.



Matthew Swynnerton, Partner, DLA Piper

Matthew is a partner at DLA Piper and heads DLA's London pensions team. He advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the *Combating Pension Scams Code of Practice,* which received widespread praise and is a regular contributor to the pensions and legal press.

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to our clients' preferences in terms of ESG, whether or not there is a financial implication. We just have to take that as a guide but, since most of our investors simply don't have long lists of preferences, this doesn't drive much of what we do in terms of ESG integration. A more significant driver is what relates to the second recommendation in the report which is that you have to incorporate financially material ESG factors, whether or not your clients demand it. This raises an interesting point about making sustainability-aware investing the only proper way of investing, which is what we try to do, beyond any specific preferences indicated by clients.

Finally, to sum up our overall approach, we believe a fiduciary duty to ensure solid return cannot be done without taking sustainability into account. That's our mantra.

Humble: From my perspective, clients range from those who actually understand ESG but have taken a fairly strong view that climate is the main focus for them at the moment, to others who acknowledge that, while climate is important, they want to focus on whatever else may be important to the membership. Some are running surveys, for example, to better understand where the membership thinks the efforts should be focused. We're seeing biodiversity, for example, coming up all the time with members, and this is something people do care about. For some schemes, it's also about connecting to the corporate's values – different industries will have different priorities and therefore different strategies.

The other issue, though, is how you measure all of this. Some of the advances depend on whether we have data or not. On the engagement level, absolutely, we have our priorities and we engage on all these topics. With climate, although

the data is not perfect, it is way more advanced than, for example, how we measure diversity or biodiversity, because that's just not there yet.

Swynnerton: It does seem like a lot of these terms – responsible investment, sustainable investment, ESG – are seen as catch-all terms and are often used almost interchangeably to broadly describe the sort of investments that result in a positive change.

Having more clarity on what investing sustainably means is important because one of the drawbacks up to now has been the lack of a common understanding amongst trustees and providers as to what constitutes sustainable investment and what doesn't. The press tend to focus on climate factors, but social factors in particular are less well understood, and that was highlighted in the DWP's call for evidence this year.

When I was thinking about what the main types of approach were, I came up with a number of them, ranging from ethical exclusion – so avoiding practices and companies that cause harm, which has been on trustees' radars for a long time – to responsible practices, which is looking at operational practices and the environmental impact of companies, sustainable solutions and impact investing. There is a huge range of approaches and terms and it can get quite confusing. Some clarity would help everybody.

Hedges: I would argue that sustainability is much wider than just climate. There are 17 SDGs in the United Nation's principles, but they're quite broad, they're quite challenging and they're beyond the remit of a pension fund to deliver. We can do some things that move the world in the right direction, but it is limited. Nationwide for example has a £6.8 billion pension fund, and circa 65 per cent of its assets are in government gilts. There's actually a limit therefore to what we can do.

Governance budget is also a critical thing here for pension funds. Big asset managers will have a lot more resource than your average pension fund does. Nationwide has a six-person investment team, but they've got to manage all the investments, as well as think about ESG and integrating that into investment decision-making. The challenge is how do we deal with all of these things? Clearly, regulation leads the way. We've got to deal with TCFD, for example.

The sponsor is very keen that we sign up to a modern slavery statement. My initial reaction to that was, "I've got 45-50 private market, illiquid managers with about 800 individual assets spread around the globe sat within those funds. How am I going to sign up to a modern slavery statement? I won't know those supply chains at all. I will have no idea about what they're doing, and don't have the resource to capture it," so we've had to delay things like that.

Similarly, we're under pressure to sign up to Make My Money Matter, and a net-zero pledge. Again, I had to ask the question, "how am I going to hold the government to account? Government bonds represent 65 per cent of my assets. If I sign that pledge, it's entirely predicated on whether the

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UK government delivers net zero or not and, to date, I'm not convinced that they are moving fast enough to deliver it, so how can I sign up to it?" These are the challenges I see.

Then there's the resourcing gap – I can only do one thing at a time, and I've got regulation driving me. Climate is right at the front, but I recognise, as an individual, that sustainability means we need to keep the planet; we need to drive everything towards all of those goals, but we need the help of government to drive the agenda for that, and we need the larger asset managers that we invest in to respond to our requests around all this.

So, at the pension fund level, we are all going to be driven by what third parties can do for us. For us, it's really more about engagement and asking them the right questions. Can they deliver information? Can they help broaden that agenda? Because, ultimately, it will go beyond climate. It will be about sustainability across all things, whether that's water, biodiversity and so on.

The drivers of ESG

Chair: Who's actually driving this? Is it the trustees? Asset managers? Is it regulation?

Halfon: It's the financial sector as a whole. You start to have red lines, which affect everyone. I don't think that any of us, on the trustee side nor on the investment management side, would like to be an investor in the next Fukushima, for example. That's something morally none of us want to be involved in, but also financially – none of us want to be responsible for losses for our clients.

So, there's a consensus that's taking shape in the financial sector that none of us would like to cross those red lines.

Today, we have investment guidelines; trustees also have clear guidelines saying they need to exclude certain companies that don't meet ESG requirements or select asset management products which themselves have exclusions. Alongside this, there is also a recognition that the risk of investing in such companies is too big. Nobody wants to invest in those things. If there's a chance it could blow up in our faces, there's no upside.

In practice, the way we address this with our clients, is with a process-oriented solution – we say, "let's define the investment universe from day one. Let's make sure that what you will be investing in is well defined, so you know exactly what you accept and do not accept, in terms of underlying risks, investment risks and other ESG risks. Let's make sure you stick to this, and let's keep this under a very tight governance structure." Control is crucial.

Also, trustees have to become leaner. They cannot trust entire funds. They have to decide, line-by-line, what they will invest in. That is what we do with some of our clients. They know exactly what our portfolios are invested in – they check, for example, that each of the loans, or each of the private equity investments, or real estate investments, or infrastructure investments, whatever it is they are investing in, will meet their criteria.

At the same time, they have to become a bit harder. They have to get rid of anything that crosses the line. If it's not clear, take it out. Do not waste time, do not hesitate, just take it out. Trustees have to become lean, mean,

green machines – to be sure everything they do is green. They do not want to be responsible, morally or financially, for the next catastrophe.

Later we will be looking at the potential trade-off between ESG and financial returns. I would argue there is no trade-off, in reality. ESG is a well-governed investment process.

Humble: I agree with a lot of what Julien *[Halfon]* is saying because, on the investment side, people are at the forefront of how we should be doing this. They are involved in all of these conversations – looking at the investment universe; at what's realistic. It is easy to have a knee-jerk reaction and exclude everything, but what does that mean then for your diversification? Is it actually intellectually consistent? All of these questions need to be and are being considered.

In the media, there is a strange perception that this is all driven by the asset managers. I'm not seeing that at all. I see all the interest being driven by the trustees, the clients, and the members. I sit on the DC side, and I am currently doing a lot of member presentations and presentations with sustainability groups within companies, so there is a lot of engagement there. So, on the one hand, yes, asset managers are thinking about this, how to implement it, and so on, but everything that I see is driven by the clients, with the help of regulation, to a degree, but a lot of clients are way beyond that even.

Chair: Pierre *[Lenders]*, how do you think the current trends affect your world, the quant world?

Lenders: I would characterise the trends as having gone from ESG mostly being about ethical considerations, and therefore negative screening and exclusions, to morphing more into a risk management layer. There is reputational risk of finding yourself associated with a name that gets bad press.

Then more recently, in the mainstream, sustainability-aware investing has evolved from the negative risk side. So, for hedge funds like ourselves, it has moved on from just shorting the bad companies, or the companies that are procrastinating when it comes to ESG issues, to also being better at exploring long opportunities.

So, it's not just about risk management now, it's also about investing in the future. That's not to say you just buy tech and you stay away from old companies but, within every sector, you think in terms of the transformation of the world. Which brown company today has a better chance of becoming a green company in the future, and survive? As opposed to those that procrastinate. That, for us, is the biggest change – that's the trend.

Finally, we have to be careful of one thing. We mentioned governments earlier – somehow, they have mandated the universe of financial institutions, asset managers and asset owners to act on this; but there would be a big risk if governments thought that, just by virtue of forcing everybody to disclose, the world will change.

No – by forcing to disclose, you make sure people are aware; those are structural trends that should at some point manifest themselves through carbon taxes, real changes in consumer behaviours, and so on; but look at what has happened this year. The IEA just came out with their *Sustainable Recovery Tracker*. The plan is for the governments to pour in $17 trillion stimulus over the next few years to relaunch economies after Covid – but very little of that, only about 4 per cent, is targeted towards green infrastructure and projects; most of the money will be used to re-start an

economy as brown as it is, hence still running on a 2.7° warming trajectory, so demand for brown products is heavily stimulated.

At the same time, they are applying a lot of pressure on the investment community to curb supply, to diminish CapEx, hence reducing future supply, in oil and gas. As a result, oil and gas prices go through the roof. So, potentially, you're not attaining the initial objective.

So, as financial institutions, we should be very demanding of governments that, at some point, they implement what would vindicate the investors who have started to position their portfolio towards a greener future. Because a greener future would only happen if real changes happen in the economy, changes that governments and only governments can implement.

Swynnerton: It's fair to say that too few schemes are giving enough consideration to these kinds of issues. That's been highlighted by The Pensions Regulator (TPR) in its climate adaptation report, both on the DC and DB side.

The other comment I'd make is around what's driving the discussion. Obviously, with the increasing regulation and press coverage of these issues, trustees are inevitably becoming increasingly engaged, but it's also coming from employers and members. How employers connect with their employees about their pension drives employee engagement. It improves employee retention, and workplace productivity. Also, these issues are far more important to millennials and they're of course becoming an increasing part of the workforce – they'll make up like two-thirds of the global workforce by 2025. So we shouldn't forget that employers and members and a big part of this.

Chair: Mark *[Hedges],* how engaged do you find your members are?

Hedges: We have around 28,000 members now, and in my 12 years as CIO, I had two members write to us, asking about our investments, and both of them were related to the Deepwater Horizon tragedy with BP. So that's the level of engagement we've had from the DB scheme!

I also sat on a GPP governance committee for our DC scheme, and there was more engagement and more requests from the members of that scheme than there has been from the DB scheme, which bears out Matthew *[Swynnerton's]* comment about this being more of a focus for the younger generation. That is understandable, but not probably the right thing – we should all be taking a keen interest in where the world is going.

But we're not seeing a lot of pressure from the membership. So, where is it coming from? The sponsor, certainly, is keen. It's coming under pressure to take ESG seriously. Also I see pressure from activist groups and the press.

The Nationwide pension fund's sponsor is very cognisant of its reputation, and any reputational risk that comes to us is going to be an issue. We do recognise that it's the right thing to do to engage in these things, but the challenge is around governance, and what's driving us mostly, at the moment is regulation.

Investment and performance

Chair: What is the link between sustainability and performance?

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Humble: When we survey our members and ask: what do you want in terms of performance versus various goals, they want well governed investments, but also about 25 per cent say they want their investments to, for example, disinvest from fossil fuels, or reduce carbon footprint, independent of the effect on performance; and over 50 per cent, while supportive of ESG, don't want a negative impact on performance.

Fundamentally, we don't see a conflict between sustainability and performance. Part of it is because it's about avoiding risks – this is something which is easy to explain. Better run companies are less likely to walk into major disasters.

Also, we believe there is no drawback performance-wise. We can't say that these investments will always outperform another – and this is something that sometimes our clients and trustees grapple with, because they want to be definite. Saying that you can't regulate away the investment risk is a difficult message for some, but this is something that we, as an industry, need to educate people more on.

But, fundamentally, we don't see a conflict between sustainability and performance, and we don't see it as a difficult thing to explain to members.

Lenders: Out of ethical investing, impact investing, or sustainability-aware investing, we select the third one.

This is with a view that it will coincide with delivering performance. Being sustainability-aware should be done in a way that's delivering performance but, of course, implicitly, you're making a big bet here, which is that the world will embrace sustainability more and more and that, ultimately, governments will implement whatever it takes. We have a bizarre regime today – we still run capitalistic economies, where decisions are driven by profits, but we are adding a layer of disclosures and complex regulations that require us to do no significant harm, which increase costs, as we measure them. This makes the life of investors extremely complicated.

There are a lot of externalities that people realise they need to take into account, but the current accounting system doesn't allow for it. Until you internalise externalities through taxes, investing alongside sustainability will only be financially rewarding as long as you are just anticipating changes that should come. That's why today it is critical that we lobby governments to play their role.

That's our take on the performance question. It's definitely there, but it's a leap of faith that the world will do the rational thing, and internalise externalities.

Halfon: I believe that a lot of the choices, in the end, will fall to the individual/civil society and the financial sector will have to make some decisions. That the government will create a good regulatory and legal framework is a given, they have to do it, but in the end, there are a number of unknowns, for example, where will the next energy sources come from? What's going to be the decarbonisation drivers? Is it going to be carbon capture, is it going to be other things? The private sector will have to make some calls on this when it comes to where they place their investment. Again, regulation can help set the overall objectives but, in practice, investments and the way they will be directed will help bring solutions.

On the data point, there's a plethora of data now; there's no lack of data. We have moved from exclusion lists to now actively managing equity funds. We even have long/short equity hedge funds, where we short bad companies and go long good ones. There's enough data to make a clear choice.

There's enough data now to really get to the bottom of the issues and select exactly what you want to invest in. Or, as I mentioned earlier, you can go line-by-line with private debt, private equity, and all the illiquids. Again, you can do this in a very granular way.

That also helps with the ongoing monitoring – helping you ensure that it stays a sustainable portfolio investment strategy. That it stays a social impact strategy or an environmentally-friendly strategy. The more granular we get, the better we can monitor this, and the better we can control those risks.

Hedges: The challenge is, while there's a lot of data, there's not much in terms of information. At Nationwide, we have invested heavily in illiquids, which has driven our returns, so we've been passive in equities. It's a passive pooled fund.

The challenge on the passive side is how you identify the right index. The indices are continuously changing and developing so, when do you pitch up, and when do you move between them? Also, trying to understand what each different index is offering, in terms of its strategy for ESG, is challenging. There's a lot for trustees to get their heads around.

So it's been quite challenging, and will continue to be so, because the indices will evolve. We'll see new indices develop, and we'll see them reflect the ongoing needs of perhaps clients of the providers. But it is difficult for trustees to get underneath all of that, to understand the detail.

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The other key area for us, as I mentioned, is illiquids. We have approximately half of our return-seeking assets in illiquids/private markets. Clearly, those are often in more boutique fund managers, which don't have the depth of some of the bigger fund managers, and they're sometimes behind the curve on ESG; but that makes us look closely at the rationale for investing in the first place. It's about trying to find things that we think are delivering good returns, and yet have a positive impact.

For example, we invested in Asian renewable infrastructure – it was all greenfield, it was all brand new development. That realised a 20 per cent IRR, net of fees; you can't really complain with that sort of return over seven years, but it was taking development risk. You had to understand you were taking development risk, but that's where the value is, in a lot of these activities.

We also have a private equity fund that's focusing more and more on sustainability and has a great little business in there called Revolution, that recycles plastic to make plastic. It goes to landfill sites, and 97 per cent of its raw material is landfill plastic that it just recycles into new plastic material. That, to my mind, is sustainability and is very positive. It's hard to measure, though, and that's part of the problem – trying to demonstrate metrics from things that you can intuitively see are having an impact is often difficult.

Risks of ESG

Chair: What are the downside risks to pension funds (if any) of sustainable investments versus traditional?

Halfon: It's actually quite paradoxical in that there's such a drive for sustainable investment at the moment that sustainable investment can become overpriced, compared to the rest of the

market. You may end up acquiring assets, which are more expensive. But if you compare, for example, the MSCI World SRI to the MSCI World, you realise that the performance in the former was marginally better. And they do not exclude many companies from the MSCI World.

We have also run for a large insurance company a portfolio of European equities, which had a very strong filter towards ESG on top of a filter for high dividends, and a protection with equity options. We realised that, when we compared that portfolio with the performance of any others, the equity protection was not needed anymore, it was needed for regulatory reasons, because the sustainable portfolio over the last few years had done a better, on average. It was also less volatile.

For the moment, therefore, things are developing as they should, meaning there's a higher governance budget, so you're actually selecting companies that are less dangerous, by nature. That's why it's called ESG. You're less exposed to blow-up, less exposed to labour unrest. There's a number of things here that point towards the fact that those companies, over the long term, should perform better than they have been.

That doesn't mean these companies will always perform better. There's no guarantee, as we all know. But, as an analytical framework, making sure that the governance is right, environmental sustainability is right and social issues are taken care of, that's always going to a better way of selecting investments than not. That's common sense.

Now, sometimes they've been overvalued, and you may run into temporary issues, because this is what happens with finance. Nothing's perfect. You're never completely protected from a bad surprise. But, for the moment, they have been delivering what they're supposed to deliver.

Lenders: When it comes to managing risk, there's no difference for us. We integrate those sustainability concerns when we find the data sets that we feel are solid enough even if not perfect. As you said, we can't expect perfection. And always with the mindset of trying to be a smarter investor.

There is the risk of a bubble, but this almost entirely depends on whether or not governments realise they have to act. Think about Tesla. Five years ago, it looked extremely expensive. Today however, despite its price being much higher it's more consensual! This is because the governments put in place a lot of schemes that incentivise electric vehicles. Without this, Tesla would probably be worth much less today. That's how we look at risk.

When it comes to quant, it is important to note that they may now finally also have a role to play in financing the transition. This is because the mispriced, still relatively affordable opportunities are becoming harder to find within the universe of small pure play companies, unless you are a discretionary technology-savvy segment specialist manager equipped with solid bottom up skills. At the other end of the market cap spectrum, however, thousands of large and mega cap companies are now becoming also interesting from a sustainability angle. Indeed, they are realising the strategic importance of greening themselves

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fast enough, either organically or through buying these smaller pure play companies. Quant funds are well placed to digest the plethora of structured and unstructured datasets necessary to monitor this new, broad-based phenomenon. Even if each of these datasets, individually, only produces quite a weak signal, algorithms can turn the combination of them into interesting investment insights, once averaged across vast and liquid enough investable universes.

Chair: Because of shareholder pressure?

Lenders: Partly shareholder pressure but also simply because the future is going to require them to have transformed their operation sufficiently so that they can still sell products.

The role of quant is to go from the pure plays investing in small companies, the start-ups, which is clearly not what a quant can do, to help see how this now translates into affecting the entire universe.

Today, energy, basic materials, utilities is where it's happening, as well as in relation to transportation, and auto makers; but, in reality, if you take the consumer sector as well, even the food sector, that's probably where you're going to see an incredible revolution, because that's arguably where we are the most inefficient. We're destroying not only the planet through emissions but also biodiversity collapse, water stress, land degradation, et cetera. These are more complex to tackle. The data is not there yet, but there's going to be more and more of a push to get something usable that will drive investors' attention to those areas and hopefully, at some point, governments as well.

The role of quant is to bring it to the bigger picture, where we rely on the law of great numbers. For example, how much is Danone doing, versus Nestle? Are they hiring the right talents? What are they doing on the lobbying front? Are they working on the supply chains?

We now have more ways than ever to get a sense of what's going on, through what is called alternative data. It's certainly not just reported carbon emission figures that will give us the picture, but an array of various different data sets that allow us to examine from different angles how the very large companies are also starting to put themselves on the move.

Humble: It's interesting how this is all evolving. Can we prove that short-term, there will be outperformance? No. Also, from the data perspective, everything is changing all the time. I see a lot of research around how ESG funds outperform or underperform particular investments.

But, frankly, the data from 10 years ago is not relevant at the moment, because the world has changed, and in five years' time, current data won't be relevant. It's about forward-looking views, and also taking our clients on a journey with us. It's also interesting how the regulators are pushing trustees to look at everything in such detail. That's not realistic nor helpful because they have their governance budgets, and they have limited amounts of time and expertise to do this.

So it should be about finding a way for the industry to work together on this.

Chair: Why are these risks different to, say, 20 years ago when no-one was talking about ESG?

Swynnerton: Risks evolve over time. Things that were considered to be high profile risks some time ago perhaps aren't today. We've had awareness of risks linked to emissions and environmental disasters for some time. Now, there's a lot more focus on risks linked to privacy, bribery and fraud.

There is some debate about whether trustees could be criticised for sacrificing returns, when choosing sustainable funds, and how that sits alongside trustees' fiduciary duties. It's important, though, that trustees look at these risks in the long-term. Pensions and investments are for the long term, designed to achieve what members want in retirement.

There are close parallels with sustainability, which is very much also about looking towards the future. The way a lot of trustees look at this now, and governance has been brought into sharp focus for trustee boards, particularly over the past 20 years, involves looking at their investments through the same lens. Firms with higher ESG profiles are generally considered to be better-managed and better long-term investments, because they've got lower exposure to risks that range across the whole gamut of ESG, from the traditional emissions, toxic waste, environmental disaster risks, through to what you might consider to be more modern risks, like labour rights, privacy and safety.

Sustainable investing generally should increase long-term investment performance, by reducing volatility, and so, there is a way in which trustees can reconcile their duties with sustainable investing.

Hedges: My fiduciary responsibility is to pay benefits to the members but, as has been highlighted, sustainable investing ought to deliver better returns, because it's dealing with those risks and, arguably, firms that deal with those are better governed, and therefore ought to deliver better returns.

That doesn't mean they always will, but that's investment for you. You get ups and downs, but you try to pick out the ones that are better managed, then they ought, on average, to deliver better

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returns than those that aren't.

That doesn't mean you necessarily exclude certain things. If you want someone to invest in renewables and invest in hydrogen development, then who better than Shell and BP? Because they've got large budgets that can invest in those things.

The trick is engagement, rather than exclusion, and that's where we look to our asset managers to see that they are engaging appropriately and really putting the pressure on those, and report to us on that basis. Because clearly, we're not in a situation where we can do it. We don't engage directly, but that's what we're looking for. That's what we need to see more of, if we're going to change the direction of how people and businesses operate.

Looking ahead

Chair: For the last question, I'm going to ask for your predictions for the future of sustainable investing.

Halfon: Firstly, I think it is going to become even more granular. It's going to be refined a lot more, and we're just at the beginning – we will discover more and more areas.

Second, it's not going to be called sustainable investing anymore, it's going to be called investing.

Thirdly, I believe the biggest area of improvement will be on the monitoring side. This is where people will be able to measure the impact, measure the carbon emissions, measure the change in pollution in the environment or, let's say, if you're a mining company, how you rehabilitate your land, and so on.

Hedges: I believe sustainability is going to become embedded in what we do, going forward. It's an evolutionary process. ESG is a constant and changing all the time. I agree also that it will become more granular. I'm already

seeing funds that are just focused on water, or improvements, or sustainable cities. There's a whole host of funds that are really targeting specific aspects of the whole SDGs. The challenge for pension funds will be how can they get their heads around it all.

An improvement in data provision, so that it's informative and is in a standardised format, is the other important thing. More standardisation of what we see in terms of the metrics will help understanding, so that will be the next step.

Lenders: I agree it's not going to be called sustainable investing anymore. It's going to be just investing.

Also, it's going to be messy, because you're going to need the hands of the governments to be courageous, to be brave, to put on measures that curb demand, consumption, not just wait for the institutional investors to do the job. And you will need those moments of crisis that will be the necessary steps from which you can then hope for some more concrete action from governments.

As a sustainable investor, you'll need to stick to your guns, to continue to believe in the thesis, and to hope that it's going to be vindicated at some point; but that means also, you need to diversify. You need be careful not to choose one theme only.

Humble: Going forward, it will be about engagement – engagement from the trustees and asset managers, but also, fundamentally, from the members.

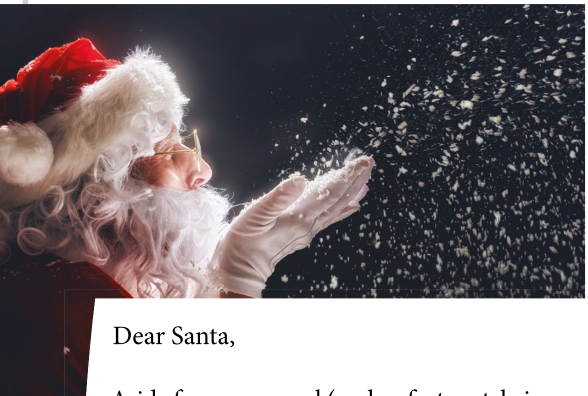
As DC replaces DB in the UK, for example, we are seeing much more interest from the members. They're realising that their assets are actually invested. Once people realise this, they actually want to know more. They want to have a say. That is also where the pressure will be coming from.

Also, the pressure is on the governments to do things. We're seeing this in the UK, for example, with water companies. We'll see more of this and, hopefully, we'll see more action, and it will all be gradually more formalised, from the investment side, more quant-driven.

Swynnerton: Looking ahead, we're going to see greater trustee engagement and action on the risks and opportunities from climate change. That's going to happen through increased TPR involvement and guidance. We saw from TPR's climate change strategy in April, TPR said that it's going to seek to influence debates around pensions and climate change, with a key takeaway from its October climate adaptation report being that it's concerned that too few schemes are giving proper consideration to climate risk, and the ownership of stewardship policies is too limited.

I believe there'll be greater regulatory intervention that requires trustees to consider climate change in investment strategies, and requires them to allocate sufficient time and resources to assess and manage financial risks and opportunities associated with climate change. I think the biggest challenge though is where that time and resources will come from.

Chair: I agree – pension schemes are getting increasingly complicated and the level of regulation around ESG is going to make life more difficult for trustee boards, whether they've got professionals on board, or whether they haven't.



Dear Santa.....

Pensions Age asks for this year's industry wishlists to Father Christmas

Dear Santa,

Aside from my usual (and unfortunately impossible to fulfil) request for world peace, the remainder of my pensions Christmas wishlist should be much more realistic for Santa. Nevertheless, seeing further commitments from pension schemes of all sizes to do their bit to achieve net-zero climate impact and manage climate risks will go a significant way to making the world a better place.

I'd like to see 2022 (and beyond) bring about the successful establishment of collective money purchase schemes and to further ensure this happens, a bonus present of extended legislation permitting multi-employer and decumulation-only collective arrangements would be most welcome.

If proportionality – particularly for smaller pension schemes – appeared under the tree in the final version of TPR's new 'combined code', many such schemes would feel well-equipped to tackle risks going forward.

Finally, if there's room on the sleigh, please could HMRC wrap up a gift of clear, sensible tax treatment of GMP equalisation to help iron out those final few sticking points?

Yours festively,

Tyron Potts
Associate and Head of Pensions Research
Barnett Waddingham

Dear Santa,

In 2021, trustees had to adjust to a variety of new and complex regulation. For this reason, please could I ask that in 2022 trustees are given a bit more breathing space to think about how best to implement the required actions. Amongst these, developing and embedding approaches to climate change risk management and reporting on the outcomes will be paramount and pivotal to good member outcomes.

Please could I also ask that you nudge the DWP and Pensions Minister into implementing the recommendations of the auto-enrolment (AE) review, not least increasing minimum AE contributions, while encouraging the Chancellor to deliver the necessary tax changes to support long-term saving.

To allow pension savers to reliably navigate their way through the pensions journey, please could you also give the Pensions Dashboards Programme a helping hand in successfully landing the Money and Pensions Service Pensions Dashboard.

Lastly, in raising the bar on DC scheme governance, please could you also back the DWP's efforts to up the momentum on DC consolidation.

With all best wishes,

Chris Wagstaff
Head of Pensions and Investment Education
Columbia Threadneedle Investments

Dear Santa,

Please could you:

1. Encourage the industry with the example of Santa's net-zero sleigh transportation to push forward with advancing ESG and climate policies
2. Sprinkle some magic dust and gift the market a regulatory framework that allows targeted guidance to be given at key decision points to help avoid the poorest consumer outcomes
3. Work some elf magic to settle the uncertainty around the pensions tax relief regime for the long term, improving consumer trust and making it easier for members to plan for retirement
4. Set Rudolph and his pals the task of steering the review of automatic enrolment, considering how consumers' short and long-term financial resilience can be supported
5. Give everyone working hard to deliver a significant agenda of regulatory change a jumbo mince pie

James Carter
Head of Pension Products & Policy
Fidelity International

Dear Santa,

My Christmas wish this year is for the next consultation on the new Customer Duty to see the FCA grasp the nettle and commit to removing 'sludge' (as they so aptly call it) in the system.

By the time the consultation comes out you might be back in Lapland but the FCA have already said they want to remove 'sludge' (the unnecessary information blocking consumers from making good decisions). A lot of this exists because of too much disclosure. We all know disclosure is necessary and is there for good reason, but it currently overlaps, duplicates and, because it's applied in different ways it actually creates more confusion. So please, let's review disclosure across long term savings, with one set of requirements for all, with consistent rules across all products.

I'd say we need to get back to basics, think about what we really need and make it consistent. This would give me a happy Christmas and a great 2022 and beyond.

Alastair Black
Head of Industry Change
abrdn

Dear Santa,

I hope you're not surprised by my letter, it's been a while since we last spoke.

I'd like to begin by asking the pension regulators to focus on the creation of 'better regulation' during 2022, rather than generating layer upon layer of additional requirements for providers and trustees. More regulation does not necessarily mean better regulation.

In addition could you finally convince HMRC and HM Treasury that 2022 is the year to scrap:

(a) The Money Purchase Annual Allowance
(b) The Tapered Annual Allowance
(c) The Annual Allowance for defined benefit schemes
(d) The Lifetime Allowance for defined contribution schemes

Could you also ask the Money & Pensions Service to ensure there is sufficient capacity within MoneyHelper to satisfy the regulators' demands for more individuals to attend a Pension Wise appointment before accessing their pension funds, and/or attend a scams-guidance meeting if their desired transfer is raising a 'yellow flag'.

Yours sincerely,

James Jones-Tinsley
Self-Invested Technical Specialist
Barnett Waddingham

Dear Santa,

This Christmas, we're asking the government to deliver the presents it's already promised, to ensure auto-enrolment is fair for all. Millions of workers are still missing out because they're too young, work part-time or don't earn enough. Lowering the age limit for auto-enrolment to 18; calculating people's pension contributions from the first pound they earn; and going further than pledged by reducing the amount someone needs to earn to be eligible for a pension could put billions more into savers pension pots to help them have magical Christmases in their retirement.

While we wish for improved engagement and simpler, transparent communications for pension savers, it will take more than a bit of Christmas magic to stop an arbitrarily short 'statement season' from negatively impacting engagement with savers. So this Christmas we're asking that if the government intends to continue down this road, it sets a more reasonable timeframe of three months and allow the use of digital communications rather than paper.

Phil Brown,
Director of policy and external affairs
B&CE, provider of The People's Pension

Pensions history

70th anniversary of foundation of ACA

Last month saw the 70th anniversary on 12 November of the foundation of the Association of Consulting Actuaries (ACA) in 1951. The association was initially formed as the Society of Consulting Actuaries but re-named as the ACA in March 1952. The members of the ACA are actuaries working in the consulting sector, mainly qualified through membership of the professional body for actuaries, the Institute and Faculty of Actuaries.

The ACA promotes the services provided by consulting actuaries and it also provides independent advice to decision makers on the need for and implications of legislative change in relevant areas. The ACA also publishes regular surveys of the pensions industry.

In celebrating the 50th anniversary of the ACA, Alistair Darling, the then Secretary of State for Work and Pensions, wrote: "It is hard to find an area of pensions policy where the ACA has not made a worthwhile and substantial contribution – from the Social Security reforms of the 1950s and 1960s, to the introduction of stakeholder pensions.

"The ACA has a well-deserved reputation to its commitment to policy formulation and has been a valuable source of advice and information for successive governments over the last half century. Looking forward, we will continue to work with the industry to identify ways of simplifying the regulatory framework, without compromising the security of individuals' investments.

"I hope that the ACA will continue to make a substantial contribution to the formulation of government policy especially as there are currently a number of changes on the horizon, not least the DWP Simplification Review.

"The need for good, independent professional advice remains as necessary now as it was 50 years ago."

The ACA records deposited with the Pensions Archive Trust have been digitised and can be viewed online.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

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I know that face...

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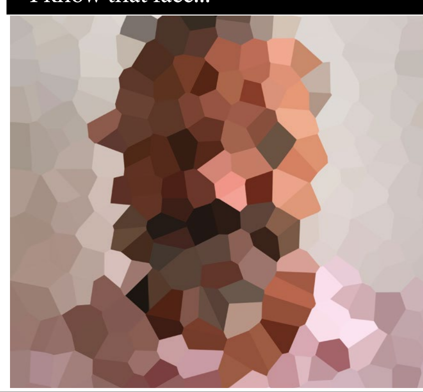

I know that face... Answer: The People's Pension, director of policy and external affairs, Phil Brown

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GMP / PROJECT SPECIALIST
Location: Essex or Hampshire (currently homeworking)
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PENSIONSAge JOBS

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We can offer recruiters:-

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- Vacancy advertised at www.pensionsage.com the leading news portal for the pensions sector.
- Vacancy advertised in Pensions Age print, which has a circulation of over 13,000+ in print and 30,000+ tablet

Please contact us for details.

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Camilla Capece +44 207 562 2438, camilla.capece@perspectivepublishing.com

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Merry Christmas

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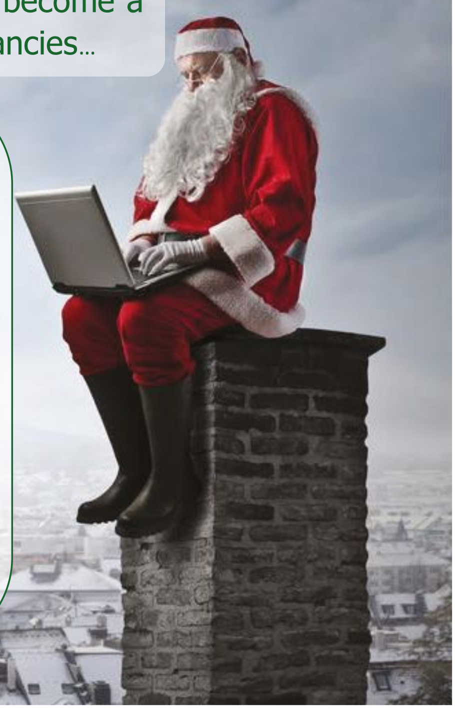

Head of Pensions
Home 3/B'ham 2 c£65k TB£78k
Responsible for the leadership & management of the pension services to the organisation, you will oversee, maintain, and develop a pension's strategy & ensure it is aligned with the company strategy. **DB15156**

Tech & Compliance Manager
Home 2/London 3 c£55k
Hello, Hello, Hello! You will be Policing pensions in this newly created exciting role. From undertaking internal audits, creating internal controls to understanding codes of practice and scheme governance. **DB15256**

Investment Consultant
South East/Home-based £DOE
Great opportunity for a qualified Actuary or CFA charter-holder with good knowledge of the pension's industry, markets, and investment managers. Prior experience of advising UK occupational pension schemes on investment strategies is essential. **TD15185**

Senior Project Manager
Home-based c£60-£80k
This is an exciting new role for an experienced project manager familiar with the implementation of new pension schemes, as well as change projects for existing clients. Excellent knowledge of third party pension's admin required. **CE15126**

Thank you so much to all our Clients & Candidates during 2021.
Wishing everyone a Wonderful Christmas & Very Happy 2022.

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