Decumulation CDC
The beneficial role collective DC could have for the at-retirement stage

DB surpluses
The danger of 'trapped' surpluses within DB pension schemes

CBJPs
The potential role of capital-backed journey plans for DB de-risking

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December 2022

PENSIONS*Age*

The leading pensions magazine

Interview: *PDP principal, Chris Curry, discusses dashboards' progress and the next stages*

Changing providers: *The barriers preventing employers from switching pension providers*

Prepare for lift off

As DB schemes' funding levels improve, what does this mean for the buyout market?

INSIDE: Innovation Guide 2022

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Editorial Comment

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Top of my Christmas list this year was to write my first-ever editorial comment for *Pensions Age*, and my wish has come true! After four and a half years, I've finally had my wish granted, and I've been given the privilege of introducing you all to the December 2022 issue of *Pensions Age*. While I'm apparently on Father Christmas's 'nice' list this year, I have a feeling that there might be a few on his 'naughty' list after the year we've had.

Arguably top of the list, at least from a pension point of view, is former Chancellor, Kwasi Kwarteng. His mini-Budget created one of the biggest controversies and pensions panics I have seen in my time as a pensions journalist. For the pensions industry, this was the defining moment of 2022 and the fallout is still ongoing, with an inquiry in the Work and Pensions Committee investigating what caused the issues in the liability-driven investment (LDI) market and the regulators now working to look into reforms that aim to ensure this sort of incident is not repeated.

> **"While this year has been a challenging one, the industry has mostly stepped up to the plate to ride out the wave"**

Cash injections following the LDI liquidity crisis, alongside already high funding levels, have potentially given rise to the danger of 'trapped' surpluses in defined benefit pension schemes. We explore this issue more on pages 74-75 of this edition.

The pensions industry still does not have a complete consensus on who should be joining Kwasi Kwarteng on Father Christmas's naughty list, with seemingly no one involved in pensions escaping the blame from one party or another. Various individuals in government have taken stick, as well as pension schemes, investment managers, the media and regulators. If they are all partly to blame, then Father Christmas is going to be dishing out a lot of coal this year.

While the LDI crisis might be remembered as the key pension event of 2022, it does not mean the rest of the year was quiet. Political upheaval has resulted in three different Prime Ministers this year, as well as three Pensions Ministers. It is difficult for the sector to make continued progress, as was arguably being seen under Guy Opperman, amid an ever-changing environment. Hopefully we will see some stability under Laura Trott, who will have a lengthy to-do list implementing all of the changes and reforms promised under Opperman's tenure.

This year has also been marked by turmoil in the financial markets. Russia's invasion of Ukraine and a subsequent ground war in Europe sent energy and food prices soaring, leading to the highest level of inflation in 40 years. Stock markets plummeted and returns on equities fell away, resulting in pension investors having to rethink their strategies in a changing environment.

However, this year was not all doom and gloom (although it felt like it mostly was). Innovation in the pensions industry continued, a topic that we explore further in our Innovation Guide on pages 43-50. Collective defined contribution (CDC) legislation came into force, introducing a new type of pension scheme for UK employers to consider. Work on CDC schemes is ongoing, with the government planning to introduce legislation that will allow multi-employer CDC schemes in the near future.

Alongside this, pension schemes in scope of the regulations published their first climate disclosure reports aligned with the Task Force on Climate-related Financial Disclosures (TCFD). More schemes came into scope in October, with our comment piece on pages 40-41 summarising the experiences of schemes that have undertaken the process, blazing the trail for those that will have to abide by the requirements going forward.

Finally, arguably the biggest success story this year has been the continued progress on pensions dashboards. The Pensions Dashboards Programme (PDP) is seemingly on track to meet its ambitious timeline, with the government approving the Pensions Dashboards Regulations 2022 this month. Following this, the PDP published its final pensions dashboards standards, pending approval from the Secretary of State, and The Pensions Regulator launched its consultation on its dashboards compliance and enforcement policy. The team at the PDP will likely be on Father Christmas's 'nice' list this year.

While this year has been a challenging one, the pensions industry has mostly stepped up to the plate to ride out the wave and protect members' pensions. Hopefully, 2023 will see continued innovation within the industry for a lengthy 'nice' list next Christmas.

Jack Gray, Deputy Editor

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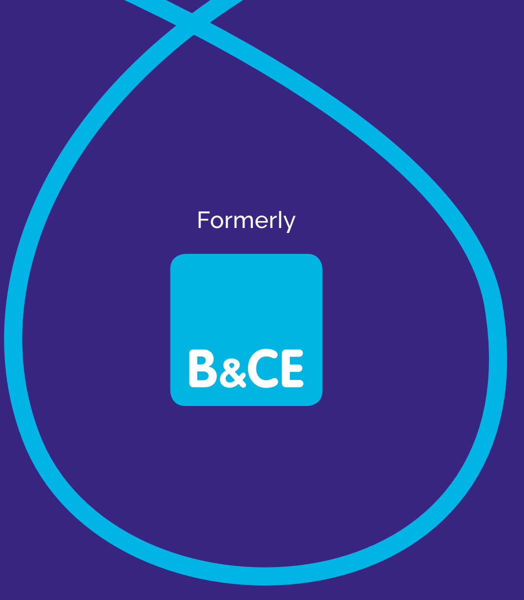

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Prepare for lift off

With DB pension schemes' funding levels continuing to improve, Maggie Williams investigates what this means for the buyout market

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NEW circulation figures

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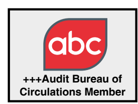

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Dateline - November 2022

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

3 November HMRC repaid a further £33,088,782 to people who overpaid tax when they flexibly accessed their pensions Q3 2022. This means that HMRC has now repaid a total of £925m since pension freedoms were introduced in 2015, in respect of 270,000 forms. However, industry experts warned that this is likely to be an understatement of the full scale of the problem.
Alongside the update on the tax payments, HMRC announced that it will not proceed with plans for a digital interim claims service for the relief at source system, after work on this proved "more complex than originally thought".
HMRC had previously outlined plans for a staged approach to the digitisation of relief at source, initially aiming to provide functionality to make interim claims digitally by the end of the tax year 2022 to 2023.
However, HMRC stated: "Our overriding priority is to deliver a full digital service, including individual level data, for digitisation of relief at source claims by April 2025. We had intended that the digital interim claims service would be the first step towards this. However, having reviewed the work necessary for both the interim claims service and the full service, we've reluctantly decided not to proceed with a digital interim claims service."

3 November The **Bank of England** (BoE) increased interest rates by 0.75 percentage points to 3 per cent. This marked the largest single increase in interest rates since 1989 and first time the BoE's benchmark interest rates have reached 3 per cent since November 2008.

4 November The Pensions Regulator (TPR) said that there is still more work to be done around auto-enrolment, confirming plans for a new campaign to warn employers that it will take action if it spots non-compliance.

4 November The **Taskforce on Nature-related Financial Disclosures** shared the third iteration of its beta framework, revealing "significant updates and enhancements" for pension schemes.

5 November The **Financial Conduct Authority** (FCA) published the final rules on pensions dashboards for pension providers. The final rules were largely unchanged from the draft consulted on, although the FCA has extended the implementation deadline from 30 June 2023 to 31 August 2023, in line with the government's extension to the staging deadline for the first cohort.

7 November MP for Sevenoaks, Laura Trott, was appointed the new Minister for Pensions at the **Department for Work and Pensions** (DWP). This is her first government post, although she is also a member of the Health and Social Care Committee, and the Neonatal Care (Leave and Pay) Bill Committee.

8 November The **UK Transition Plan Taskforce** launched a consultation on its proposed Disclosure Framework and accompanying Implementation Guidance, also launching a sandbox for companies and financial institutions to test implementation.

9 November University and College Union confirmed plans for three days of industrial action over changes to the Universities Superannuation Scheme (USS), in what was branded by the union as the "biggest ever university strikes".

9 November The **FCA** confirmed that it is looking into a "small number of firms" that are not including all fees and charges in their DB pension advice redress calculations, in line with current guidance.

9 November Speaking at the Pensions Age Scotland Conference, **TPR** confirmed is hoping that its Single Code of Practice will be laid in parliament "towards the end of this year or the beginning of January".

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

11 November Zedra announced the acquisition of two professional independent trustee firms, AAA Trustee Limited and Trustee Matters Limited.

11 November TPR, FCA and the **Money and Pensions Service** (Maps) issued a joint warning to pension savers amid concerns that recent headlines could leave members vulnerable to scams.

15 November The McCloud Remedy for the **NHS Pension Scheme** has been delayed, with a new 'go live' date of October 2023 confirmed following "continued delays in the production and release of a suite of Provision Definition Documents from HM Treasury".

17 November The **Pensions Dashboards Regulations 2022** have now been approved by MPs and peers, in what has been highlighted as a "major step" in formalising dashboard duties by the Pensions Dashboards Programme (PDP).

17 November Chancellor Jeremy Hunt confirmed that the government will retain the state pension triple lock as part of his **Autumn Budget Statement**, also sharing the proposed reforms to Solvency II.

21 November The **Star** initiative awarded its first round of accreditations, in what was described as the "biggest piece of industry collaboration for decades".

Since its launch in 2019, a total of 76 firms have signed up to the cross-industry initiative, which is backed by the regulators and government. Of these 76 firms, 18 were awarded an accreditation based on at least nine consecutive months' data, with each organisation awarded a gold, silver or bronze rating. Five providers were awarded an occupational pensions accreditation, with Standard Life awarded a Gold, while Legal & General was awarded silver, and Aegon UK, Nest Corporation and Phoenix Life were awarded bronze. Although the rankings are not based soley on transfer times, the initiative also showed the average transfer time for each of the categories, revealing that the average ceding party times for accredited transfers was 12.7 days for personal pensions, and 21.9 days for occupational pensions.

21 November The **PDP** published the final pensions dashboards standards, pending approval from the Secretary of State for Work and Pensions.

23 November B&CE, provider of The People's Pension, has announced plans to rebrand as **People's Partnership.**

24 November TPR launched a consultation on its dashboards compliance and enforcement policy, which outlines the regulator's expectations for pension schemes, and its approach to regulating dashboard obligations.

24 November The **Productive Finance Working Group** published new guidance to help DC pension schemes understand the key considerations and risks around investment in less liquid assets, emphasising the importance of value over cost.

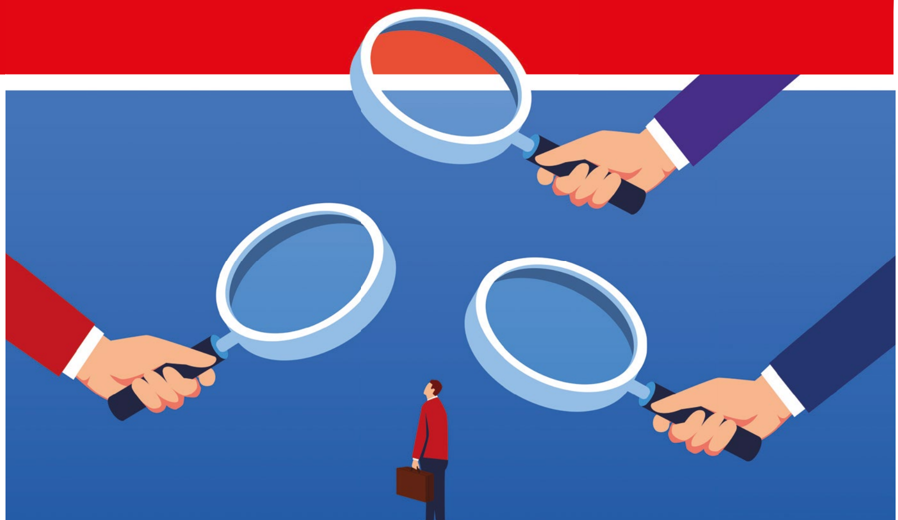
24 November HMRC published draft regulations for changes to the pensions tax framework as part of the public service pension scheme McCloud remedy.

28 November The **FCA** confirmed plans to deliver a redress scheme for former members of the British Steel Pension Scheme (BSPS) who received unsuitable advice to transfer, with over 1,000 customers to receive redress.

28 November Two former pension scheme trustees have received suspended sentences for making illegal loans of £236,000 from a company pension scheme to the scheme's employer, following a prosecution by **TPR.**

28 November Figures from the **DWP** revealed that the government has repaid a total of £209.3m to individuals impacted by historical state pension underpayments as of 31 October 2022, across 31,817 underpayments.

News focus



LDI inquiries continue following gilt market volatility

Industry experts have faced questions from committees across both the House of Commons and the House of Lords following on from recent gilt market volatility, hearing calls for greater investment consultant regulation, improved data gathering, and the need for a balanced approach in future

Inquiries following the recent liquidity issues around DB pensions and liability-driven investments (LDI) have continued over the past month, as various parliamentary committees, across both the House of Commons and the House of Lords, heard from industry experts on the challenges faced by pension schemes.

Regulators have come under particularly close scrutiny, amid concerns that action should have been taken earlier.

However, the Industry and Regulators Committee recently heard that "no one" could have predicted the recent gilt market volatility and subsequent issues.

Addressing the committee, Legal & General (L&G) chair, Sir John Kingman, said that while there was "nothing unforeseen" about a market scenario creating liquidity concerns, "no one anticipated the government would choose to create such extraordinary instability in its own sovereign debt market".

He stated: "No one involved in this, the regulators, the central bank, the government, the advisers, the funds, the sponsors, or us, believed that it was a plausible scenario that the government would do something that would create such extraordinary market instability in two trading days."

Adding to this, L&G chief executive, Nigel Wilson, argued that the unprecedented volatility in the gilt market was "well outside any of the models we had ever considered".

However, Wilson clarified that changes have since been made, including in relation to stress testing, with the headroom held by funds doubled.

"We think that's an appropriate way to behave right now," he stated, suggesting that, when the dust settles, there will be a broader review of what the appropriate stress test is.

Indeed, Kingman said that "probably the most important thing" to take from the experience is how extreme a scenario should LDI vehicles be insulated from.

"At the moment we've worked with authorities to make sure *[LDI funds]* are extremely well insulated", Kingman stated, suggesting that while it is unlikely anyone will advocate going back "simply to where we were", there is a balance to be found between protection and cost.

"We can operate with whatever level of risk protection everyone wants, but there is no free lunch, and the more protection there is in the system, the greater the cost will be to pension funds and their sponsors," he stated.

Both The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) have confirmed that work is already underway in many areas, however.

In a separate hearing with the Industry and Regulators Committee, TPR chief executive, Charles Counsell, confirmed that the immediate focus will be on the degree to which there is sufficient collateral to support shocks such as those recently seen amid the market turmoil.

"We are working alongside the FCA to consider whether we should make a statement to LDI funds and pension schemes that operate segregated arrangements about the level of collateral that we expect them to keep," he stated.

"This would mean there is a stronger buffer in place in the event of sharp bond yield movements than there was before

this event happened."

In addition to this, Counsell acknowledged that, on reflection, TPR "didn't have as much data on this as perhaps we would like to have".

"We will look to see whether we need to go further in terms of data collection to ensure that together we can work on systemic risks," he stated.

This was echoed by FCA chief executive, Nikhil Rathi, who agreed that there is a "huge amount of work around data reporting and data gathering", alongside the need for international collaboration, given the global nature of many of the products involved.

Rathi also raised concerns around the regulation of investment consultants and the non-bank sector, arguing that "not all parts of the system performed as we would have wanted them to".

"There were clearly gaps in capability and competence in some of the investors, there were clearly gaps in the investment consultants, and we do think they should be regulated, which they are not at the moment," he continued. "Some of the custodians were struggling through manual processing with the volume of transactions, so all of these are things we want to take forward for the future, while recognising that what happened in terms of the scale and speed was extraordinary."

However, Rathi clarified that the extension of the FCA's remit is a decision for government.

Despite this, the FCA recently confirmed that it will "maintain a supervisory focus to ensure vulnerabilities identified during the period are addressed".

In a statement, the FCA confirmed that it is also engaging with firms on their operational contingency planning and intends to publish a further statement on good practice towards the end of Q1.

"There were clearly gaps in capability and competence in some of the investors, there were clearly gaps in the investment consultants, and we do think they should be regulated"

The comments were made following statements from the Central Bank of Ireland (CBI) and the Commission de Surveillance du Secteur Financier (CSSF-Luxembourg) on LDI resilience, which confirmed that LDI fund resilience has improved, with an average yield buffer in the region of 300-400 basis points being built up, and suggested that this level of resilience should be maintained.

TPR backed this statement, calling on pension trustees to maintain an "appropriate level of resilience" in leveraged arrangements to better withstand a fast and significant rise in bond yields.

The regulator also encouraged trustees to review their governance processes and consider the challenges that arose during the recent volatility, and consider what practical steps they can implement as a result of lessons learned.

TPR's guidance outlined a number of steps trustees should take if they choose to depart from the liquidity buffer set out by the CBI and CSSF, including completing a risk assessment of how the scheme will respond to stressed market events.

Much like the FCA, TPR confirmed that it also plans to issue further statements on this issue, including in its Annual Funding Statement in April 2023.

Broader consequences could still be on the horizon, however, as others have been much more cut and dry in their assessment of the cause of the recent issues, with John Ralfe Consulting independent consultant, John Ralfe, blaming leveraged, and specifically hidden, LDI.

Addressing the Work and Pensions Committee (WPC), Ralfe highlighted the difference between hedging and leveraged LDI, which is "pure speculation".

However, Ralfe argued that leveraged LDI is not necessarily a bad thing in and of itself, instead specifying that hidden leverage has been the key issue in recent months, and that the regulator should be looking to gather much more data on the assets and amount of leverage used by the UK's pension schemes.

Adding to this, AgeWage executive chair, Henry Tapper, suggested that "any leverage in a pension scheme is too much", arguing that "pension schemes should not borrow money, and leverage is in my mind borrowing".

Brighton Rock Group head of research, Con Keating, agreed that the correct level of leverage in a pension scheme is "zero", pointing out that borrowing is explicitly prohibited under scheme funding rules, and clarifying that while TPR does not consider repo as borrowing, "there is a question of legality there".

Keating also suggested that the "use of derivatives to hedge liabilities is also almost certainly illegal", explaining that although a UK transposition of a European directive was edited to permit this, "no English court, to our reckoning, would support that transposition".

The WPC has since written to the Pensions Minister, Laura Trott, to query whether the government took external legal advice on this transposition, and the reasoning behind the amendments.

Written by Sophie Smith

Dashboards progress ramps up ahead of scheme deadlines

The Pensions Dashboards Programme has confirmed the final dashboards standards, following approval of the Pensions Dashboards Regulations 2022 and regulatory updates from both The Pensions Regulator and Financial Conduct Authority

Pensions dashboards updates have been coming thick and fast over the past month, including parliamentary approval of the Pensions Dashboards Regulations 2022, which was highlighted by the Pensions Dashboards Programme (PDP) as a "major step" in formalising dashboard duties.

The government initially laid the regulations in parliament on 17 October, with plans to lay the Amending Order "as soon as parliamentary time allows" following the approval of the regulations.

Commenting on the approval of the regulations, PDP principal, Chris Curry, suggested that "we're entering an exciting phase of the programme", with less than six months until the opening of the first compulsory window for pension providers and schemes to connect to the dashboards ecosystem.

Indeed, shortly following the passing of the legislation, the PDP shared the final pensions dashboards standards, pending approval from the Secretary of State for Work and Pensions.

The November 2022 set of standards, which were finalised following an industry consultation, outline the mandatory requirements that pension providers and schemes, and potential dashboard providers, will need to follow.

The standards cover the technical and operational detail that underpin dashboards legislation, setting out data formatting requirements, as well as the security, service and reporting duties for connecting and operating in the dashboards ecosystem.

The PDP has since published the draft design standards, outlining the standards that qualifying pensions dashboards services will have to abide by when presenting users' information on dashboards. The standards are under consultation until 16 February.

In addition to this, The Pensions Regulator (TPR) has published its compliance and enforcement policy, which outlines its expectations for pension schemes, and its approach to regulating dashboard obligations.

"It is not acceptable for schemes and their administrators to do nothing, and we'll take a dim view of wilful or reckless non-compliance"

The policy, which is under consultation until 24 February, follows new legislation enabling TPR to fine those who do not comply up to £50,000.

In light of this, the policy aims to provide further clarity on TPR's approach in the event of a breach, illustrating how TPR's approach might translate into practice.

This confirmed that TPR plans to focus strongly on connection compliance and on breaches that pose the greatest risk to a savers' ability to receive an accurate picture of their pensions.

The final policy is expected to be published in spring 2023.

TPR executive director of regulatory policy, advice and analysis, David Fairs, commented: "We will be pragmatic in our approach to regulating dashboards compliance and will not be looking to simply issue fines. However, it is not acceptable for schemes and their administrators to do nothing, and we'll take a dim view of wilful or reckless non-compliance."

Having published the final rules on dashboards for pensions providers at the start of the month, the Financial Conduct Authority (FCA) has also now published the draft regulatory framework for pensions dashboard service providers.

This outlined the FCA's approach to supervision and enforcement for dashboard operators, including on fees, regulatory reporting, prudential requirements and conduct rules.

The framework also confirmed that firms will be able to offer additional services beyond the core 'find and view' dashboards function, provided they meet "rigorous conduct standards" and have the potential to improve outcomes. This could include investment advice or guidance, as well as providing models, calculators, and other similar tools.

The FCA aims to publish its Policy Statement and finalised rules in summer 2023, with the authorisations gateway expected to open shortly after this.

Written by Sophie Smith

Solvency II reforms confirmed in Autumn Fiscal Statement

The government has confirmed its proposed changes to Solvency II as part of its Autumn Budget Statement, as well as plans to retain the state pension triple lock for 2023/24. It also revealed that the state pension age review is on track to be published in early 2023

Industry experts have welcomed proposed reforms to Solvency II, confirmed as part of the government's Autumn Statement, with estimates that this could unlock over £100bn worth of investment in productive finance.

Following its recent consultation on Solvency II, the government confirmed plans to reduce the risk margin by 65 per cent for life insurers and 30 per cent for non-life insurers.

The government also confirmed plans to broaden the asset and liability eligibility criteria for the matching adjustment, to allow the inclusion of assets with highly predictable cashflows, subject to a number of safeguards that the Prudential Regulatory Authority (PRA) will implement.

The existing methodology and calibration of the fundamental spread will be maintained however, while allowing for the use of notched ratings.

The reforms aim to strike a balance between protecting policyholders, supporting insurance firms to provide long-term capital to support growth, and driving a "vibrant, innovative, and internationally competitive insurance sector".

Industry organisations have broadly welcomed the reforms, with the Association of British Insurers (ABI) estimating that "meaningful reform of the rules creates the potential for the industry to invest over £100bn in the next 10 years in productive finance, such as UK social infrastructure and green energy supply".

"We strongly welcome these changes to the Solvency II regime, which will allow the UK insurance and long-term savings sector to play an even greater role in supporting the levelling up agenda and the transition to net zero," stated ABI director general, Hannah Gurga.

"More broadly, it will encourage a thriving and competitive industry, which will ultimately benefit the UK economy, the environment and customers."

"It will encourage a thriving and competitive industry, which will ultimately benefit the UK economy, the environment and customers"

Hymans Robertson risk transfer partner, Michael Abramson, said the reforms are also likely to modestly reduce overall capital requirements for bulk annuity insurers, as well as broadening the assets they can invest in.

Indeed, Mercer principal and actuary, John Gething, said the reforms will mean "good news for insurers and, in turn, may be welcomed by pension schemes looking to purchase a bulk annuity", stating: "At a time when many schemes have moved within touching distance of being able to transact, it will be interesting to see how far and fast any price reductions come through from insurers being able to invest in a wider range of assets."

Alongside confirmation of the Solvency II reforms, the government

Editorial credit: I T S / Shutterstock.com

revealed plans to retain the state pension triple lock for the year ahead.

This means that the state pension is set for a record-breaking increase from April 2023; the new full flat-rate state pension is expected to increase from £185.15 per week to £203.85 per week from April 2023, while the basic state pension will increase from £141.85 per week to £156.20 per week.

In the Autumn Budget Statement, Chancellor, Jeremy Hunt, highlighted the importance of 'compassion', confirming plans to increase both benefits and the state pension in line with inflation, as well as plans to increase pension credit.

The future of the state pension triple lock had been thrown in jeopardy amid rising inflation, with the confirmation of the triple lock for 2023 expected to be a relief for many pensioners.

However, industry experts have warned that this increase may not be enough to keep up with rising inflation, after rising fuel prices pushed inflation up to 11.1 per cent in October.

Also in the Autumn Statement, Hunt revealed that the review of the state pension age is set to be published early in 2023, looking to balance a number of important factors, including "fiscal sustainability, the economic context, the latest life expectancy data and fairness both to pensioners and taxpayers".

Despite reports to the contrary, pensions tax relief was not impacted by the Autumn Statement, with no changes made to the lifetime annual allowance.

Written by Sophie Smith

Former trustees given suspended sentence

Two former pension scheme trustees have received suspended sentences for their part in making illegal loans from a company pension scheme to the scheme's employer. The ruling has been highlighted by the regulator as a reminder of the rules around employer-related investments and a warning that the regulator will take action where needed, with a second similar prosecution currently also underway

Two former pension scheme trustees have received suspended sentences for making illegal loans of £236,000 from a company pension scheme to the scheme's employer, following a prosecution by The Pensions Regulator (TPR).

The former company directors of Eastman Staples, Andrew Kyprianou and Colin Werb, were sentenced to 16 months in jail for each offence, suspended for two years, and ordered to carry out 250 hours of unpaid work.

Although the pair initially pleaded not guilty to the charges, they changed their pleas to guilty at a hearing in August, admitting two counts of making prohibited employer-related investments.

Both defendants were also charged with providing false or misleading information to TPR, contrary to section 80 of the Pensions Act 2004.

The charges related to two loans, an initial £96,000 loan and a later £140,000 loan, paid from Eastman Machine Company Limited Superannuation Scheme to Eastman Staples Limited.

During the trial, the court heard how banking facilities had been withdrawn because of the prosecution and Kyprianou had been given until the 16 December to repay £1.1m in loans.

In the sentencing, judge Mushtaq Khokhar described Kyprianou as "arrogant", concluding that the defendants had put the pension scheme at risk, and that they had failed to manage the potential conflict of interest.

Although he acknowledged that Werb had played "second fiddle" and Kyprianou had driven the offending, he held both defendants to be equally culpable in how they performed their roles of trustee.

"The pair, who were in a position of trust, recklessly used money meant for their staff's retirements to prop up their company"

"These are offences of a very serious nature because they involve a breach of trust," he stated, telling the pair that they "ought to consider themselves lucky" they had not received an immediate prison sentence.

Indeed, Khokhar stated that the duo only avoided jail, and being disqualified as company directors, because of their guilty pleas, the money they had paid back to the scheme and the impact that might have on Kyprianou's businesses.

TPR director of enforcement, Erica Carroll, highlighted the case as a reminder to all trustees on the rules around employer-related investments and a warning that TPR will prosecute those who ignore them.

"Despite being experienced business people and having been warned by their adviser about payments between scheme and employer, Werb and Kyprianou continued to flout laws designed to protect pension savers," she stated.

"The pair, who were in a position of trust, recklessly used money meant for their staff's retirements to prop up their company despite the risk to the scheme – and their employees' pensions – if the employer failed."

A trial date has also been set in a second, similar, illegal pension investment case from TPR.

Former trustee, David Boardman, appeared in court on 22 November to plead not guilty to six counts of making illegal investments.

A former trustee of the Worthington Employee Pension Top Up Scheme, Boardman denied making five prohibited loans from the scheme and one other prohibited investment.

Stephen Smith, a fellow former trustee of the scheme, previously pleaded guilty to making five prohibited loans, although he pleaded not guilty to a sixth.

A professional adviser to the scheme, Derek Thomas, has also been charged with four counts of assisting or encouraging prohibited loans.

Written by Sophie Smith

Regulators issue joint scams warning

Amid growing concerns around pension scams, TPR, FCA and the Maps have issued a joint warning to pension savers. Meanwhile, the FCA has confirmed plans to deliver a redress scheme for former members of the BSPS who received unsuitable advice to transfer out

The Pensions Regulator (TPR), Financial Conduct Authority (FCA) and the Money and Pensions Service (Maps) have issued a joint warning to pension savers amid concerns that recent headlines could leave savers vulnerable to scams.

The organisations, all of which are members of the Pension Scams Action Group, warned that fears about the economy, such as recent extreme movements in gilt yields, could prompt savers to make rushed decisions about their finances.

Pension scheme trustees have also been called on to remain vigilant to the risk of scams and suspicious transfer requests, and to follow best practice in protecting savers from scams, including warning savers of the heightened risk of pension scams in times of uncertainty and providing some of the common signs of a scam.

Pensions Minister, Laura Trott, said: "We're committed to arming savers with the tools they need to spot duplicitous fraudsters, who can be articulate, appear financially knowledgeable, and offer time-limited deals – all designed to convince people to hand over their hard-earned pension savings.

"As scammers' crooked techniques evolve, so must our defences, and we continue to work closely with partners across industry, regulators and law enforcement to send scammers packing.

"Savers can also get on the front foot themselves – knowing the common signs of a pension scam is a great way to start."

Although the organisations clarified that there is not yet evidence of an increase in pension scams, they explained that they wanted to act now given the cost-of-living increases and interest rate rises, which could leave savers more vulnerable to "crooks set on exploiting their fears".

Indeed, the FCA recently warned that rising costs could leave savers vulnerable to scams, after its research revealed that 25 per cent of savers would consider withdrawing money from their pension earlier than planned to cover the cost of living.

In addition to this, research from Scottish Widows recently found that over a quarter (28 per cent) of Brits with a pension are worried about falling victim to a pension scam, while more than one in ten (13 per cent) have already been targeted.

The survey also found that around one in 20 (5 per cent) of those targeted said the scam was successful, while 4 per cent of savers didn't do anything upon realising they had been targeted.

However, over a quarter (27 per cent) contacted their pensions provider, while a similar proportion (26 per cent) spoke to family and friends, and a further 26 per cent reported it to Action Fraud or contacted the police.

In its recent guidance, Companies House also warned of an increase in pension scams in the UK, noting that some schemes' individuals have had limited companies set up in their name, it explained, urging savers to check with the Maps and TPR for further support.

In other news, the FCA has confirmed plans to deliver a redress scheme for former members of the British Steel Pension Scheme (BSPS) who received unsuitable advice to transfer out, with over 1,000 customers expected to receive redress.

Under the rules, redress will be based on the money needed to top up a pension, to allow the consumer to purchase an annuity at retirement that provides an income similar to what they would have received had they stayed in the BSPS.

However, the FCA pointed out that as it now costs less to buy an annuity, the average redress payout in the scheme is expected to be around £45,000, rather than the initial estimate of £60,000.

According to the FCA, consumers should expect to be contacted by their adviser between 28 February 2023 and 28 March, with advice being reviewed by the end of September 2023. Firms will then be expected to provide consumers with their redress calculation by the end of December 2023 for those who opt to receive it as a lump sum, and by February 2024 for those who opt to receive a payment into their pension.

Written by Sophie Smith

Royal Mail CDC scheme to exceed initial cost estimates

Increases in payroll costs have pushed up the projected cost of Royal Mail's planned Royal Mail Collective Pension Plan (RMCPP), with analysis suggesting that this could exceed initial estimates by £30m per annum. However, the group's funding position has improved amid recent market volatility, despite a fall in its surplus

The cost of Royal Mail's planned Royal Mail Collective Pension Plan (RMCPP) is projected to exceed initial estimates by £30m per annum.

The group's half year results revealed that, whilst the expected cost of the RMCPP was around £400m per year, approximately the same as the cost of the existing schemes, the predicted cost is now expected to increase by £30m per year.

Royal Mail attributed the projected increase to the fact that, although the estimated cost of the RMCPP as a percentage of pensionable pay remains broadly the same as in 2018, at 13.6 per cent, payroll costs have increased.

In addition, it explained that, since the Royal Mail Pension Plan (RMPP) closed to accrual in 2018, the cost of existing plans has been reducing over time relative to overall pay costs, as Defined Benefit Cash Balance Section (DBCBS) members leave and are replaced by new employees in the Royal Mail Defined Contribution Plan (RMDCP), with a lower employer contribution rate.

The new pension scheme, the RMCPP, will look to replace the existing DBCBS and the RMDCP already in place.

The scheme is expected to launch by early 2023, with Royal Mail confirming that it has now submitted an application to The Pensions Regulator (TPR) for the authorisation of the new scheme.

More broadly, the report showed that the recent market volatility has impacted the group, as the pre-withholding tax accounting surplus of the RMPP fell by £1,285m from March to September 2022, standing at £2,897m as at 25 September 2022.

However, the group clarified that although the surplus has decreased in absolute terms, the funding level on an accounting basis has improved since the year end as a result of the significant decrease in liabilities.

Written by Tom Dunstan and Sophie Smith

NEWS IN BRIEF

Tumelo has partnered with proxy advisers, Glass Lewis, Pensions & Investment Research Consultants Ltd (PIRC), and As You Sow, to launch a stewardship partnership programme. The partnership is designed to allow investors to choose voting policies to match their values and have them automatically applied to their votes.

Standard Life has completed the final stage of its £15bn DC asset transition into sustainable multi asset solutions in October 2022, the pension provider has announced.

A new 'ambitious' blueprint, setting out a multi-year strategy to improve diversity, equity and inclusion (DEI) across the insurance and long-term savings industry, has been published by the **Association of British Insurers**.

The UK pension scheme of an unnamed Fortune 500 company has completed a £1bn longevity swap with PartnerRe as reinsurer and Zurich as the insurer acting as the intermediary. **Hymans Robertson** highlighted the deal as being among the first in an emerging trend of longevity swaps to include non-pensioners, suggesting that trustees are seeing such swaps as a valuable tool to support ambitions to buyout.

The **London Pensions Fund Authority** has published its plan to reach net zero, committing to reduce the fund's Scope 1 and 2 emissions by 75 per cent by 2030. The fund's immediate attention will be on moving their listed equity holdings, which represent around 50 per cent of the fund at £3.8bn, towards net zero.

Hymans Robertson has launched a new guide to help prevent companies from 'sleep walking' into a DB scheme buyout. The guide hopes to increase companies' understanding of the endgame landscape and the options open to them.

Diary: December 2022 and beyond

PMI ESG and Investment Forum

7 December 2022
Eversheds Sutherland, London

The PMI is covering this important topic outside of its normal event schedule. The insight shared by the ESG speakers at the event will highlight the latest developments in this topical area. PMI looks forward to creating a platform for in-depth and constructive discussions.

For more information, visit:
https://www.pensions-pmi.org.uk/events/esg-and-investment-forum-2022/

ABI Annual Conference 2023

21 February 2023
155 Bishopsgate, London

The ABI Annual Conference 2023 will explore the value and contribution of the insurance sector to society at large, against the current backdrop of economic and political turbulence. The sessions at the conference will explore the impacts of the digital and data revolution for the sector and insurance customers, and how the sector must respond to changing customer demand.

For more information, visit:
https://www.abi.org.uk/events/abi-conference-hub/

Pensions Age Awards 2023

21 March 2023
Great Room, Grosvenor House, Park Lane, London

The Pensions Age Awards, which are celebrating their 10th successful 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. Entries are open for all UK pension schemes and provider firms serving pension schemes in the UK until 7 December 2022

For more information, visit:
pensionsage.com/awards

PLSA Investment Conference

6-8 June 2023
EICC, Edinburgh

The Pensions and Lifetime Savings Association's (PLSA) Investment Conference returns to Edinburgh in 2023. The conference is where CIOs, trustees, investment board members, pension managers, finance professionals and their advisers gain insight on the major trends and events affecting UK investors and markets, bringing the UK pensions investment chain together.

For more information, visit:
plsa.co.uk/Events/Conferences/Investment-Conference

Visit www.pensionsage.com for more diary listings

Month in numbers

£374.7bn

The aggregate surplus of defined benefit (DB) pension schemes in the UK increased to £374.7bn at the end of October 2022, up from £374.5bn at the end of September 2022, the Pension Protection Fund's 7800 Index revealed. According to the index, total scheme assets experienced a 2.7 per cent increase over the month to £1,490.3bn, although this was more than offset by the 3.7 per cent increase in total scheme liabilities to £1,115.6bn. This prompted a slight fall in the funding ratio to 133.6 per cent.

15%

More than one in seven (15 per cent) people never check their pension value, according to research from Hargreaves Lansdown. It found that 4 per cent of those surveyed check their pension value every day.

18

Eighteen of the 76 firms signed up to the Star initiative, which aims to improve pension transfer standards, have been awarded accreditations based on nine consecutive months' data.

VIEW FROM THE SPP: The pensions dashboards are coming!

While the dashboards have been a long time coming, with the final regulations published and laid before Parliament, and the FCA's rules for pension and dashboard providers also published, it is now starting to feel very real.

Trustee boards are considering data issues and looking to their administrators to provide dashboard-ready data in accordance with legislation and published standards. Administrators are preparing for connection (with or without ISPs) and finalising client offerings, while volunteers are testing the Maps dashboard infrastructure.

It would be easy to point out the numerous challenges and we may yet see a few curveballs before we reach the Dashboards Available Point (DAP), the date, not yet known. But it will happen, and it will provide savers with a summary of all their UK retirement benefits, including their state pension. In one place. This is likely to come as a shock to many who thought they had saved more.

Last month we looked at the growth of small DC pots and the danger savers face of reaching retirement with too little retirement income. Dashboards have the potential to be the vital tool that helps savers appreciate the level of contributions they need to make to avoid this outcome and to prompt them to initiate conversations with schemes about their options, both in the saving and retirement phase.

SPP member, Mark Radley

Appointments, moves and mandates

Deborah Finlayson

People's Partnership has announced the appointment of a new chief human resources officer. Deborah Finlayson brings her experience as head of culture, workplace and global service centre at IG Group and group head of talent and performance at Aviva to the role. People's Partnership chief executive officer, Patrick Heath-Lay, was enthusiastic, saying: "I'm delighted to welcome Deborah, as she brings with her a wealth of experience and knowledge. The success of every organisation is dependent on its people and Deborah has the skills to help us to build upon the excellent service that we provide to our millions of customers and members."

Aon has announced it will provide fiduciary advice for the Russell & Bromley pension scheme in the UK. Russell & Bromley, a shoes and handbags retailer, has a £30m pension fund with around 240 members. Aon was selected following a competitive tender process and was appointed by the trustees of the scheme. The appointment was welcomed by Russel & Bromley Limited Pension chair of trustees, Andrew Bromley, who commented: "The Aon team showed the best understanding of our needs and objectives. Their approach was the most flexible and adaptable, so we are confident that it can perform well in a wide range of market conditions. In particular, Aon's use of active diversifiers gives us confidence that they will generate strong returns when markets are rising and provide robust protection when markets are falling."

Iain Church

Iain Church has been appointed as operations lead for the **Hymans Robertson** risk transfer team. Church will have operational responsibility of everything, from resourcing client projects through to knowledge sharing. Since joining Hymans in 2015, Church has specialised on risk transfer projects and has provided advice on buy-ins and buyouts for clients ranging from £50m up to several billion pounds. Commenting on the new appointment, Hymans Robertson partner and head of risk transfer, James Mullins, said: "I've had the pleasure of working closely with Iain for over seven years and I know he'll do a fantastic job."

Vikram Chatrath

Ross Trustees has announced the appointment three senior hires. Vikram Chatrath, Sam Waterman and Dominic Thurlow bring almost 25 years of industry experience with them to the business and the trio will be working across the portfolio. Chatrath will bring his experience in funding modelling and implementation to Ross Trustees' clients, Waterman will provide investment and liability strategy support to pensions schemes, with a key focus on risk management and innovative solutions, and Thurlow will provide support and technical expertise on funding solutions, asset-liability modelling and actuarial/ investment monitoring.

The Pensions and Lifetime Savings (PLSA) has appointed chairs to two of its policy committees. Neil Mason has been appointed to chair the Local Authority Committee and Robert Orr has been appointed to chair the Defined Benefit (DB) Committee. Mason leads the over £5bn Surrey Pension Fund, which has over 110,000 members and more than 300 employers. He is an independent member of the local pension board at the London Borough of Hounslow, chairs the London pension officers group and is a member of the national LGPS technical group. He succeeds West Midlands Pension Fund director of pensions, Rachel Brothwood, who remains a member of the PLSA board. Orr is head of technical and communications at SAUL Trustee Company (STC), trustee for the non-academic staff pension scheme of the University of London, and has over 20 years' industry experience. Orr takes over from previous DB Committee chair, John Chilman, who was appointed chair of the PLSA Policy Board in 2021. PLSA Policy Board chair, John Chilman, welcomed the appointments, stating: "Neil and Rob are highly experienced leaders in workplace pensions, and have the knowledge and enthusiasm to take the PLSA's work programme forward in their specialist fields. I look forward to working with them in their new roles." Also commenting on his appointment, Orr stated: "It's a privilege to be appointed chair of the DB Committee. I look forward to working with the committee as we support the PLSA in delivering its policy priorities and help future proof the pensions system. We'll continue our constructive engagement with the DWP and TPR as they shape the revised DB Funding Code, with the aim of it delivering for both PLSA members and the savers we represent."

WTW has been appointed to provide multi-asset investment solutions for Atmos and its UK-based retail investment portfolios. The agreement, based on a three-year exclusivity period for this service, enables Atmos to take advantage of WTW's global investment research and portfolio management team in order to strengthen the investment propositions it can offer clients across the UK. The company's appointment of WTW aims to enable it to offer benefits to clients that are usually only afforded to large institutional investors. These included access to fund managers not normally available to retail investors, more robust investment management and risk controls, integration of ESG considerations in investment strategies, and the ability to give its clients access to alternatives and private markets. WTW will provide support to Atmos on its three investment propositions: Investment management through five existing Ucits funds along a spectrum of risk profiles, model portfolio solutions supported on retail investor platforms, and discretionary portfolio fund management for high net-worth individuals supported on retail investor platforms. The appointment was welcomed by Atmos head of investments, Haig Bathgate, who said: "Our purpose is to deliver an exceptional service and experience to our clients, and our strategic alliance with WTW is testament to this aim. Bringing in WTW's vast global expertise in investments across all geographies and asset classes, as well as their industry-leading investment research and portfolio management, enables our clients to benefit from institutional economies of scale and expertise. The breadth of investment expertise available at WTW is beyond anything else available in the wealth management market and the company has a track record of driving down investment costs, helping enhance investor returns."

Paul McInulty

Barnett Waddingham has appointed Paul McInulty as senior employee engagement consultant. As team lead, McInulty will work with the established team of consultants to understand client needs, build relationships, analyse consult and deliver clear and effective communications strategies for clients. McInulty brings over 25 years' experience in the industry, including pensions documentation, copywriting and consulting in pensions and benefits, internal communications and marketing communication to the role. McInulty welcomed his appointment stating: "I'm looking forward to working with exceptionally talented colleagues."

Damon Hopkins

Broadstone has appointed Brett Hill and Damon Hopkins to lead its employee benefits division. Hill and Hopkins join as head of health and protection, and head of defined contribution workplace savings, respectively. Hill joins Broadstone from Towergate where he led health and protection distribution and has over 25 years' experience helping clients improve the health, wellbeing and protection of themselves, their businesses and employees. Hopkins has nearly 20 years in the pensions industry, the past 14 of which he has specialised in defined contribution schemes. He joins Broadstone from Aon's defined contribution consulting team, where he held a multifaceted leadership role.

Jane Foley

The Association of Professional Pension Trustees (APPT) has elected three new council members at its AGM. ProPensions trustee director, Jane Foley, 20-20 Trustees trustee director, Kate Leigh, and 20-20 Trustees trustee director, Manpreet Sohal were all elected to serve four-year terms as council members. These appointments were welcomed by APPT chair, Harus Rai, who commented: "The growth of the association runs alongside an increasing range of governance challenges for all trustees and I am sure that many schemes felt the benefit of our members' work in the last month or so when increased stresses were experienced by many."

Bernie Hickman

The Money and Pensions Service (Maps) has appointed two people to its advisory group. Legal & General Retail chief executive, Bernie Hickman, and Coventry Building Society chief executive, Steve Hughes, have joined 12 other top-level executives from the finance, consumer rights, and research and technology sectors. Commenting on the appointments, Maps chair, Sir Hector Sants, commented: "I am delighted to welcome Bernie and Steve to the Maps Advisory Group. They bring with them a wealth of experience in the financial services sector and a strong commitment to the UK Strategy for Financial Wellbeing."

View from the AMNT: Communicate, but don't advise

As the pension dashboard stumbles towards completion, the words of the journalist, Sydney Harris, resound in my ears: *"The two words 'information' and 'communication' are often used interchangeably, but they signify quite different things, information is giving out; communication is getting through."*

Providing individuals with accurate, timely information on their pension is a positive development. However, adapting Harris's words, 'will the communication get through?' will be the key to success.

I am a football fan and as such listen ardently to the pundits who talk about pass percentages and time on the ball. But it is only when I see my team live do I become actively engaged and feel able to communicate my excitement or frustration.

I'm sure pension fund members, although finding the data informative and interesting, need to feel engaged when making decisions, otherwise the communication exercise merely satisfies the needs of the industry in having been seen to do something.

The member needs to receive cost-free advice and for that to happen there needs to be a collective industry and regulatory provision to provide advice unencumbered by any possible legal challenge whenever the member requires it.

AMNT member, Stephen Fallowell

View from the PLSA: UK pensions reform

As 2022 draws to a close, the pensions sector has experienced its fair share of volatility in recent months, on top of the ongoing cost-of-living crisis.

Yet the sector still remains committed to ensuring that savers are well placed to achieve a better income in retirement.

But that ambition cannot come without suitable reforms to the UK pensions system.

It's why the PLSA published its report; *Five Steps to Better Pensions: Time for a New Consensus.*

The first change that is needed is the creation of clear national objectives for the UK pension system that are 'adequate, affordable and fair'.

The second is a reform of the state pension so everyone, at least, achieves the minimum Retirement Living Standard, to prevent pensioner poverty.

The PLSA also believes reform is needed for automatic enrolment. We want to see more people reaping the benefits of saving into a workplace pension including younger people, multiple job holders and gig-economy workers.

Another change that we'd like is to see under-pensioned groups better supported. The PLSA believes that additional policy interventions are needed to help women, gig-economy workers and the self-employed, feel the full benefits of being in a workplace pension scheme.

Finally, the PLSA wants to see more industry initiatives in place to help achieve better pensions.

While we accept that now – in the middle of a cost-of-living crisis – is not the right time for radical changes, it is still prudent to provide a clear 'roadmap' for reforms that will help to ensure better retirements.

PLSA director policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: The new Pensions Minister's challenges

Laura Trott has recently been appointed as the new Minister for Pensions, following Alex Burghart's brief stint in the role. For a new Minister with no prior experience of the pensions industry, this position is a challenge under any circumstances. However, fate has dealt Trott a particularly difficult hand with an ongoing crisis that demanded her immediate attention.

Kwasi Kwarteng's 'fiscal event' caused turmoil in the markets, which resulted in a plunge in the value of gilts. A 'fire sale' of gilts led to a dramatic decline in the funding levels of many DB pension schemes. It was bitterly ironic that the consultation on the regulator's newly-proposed funding regime for DB schemes would close at the end of the following week: Implementing it in its proposed format would impose unreasonable demands for funding from already stressed scheme sponsors. Trott will have to unravel the Gordian Knot of DB funding within her first months in office.

There are other issues that will require the new Minister's short-term attention. The implementation of the pensions dashboard has finally commenced, and this project will need to be carefully managed.

Trott will also need to consider long-overdue reforms to automatic enrolment. Changes to eligibility rules, definitions of pensionable salary and contribution rates will represent a significant challenge to employers during a period of recession.

Trott may have hoped for a quiet bedding-in period. She will instead have to hit the ground running for dear life.

PMI director of policy and external affairs, Tim Middleton

Protecting pensions in times of crisis

Jonathan Watts-Lay considers how the cost-of-living crisis may be affecting pension contributions

Inflation was at a 41-year high in October at 11.1 per cent and is expected to remain high for some time, intensifying the current cost-of-living crisis. As the pressure on household income continues, it is more important than ever that employees are engaged with their finances, and this includes their pensions.

So, are employees looking at their pension contributions as a way of cutting back on their monthly costs? A recent survey by PLSA found that one in five (19 per cent) pension schemes surveyed have seen members asking about reducing or stopping their pension contributions and 17 per cent wanting early access to their pension after age 55.

However, figures from the Department for Work and Pensions show that there has been no indication that pension savers are actually taking action, as there has been no significant rise in people who are currently saving into workplace pension schemes choosing to stop contributions. But there does appear to be an upward trend for those newly enrolled choosing to opt out. The PLSA survey also noted that only around one in 10 (12 per cent) schemes surveyed said that they have seen members wanting to opt out, which is only a little above the long-term trend of 9 per cent.

However, as the cost-of-living crisis continues, employers should closely monitor pension opt-out requests and do all they can to ensure pension scheme members recognise that it really should be a last resort.

It's important for pension scheme members to understand that opting out of their pension will have a huge impact in the long term and the damage that they could do to their standard of living in retirement. Whilst reducing contributions now would make relatively small savings each month, the impact on a pension scheme member's retirement savings in later life will be dramatic, due to lost employer contributions and tax relief.

Making the smallest reductions in pension contributions possible, and avoiding opting out altogether, will limit the reduction to future retirement savings. However, saving money is a habit, and once it has stopped, it is very difficult to start up again.

There are some practical steps that members can take to save money that they may not yet have considered. Some of them seem small but they all add up! So before reducing or stopping contributions, they should be encouraged to look at alternative options first. This includes checking all their outgoings to find other ways to save money such as cancelling any unused subscriptions or memberships, shopping around for better deals on insurances at renewal, such as car and household insurance, as well as broadband and mobile suppliers, and switching brands on their regular shop. Rising energy costs are a big concern so things like avoiding tumble dryers, utilising smart heating, using more efficient light bulbs, and finding cheaper ways of cooking such as using a slow cooker or microwave can all help. It's always a good idea to look out for online discount vouchers for any purchases, and it's also an ideal time to remind members of cost savings available through the workplace as part of their benefits package e.g. discount on parking, shopping, car leasing, medical care and insurance.

Most members would benefit from having a better understanding of money, but are confused where to start. As part of an overall wellbeing objective, many employers now offer their workforce support to help them understand the value of their pensions and workplace savings, as well as how to best manage their money in times of crisis. This includes providing financial education workshops, one-to-one guidance or coaching and digital tools and helplines. This can help employees to build their financial resilience now and for the future.

Written by WEALTH at work director, Jonathan Watts-Lay

In association with

VIEW FROM TPR: Don't hide from your workplace pensions duties

To ensure auto-enrolment (AE) remains a success, we've launched a hard-hitting new campaign warning employers not to hide from their pension duties.

Our new campaign calls on employers to ensure they are making the right contributions on behalf of their workers as part of their ongoing duties. With a bold message that: 'Good employers don't hide from their workplace pension duties', we are sending a clear message that employers face enforcement action, including financial penalties, for failing to comply.

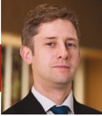
The campaign highlights that we monitor employers big and small, and across all sectors, to make sure staff receive the pensions they are due. We recently carried out a series of compliance inspections of more than 20 large employers across the UK, with a total of nearly 1.5 million staff. The inspections were to check employers are complying fully with workplace pensions law.

While the employers we inspected remained committed to AE, we found a number of common errors in respect of calculating pensions contributions and communications to staff. So we are now alerting employers to ensure they do not skip important steps in complying with their ongoing duties.

We are also urging employers to ensure they comply with their re-enrolment responsibilities. Re-enrolment is important because it gives staff who opted out a fresh opportunity to start saving.

The majority of employers do the right thing for their staff, however for the small minority that fail, we will take enforcement action where necessary to protect savers.

TPR director of automatic enrolment, Mel Charles



VIEW FROM THE ABI: Lost pension pots

The pensions dashboards impact assessment hasn't had the attention it deserves. When I mentioned it at a recent event, a couple of people queried my figures – particularly the estimate of 16.3 million dashboard users by 2026. To make the impact assessment realistic, the regulatory framework needs close attention to manage risks while enabling the customer outcomes dashboards are intended to achieve.

There's no need to remind anyone in the industry that the costs of dashboards are high – potentially £1 billion. However, some of the costs are not unique – arguably, data should be clean already. Also, recovery of lost pensions is a major direct benefit of dashboards. ABI commissioned research by the PPI that identified 2.7 million pots worth £26 billion – a huge prize.

However, the benefits depend on DWP's projections of how many people will use dashboards – the impact assessment's central estimate puts it at 16.3 million users per year. That is plausible, but it really depends on decisions yet to be made. If consumers can access dashboards easily, in places they already use online, with a simple sign-up process, it could even be an underestimate. The FCA's consultation on regulation of dashboards, and the PDP's consultation on design standards, are critical to achieving this aim – pension schemes should engage with them to ensure that they do.

ABI assistant director, head of long-term savings policy, Rob Yuille

VIEW FROM THE PPI: Lost pensions

Today's workers are likely to have multiple jobs during their lifetime, and auto-enrolment means they are likely to be enrolled into a new pension scheme at each job change.

This makes it easy to lose track of pots. When a provider loses contact with the owner, their savings are called a "lost pot". The *PPI Lost Pensions Survey 2022* revealed that there is £26.6 billion contained in lost pots, with an average value of £9,470.

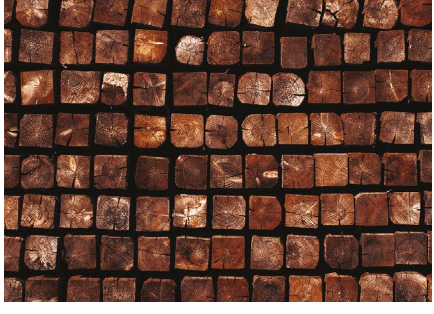
The amount in lost pots has increased from £19.4 billion in 2018, demonstrating that the problem is not only serious, but growing fast.

Administering unclaimed pots and tracing the owners is expensive for providers, and these growing costs could threaten the financial stability of the pensions system. For savers, this money can significantly improve retirement adequacy. These pots are often valuable and form a significant proportion of total retirement income. These issues have prompted providers to launch initiatives such as the Pension Attention campaign in an attempt to reunite people with their lost pots.

On the horizon, however, is another promising government initiative: Pensions dashboards will show a person all of their workplace pension savings, and state pension entitlement, in one place; reuniting them with forgotten or lost pots and the hard-earned, and much-needed, savings within. With enough engagement from the public, these dashboards could mitigate the lost pots issue, making our pension system stronger and retirees better off.

PPI policy analyst, John Upton

Timber renaissance: Purging fossil products with trees



Technology is turning timber into a dynamic, rapidly growing industry

Every year, Britons use five million tonnes of plastic – milk bottles, yogurt pots, disposable nappies or even clothes. Less than half is recycled, and the rest end up in landfill or waste incinerators. Plastic, made of fossil-based materials, takes centuries to decompose, polluting soil and water. If incinerated, it adds to emissions of planet-warming greenhouse gases.

In the race against time to reach net zero by 2050, the UK and other economies are eager to shift from a 'take-make-dispose' consumption approach towards a more circular and regenerative model. Purging plastic and other fossil-based materials from our lives is key.

One of the most promising replacements is a tree. Wood is cost-effective and environmentally-friendly. By growing more of it, we can also trap carbon, restore biodiversity and improve soil quality. Already versatile, timber is becoming even stronger, more durable and as fire-resistant as steel, thanks to new and innovative technologies.

This has important implications for investors. Technology is turning timber into a dynamic, rapidly-growing industry that encompasses not only containerboard, paper, and pulp but also clothing, packaging, personal hygiene and real estate.

This, in turn, gives an attractive backdrop for investors to invest in sustainable forestry, or timberland.

What is more, in periods of high inflation, companies in this asset class have historically been able to raise prices faster than their costs. With Britain's inflation rate running at a 40-year high above 10 per cent, investors in timber can benefit from some protection against rising prices.

Wooden skyscrapers and eyeliners

Timber's sustainable credentials are particularly valuable in buildings. In the building and construction sector that accounts for around 40 per cent of global carbon emissions, timber gives an attractive way to reduce the environmental footprint.

Among the pioneering engineered wood products is cross-laminated timber (CLT) – a building panel made of sawn, glued and layered wood which allows architects to build wooden skyscrapers.

The market for CLT is expected to grow to a $2.5 billion globally by 2027 from $1.1 billion in 2021, an annual increase of some 15 per cent[1].

But that is not all.

Companies are developing technologies to turn wood into new bio-based materials and chemicals, such as bio-monoethylene glycol (BioMEG), lignin-based renewable functional fillers as well as industrial sugars. In the near future, textiles, PET bottles, packaging, de-icing fluids, composites, pharma products, cosmetics, detergents and functional fillers will be manufactured using wood as the main feedstock.

Better management, better capture

Trees are a valuable ally and asset for humans fighting climate change. This makes it even more important to properly manage forestland. Indeed, a managed forest captures and traps more CO2 emissions from the air than an unmanaged counterpart, whose carbon storage capacity reaches a plateau.

Sustainable forestry manages and uses forest lands that maintains its biodiversity, productivity and regenerative capacity in a way that does not damage other ecosystems.

What is more, investors may increasingly capitalise on non-timber related forest revenue streams – such as ecosystem services of biodiversity protection or soil and water protection. This promises to elevate timberland's value in the coming years.

Taking all of this into account, timber – across all of the forest value chain – offers a compelling and diverse set of investment opportunities. It may only be a matter of time before timber becomes ubiquitous: it will be present in your clothes, the ingredients in your mid-afternoon snack, the packaging of your milk, or the buildings you live and work in.

Written by Pictet Asset Management senior client portfolio manager, thematic equities, Gillian Diesen

In association with

[1] Expert Interviews, Secondary Sources, and MarketsandMarkets Analysis, 2022

Soapbox: Bursting out of the London bubble

In November, I had the pleasure of travelling up to the beautiful city of Edinburgh for our first-ever Scotland Conference. Despite the uncertainty of a potential train strike, which was eventually cancelled, on the day of the conference, the turnout was terrific and pension professionals from Scotland and beyond enjoyed a day of informative and interesting sessions.

Alongside the majesty of Scotland's capital, the main thing that struck me was the amount of people that came up to me and my colleagues to express their excitement and thanks for us hosting a pensions conference in Scotland. For many, Edinburgh is their hometown or place of work, while others travelled in from the surrounding areas with ease.

They discussed the fact that the vast majority of conferences and events were held in London, which obviously made it very difficult for them to attend, especially one-day events. Even events spread over two or more days would require lengthy train journeys or expensive flights, as well as pricey London accommodation.

This leads to many pension professionals based in Scotland, as well as other regions in the UK, not being able to attend most of the events being put on by the industry. I find this demonstrably unfair, as while London is arguably the UK's financial hub, with a sizeable section of the financial services industry's personnel working there, and it is only natural that the majority of events are held there, there is a clear lack of events outside of the country's capital.

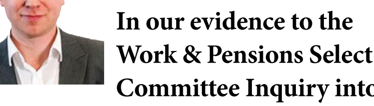
There is a clear appetite for events outside of London, demonstrated by the attendance of and the enthusiasm for our Scotland Conference, so is there room for more events taking place around the UK? One factor to take into consideration is the changing working patterns since the Covid-19 pandemic and associated lockdowns. Many people moved out of London, as expensive rents and mortgages were no longer necessary with the surge in people working from home as offices closed.

During these times, many conferences and events moved online, and things haven't quite gone back to the way they were. Although in-person events are still commonplace, they are now more accessible to those not able to attend in person in London. Most events, it seems, have some kind of virtual option.

However, this is not necessarily an argument to keep events primarily London-centric. While those from outside the capital can access more events, they do not get the same experience as those attending in person. Attending virtually does not make you feel part of the event, with the lack of networking and conversation. It would be unfair to expect people living outside of London to make do with being a relative bystander. If our conferences outside of London have taught us anything, it's that we need to burst out of the London bubble.

Written by Jack Gray

VIEW FROM THE ACA: LDI arrangements



In our evidence to the Work & Pensions Select Committee Inquiry into liability-driven investing (LDI), we said that whilst LDI remains fit for purpose, given recent experiences, we anticipate there will be changes in the operation of LDI arrangements.

LDI has overall significantly benefited DB pension schemes, in particular during the long period of falling yields in part driven by quantitative easing and during the pandemic. However, given recent market challenges, we believe there will now need to be changes in standard market practice in how LDI arrangements operate, such as minimum levels of collateral.

Most DB trustees have well established, formal plans to source additional collateral when needed to help support their hedging arrangements. Given the unprecedented speed with which gilt yields rose between late September and mid-October, the pace with which assets could be disinvested and transferred will have caused challenges for some pension schemes despite overall funding levels having improved in many cases.

Our view is the proposed legislative changes for DB schemes that are currently in the pipeline risk exacerbating some of the issues discussed in our evidence. Our response on our website to the DWP's recent consultation on the draft Occupational Pension Scheme (Funding and Investment Strategy and Amendment) Regulations 2023, on 13 October 2022 covers these points in more detail.

ACA chair, Steven Taylor

People's Partnership – New name, same values

Patrick Heath-Lay reveals how B&CE, the provider of The People's Pension, has changed its name to People's Partnership

Over the past 80 years, B&CE has helped many people build financial foundations for life. We've grown from a company set up to support those in the construction industry to now being responsible for running the UK's largest independent master trust – supporting workers employed in all industries.

In recognition of the over six million UK workers and 100,000+ employers we serve, we've changed our name to People's Partnership. This name reflects our continued focus on working for the best interests of people, reinvesting the profits we make into creating solutions that help our members to achieve better financial outcomes.

Building on our strong heritage

We were founded in 1942 to help construction workers build up holiday pay using a simple stamp system. By the 1950s, the scheme had already helped over a million workers, providing employee benefits at a time when these were hard to come by in post-war Britain.

Over time, we changed as workers' requirements evolved, regularly developing new products and services to protect and support them through the introduction of life and accident cover and pension schemes.

2012 marked a pivotal moment in our history and that of the pensions industry. We welcomed the introduction of auto-enrolment – a piece of government policy that has so far led to over 10 million more people saving into a pension scheme – and, in response to this, we launched The People's Pension.

Our first pension scheme open to all industries, The People's Pension now provides one in five UK workers aged 22+ with a straightforward workplace pension in which to invest and grow over £17 billion of their hard-earned savings.

Prioritising needs

We know the majority of people find it hard to engage with their pension and make safe decisions when deciding how to provide a sustainable retirement income. The studies we regularly carry out show many are left confused or unsure about what to do when it comes time to retire*.

Despite recognising the need to seek help, they remain reluctant to access advice. Of course, there are many reasons for this, but providing clear and accessible information and signposting isn't proving enough support to help people make the right decisions to achieve the retirement they've worked hard for. We're constantly adapting our business to address this and make pensions simple and open to all, and we'll continue to do so to reflect the changing needs of savers.

Throughout our history, we've prided ourselves on building solutions to meet the needs of those under-served by the financial services industry. We're a profit for people organisation set up without shareholders, with a mandate to reinvest our profits back into products and services that put customers first and help them achieve better financial outcomes. That's why we're creating digital retirement planner tools that will support savers to find lost savings and help our members to plan for their future.

A brighter future for everyone

This is just the first exciting step in the next stage of our journey. The changes we're making will help improve retirement incomes for many savers across the UK. At the same time, we'll continue to offer the same type of simple, accessible and trusted products, backed by high levels of customer service that have supported all of our customers throughout our 80 years of service.

By making our industry better, we believe we can make society better too. Our focus has always been on our partnership with our customers and, whatever we do, we will stay true to our roots and always be the people's partner.

Written by People's Partnership CEO, Patrick Heath-Lay

*New Choices, Big Decisions – NCBC_Part2_PensionPersonalitiesRevisited.pdf (thepeoplespension.co.uk)

A week in the life of: Zedra Governance managing director, Kim Nash

Our work as trustees is hugely varied, as are our clients and their needs – this is very much reflected in my week. I spend a lot of my time speaking to clients, either in person or virtually, and working collaboratively with colleagues to make sure we deliver the excellent service expected of us. Work patterns are returning to something resembling normal so I spend more time travelling between our offices, spending crucial face time with our fantastic team and clients.

Monday

The week begins with an 8am call with our COO, taken in the lobby of a conference venue in London. Thankfully, Mondays usually start *slightly* later with our weekly business development and marketing call, but today we are running an all-day training workshop for a range of Zedra client directors, managers and support staff.

The session is designed to bring the team together – to share client issues and success stories and support each other in what has been a challenging environment.

No working day would be complete without some virtual interaction – today I am called into a discussion on the resourcing of our GAA and Group Life services.

Tuesday

Travel back to London for a client meeting. I get into the city very early, so spend some time in the office catching up on emails ahead of wandering to the client's offices. My responsibilities are wide ranging these days – I formally became managing director of Zedra Governance at the beginning of November, and with this has come a senior leadership role alongside my trustee duties.

These roles, and the skill sets required, are complementary, of course. As trustees we spend much of our time setting strategy, and then encouraging teamwork. The same applies to my work at Zedra.

The day ends with a client dinner. Investing in opportunities like this, to meet face to face and build deeper relationships that transcend the day to day, is really important.

Wednesday

Back to the desk for a morning of client calls covering the numerous projects underway, ranging from data cleanse progress for a buy-in project to agreeing the engagement approach for DC members in light of the cost-of-living crisis. These entail status reports from advisers, updates to employers, and catch ups with my client teams, all followed by a mid-week call with our COO to discuss operational issues.

The afternoon is spent on a combination of interviews and staff induction calls. We are growing rapidly and recruiting at all levels of the business. People and teamwork are at the very heart of what we do so we invest considerable time and energy to ensure that we recruit the best people.

Thursday

Another early start to carve out some focus time. I am spending today in our

Birmingham office. Our roles as trustees are fantastically varied, which is very rewarding but does make demands on our time management skills! When the team start to arrive, I would rather focus on them, so I aim to run through pressing issues as efficiently as possible.

Several one-to-ones later and it's time for a team lunch. I think we all missed outings like this during the lockdowns, so we make a point of getting together in our regional hubs as often as possible. Apart from the team building, it's the only way I get to keep up on what is happening on *Strictly Come Dancing.*

I spend the afternoon chairing a virtual trustee meeting.

Friday

Today I am looking after my 15-month-old son. Perhaps one positive upshot of the pandemic is that our work and home lives have become much more intertwined, and we encourage our staff to work as flexibly as their circumstances demand.

Between naps (him), songs (me), and building blocks (both of us), I deal with any urgent actions, speak to colleagues where I can and wrap up any pressing issues.

In the evening I usually aim to send those last few emails and set my priorities for the next week.

Age discrimination claims

The Employment Appeal Tribunal has overturned a potentially significant ruling made by the Employment Tribunal, which demonstrates the declining influence of EU law on domestic pension schemes and, perhaps, more widely

Since 1 December 2006, under the EU's Framework Directive (Directive), it has been unlawful for trustees or employers of occupational pension schemes to discriminate on the grounds of age. However, under the Equality Act (Age Exceptions for Pension Schemes) Order 2010 (Order), there is an exemption for benefits accrued in respect of service before 1 December 2006. This limitation is based on the EU law principle that new law will not be applied retrospectively. However, earlier this year, the Employment Tribunal (ET) held that the exemption under the Order was incompatible with the Directive and should be disapplied. This ruling was notable, resulting in the possibility of historic age discrimination claims being brought against trustees and employers.

The Secretary of State for Work and Pensions appealed the ET's decision, arguing, among other things, that the Directive had not been incorporated into domestic law under the European Union (Withdrawal) Act 2018 (Withdrawal Act) following Brexit and, therefore, the ET had erred in relying on the Directive to disapply domestic law.

The facts

The claimants in this case were members of the T&N Retirement Benefits Pension Scheme (Scheme), all of whom had started to take their pension before 1 December 2006. The Scheme employer entered a PPF assessment period on 10 July 2006. In line with the requirements of the Pensions Act 2004, members who had reached their normal pension age (NPA) at the date of the assessment period did not suffer a reduction to their benefits; members who had not reached their NPA by this point were entitled to up to 90 per cent of their benefits, subject to the overall compensation cap. As a result, the benefits of some claimants were reduced to less than 50 per cent of their accrued rights under the Scheme. The claimants argued that the capped compensation paid by the trustee amounted to direct age discrimination. Although the impact of the compensation cap had been lessened following the Hampshire and Hughes judgments and the resulting 'uplifts' to their PPF compensation, the ET claim related to awards for injury to feelings and additional sums by way of interest on back payments.

The crucial point to note is the timing of the ET complaints in relation to the Withdrawal Act. Under the Withdrawal Act, the EU Charter of Fundamental Rights, which established the right of non-discrimination, would not be treated as part of domestic law on or after the implementation period completion day, that is, 31 December 2020 (Implementation Day). Moreover, to the extent that the general principle of non-discrimination existed irrespective of the EU Charter and was still to be treated as retained EU law, it could no longer provide a basis for the disapplication of any domestic law found to be incompatible with it. Two claimants lodged their complaints before the Implementation Day; the rest, afterwards.

The judgment

Recently, the Employment Appeal Tribunal (EAT) agreed with the ET that, in accordance with the Supreme Court's ruling in *Walker v Innospec,* the principle of future effects applied to this case and the point of unequal treatment occurred at the time the pension fell to be paid and not when it accrued. Therefore, the general principle of non-discrimination on the grounds of age applied, even though the claimants' pensionable service was accrued before 1 December 2006.

However, the EAT judge considered that only the claimants who commenced their claims before the Implementation Day could rely on this principle; the claimants who brought their claims after the Implementation Day could not. The reason for this was that, under the Withdrawal Act, the retained general principles of EU law such as non-discrimination could not provide the basis for the disapplication of domestic law on and after the Implementation Day. As a result, the Secretary of State's appeal was upheld in part.

Owing to the EAT's decision, the consequences of the ET's finding are now rather more limited, which should come as a relief to trustees and employers concerned about the possibility of historic age discrimination claims in respect of service before 1 December 2006.

Written by DLA Piper pensions partner, Matthew Swynnerton

In association with

2022: A year in review

If there was one overriding theme of 2022, it might have been showing resilience in the face of adversity. Whilst it might have been the first full year post-pandemic, it was nevertheless a busy, and sometimes difficult, one for the pensions industry. Constant changes in government and new regulations occurred alongside industry cooperation and discussions on dashboards. Tom Dunstan looks back on an eventful year

January
The start of the year saw the Department for Work and Pensions (DWP) publish its consultation on the draft regulations for pensions dashboards. This included what was required of pension schemes and dashboard providers for the introduction of dashboards, with the aim of having 99 per cent of pension memberships included by the end of September 2024.

Following the publication of the consultation, the Pensions Dashboards Programme (PDP) published updated standards for pensions dashboards including its data usage guide, design standards scope, reporting standards scope, technical standards and a guide to the code of connection.

January also saw the launch of The Pensions Regulator's (TPR) collective defined contribution (CDC) code of practice consultation. This code detailed the standards that the regulator required from schemes that apply for authorisation and its subsequent monitoring. TPR intended to incorporate the CDC code into its single code of practice, with the CDC code therefore adopting the same modular format as the single code of practice.

February
February was a significant month not just for the pensions industry but for the world as it saw the invasion of Ukraine by Russia. Following this invasion, pension schemes (as well as other financial organisations), such as Nest and the BT Pension Scheme, took

steps to offload and halt any further investments in Russian-linked assets.

In other news, Royal Mail announced that it was pushing ahead with its plans for a new CDC scheme following a member consultation. The scheme is still set to be introduced in early 2023 and will, most likely, be the first operating CDC scheme in the UK.

The month also saw a Private Member's Bill from Independent MP, Margaret Ferrier, on guaranteed

minimum pension (GMP) conversion completing its third reading and moving on to the House of Lords. The bill aimed to streamline the GMP conversion process by clarifying that conversion applies to both earners and survivors, and outlining which employers need to give consent.

March
March saw the confirmation by the Department for Work and Pensions that it would, despite widespread opposition, be proceeding with plans to increase the Fraud Compensation Levy ceiling for master trusts and other eligible occupational schemes. These plans included raising the ceiling to 65 pence per member for master trusts and £1.80 per member for other eligible occupational schemes.

At the end of the month, it was revealed that the defined benefit (DB) pension scheme funding ratio hit its highest levels for nearly 15 years, increasing by 3 percentage points over the month to 111.4 per cent. This was the highest level since June 2007, up from 108.4 per cent at the end of February, an increase that was attributed to an increase in bond yields.

It was also a busy month for members of the British Steel Pension Scheme (BSPS) as it was reported that some members who transferred out of the scheme suffered significant financial losses due to unsuitable advice and were failed to be protected by the regulated financial advice market, according to the National Audit Office.

In service of BSPS members, the Financial Conduct Authority (FCA) set out plans for a compensation scheme worth £71.2 million for former members of the BSPS who had received unsuitable advice to transfer out of the scheme.

April
Announced in April was a cross-industry pension engagement campaign to be run later in the year. The campaign promised to being together experts from all across the industry to target over 30 million pension savers to boost their engagement with their pension.

Also in April, the GMP conversion bill received Royal Assent to become the Pensions Schemes (Conversion of GMPs) Act 2022, which aimed to clarify and streamline the GMP process by clarifying

that conversion applies to both earners and survivors, and outlining which employers need to give consent.

The PDP announced that it was on schedule with the development of pensions dashboards against the timetable it set out in October 2020, this was according to PDP programme director, Richard James, who, in a blog, stated that the programme remained "on track" and it expected to have the first users within dashboards later in the year.

May
The Queen's Speech received a warm welcome in May as it outlined several industry changes such as the Online Safety Bill, Data Reform Bill, and Financial Services Bill. Although it omitted any enacting any measures outlined in 2017 Auto-Enrolment (AE) Review, which recommended expanding coverage of AE in the mid-2020s.

May also saw TPR and the FCA confirm the development of common measurements to help both industry professionals and scheme members compare the value for money of DC pension schemes. The proposed common approach across the industry aimed to allow access to consistent data on investment performance, costs and charges, and service standards.

Amid the continued trend of improved scheme funding, it was revealed during the month that the aggregate funding ratio of DB schemes in the UK reached a record high of 118.9

per cent at the end of the month, while the aggregate surplus of schemes in the PPF 7800 Index rose to £261.6 billion.

June

The start of summer marked a significant event as the first commercial pensions dashboard was successfully connected to the PDP central architecture. Moneyhub's dashboard was the first commercial dashboard to be successfully connected to the architecture, in addition to the MoneyHelper non-commercial dashboard and the Money and Pensions Service (Maps).

The month also saw the announcement that the long-awaited DB Funding Code was due to be operational from September 2023, with the regulator additionally announcing that it had planned second consultation for the autumn of 2022.

June also marked a particular milestone for the pensions industry as the then Pensions Minister, Guy Opperman, become the longest-serving minister in the position, pulling ahead of the previously longest-serving minister Steve Webb.

TPR launched a campaign urging trustees to start preparing for the pensions dashboards deadline and published new guidance based on the draft regulations published by the government. The campaign launched following research from TPR that found trustees are yet to get their preparations "sufficiently underway" and are at risk of failing to meet their legal pensions dashboards duties.

July

July was characterised by governmental turbulence, something that the pensions industry could not escape as Guy Opperman resigned as Pensions Minister, only to be reinstated soon afterwards

Another source of turbulence was the revelation that inflation hit 10.1 per cent, the highest level in 40 years. In response to this rising inflation, the Bank of England (BofE) raised interest rates, by 0.5 percentage points to 1.75 per cent, the largest increase in 27 years.

The month also saw the publication of the government's dashboards consultation response, with the government confirming that the deadlines for the first two pensions dashboards staging cohorts had been deferred by two months, with master trusts with over 20,000 members and DC schemes used for auto-enrolment with over 20,000 members affected. The former's deadline was changed from 30 June 2023 to 31 August 2023 and the latter's deadline was changed from 31 July 2023 to 30 September 2023.

August

Trains dominated the headlines in August as rail and London Underground workers went on strike amid continuing disputes over pensions, pay, working conditions and job cuts. Members of the Rail, Maritime and Transport (RMT) union and rail workers in the Transport Salaried Staffs' Association (TSSA) staged the walkout following similar industrial action in June. The RMT argued that changes to the Railway Pension Scheme and the Transport for London scheme would cut benefits, make staff work longer and pay increased contributions.

The month also saw the applications for CDC pension schemes officially open in what was highlighted as an "injection of innovation" for the industry, with plans to consult on new forms of CDC pensions confirmed for later in the year.

The cost-of-living crisis continued through August and, in response, TPR launched a scam-fighting strategy in

light of concerns that the crisis may leave savers more vulnerable to scammers. Under the plan, TPR aimed to educate the industry and savers on the threat of scams, prevent practices that can harm savers' retirement outcomes, and fight fraud through the prevention, disruption and punishment of criminals.

September

The biggest news of September was, of course, the tragic passing of Queen Elizabeth II, and members of the pensions industry were quick to pay their respects to the departed monarch. The PLSA made the announcement that their pension engagement campaign, originally scheduled to run at the start of month, was to be delayed to properly mark the period of national mourning. Pension Geeks similarly postponed Pension Awareness live shows and some pension and investment companies put the publication of research and reports on hold.

Although it was a sombre month, it was no less busy than the rest of the year as the Bank of England announced interventions into the gilt market following then-Chancellor Kwasi Kwarteng's emergency mini-Budget prompting a "seismic" response in the gilt market, with intense sales prompting "huge demand" for cash to support derivative structures popular amongst pension funds. As part of these interventions, the BofE carried out temporary purchases of long-dated UK government bonds to "restore orderly market conditions".

Changes to elements of the NHS Pension Scheme were also announced in September by the Department of Health and Social Care. The changes were made in an effort to help retain doctors, nurses and other senior NHS staff, and increase capacity. These changes included the implementation of permanent retirement flexibilities and extension to existing temporary measures to allow experienced staff to return to service or stay in the service longer.

October

Another governmental change occurred in October, as Mel Stride took over the role Secretary of State for Work and Pensions from Chloe Smith after her short tenure.

Also announced was the launch of an inquiry by the Work and Pensions Committee (WPC) into DB pension schemes with liability-driven investments (LDI), after the volatility in the gilt markets and subsequent interventions from the BofE. In particular, the WPC stated it was looking for evidence of the impact of the rise in gilt yields in late September and early October on DB schemes, the impact on pension savers, whether in DB or DC arrangements, and whether LDI is still "fit for purpose" for use by DB schemes.

October also marked the 10-year anniversary of auto-enrolment, which prompted a great deal of reflection by the industry on what the successes of auto-enrolment had been and areas where it was still to reach its full potential.

November

The year's last instance of governmental change was the confirmation of the third Pensions Minister of the year as MP for Sevenoaks, Laura Trott, was appointed to the position, taking over from Alex Burghart who was confirmed to have been appointed to the position in October.

November also saw the publication of the final rules on pensions dashboards for pension providers by the FCA. The final rules were largely unchanged from the draft consulted on, although the FCA did extend the implementation deadline from 30 June 2023 to 31 August 2023, in line with the government's extension to the staging deadline for the first cohort. As a result, FCA-regulated pension providers should complete connection of their pension schemes to the Maps digital architecture by 31 August 2023.

November also saw the approval of the Pensions Dashboards Regulations 2022 by MPs and peers, in what was described as a "major step" in formalising dashboard duties by the PDP.

Written by Tom Dunstan

The Pensions Minister switch

Sophie Smith reflects on Guy Opperman's time as Pensions Minister, and the key priorities that industry experts want to see the incoming Minister, Laura Trott, focus on

Picking up the baton

Former Pensions Minister Guy Opperman's impressive legacy has meant that there is much for the new Pensions Minister to get to grips with, and Aegon head of pensions, Kate Smith, points out that "as a newcomer to the world of pensions, Trott will need to get up to speed quickly, with many issues vying for her attention".

"Pension policy has been a hive of activity in recent years, and there's still much unfinished business," she continues. "The new Pensions Minister will bring fresh thinking and new ideas to an already busy 'to do' list."

In particular, Smith suggests that the top priorities for the new Minister include getting pensions dashboards over the line, implementing the 2017 auto-enrolment (AE) reforms, and progressing with the proposed value of money framework.

PMI director of policy and external affairs, Tim Middleton, suggests that Trott should focus on completing the key projects overseen by Opperman at the point of his promotion: The pensions dashboard, DB funding and reforms to AE.

"She should also address the issues that have arisen from the cost-of-living crisis," he says, stating that a rise in pension scams is a significant worry, while persuading the public to continue to save in a registered pension scheme will also be a challenge.

Adding to this, LCP partner, Bob Scott, points out that the industry has been waiting for several years for the promised revision of the scheme funding legislation and The Pensions Regulator's code of practice on funding.

"It is slowly coming together, having been (understandably) derailed, first by the Covid lockdowns and, more recently, by the September 'mini-budget' and changes of personnel," he continues, suggesting that this, alongside collective defined contribution (CDC) and DB consolidators, should be a priority for Trott.

People's Partnership director of policy, Phil Brown, agrees that there are "many important issues" Trott will need to tackle, suggesting that, alongside dashboards, small pots, and adequacy concerns, the government should look to set broader objectives for the pension system.

"There is a need for a new consensus around AE and the role of the different components of the pensions system in getting people to an adequate retirement income," he explains. "Work cannot start in earnest until the current crisis is over, but government and stakeholders should take the time now to think about the future."

Much of the government has seemed like a revolving door in recent months, with both Rishi Sunak and Liz Truss having made changes as part of their respective cabinet reshuffles, including within the Department for Work and Pensions (DWP).

Most recently, the DWP named MP for Sevenoaks, Laura Trott, as the new Minister for Pensions. This is Trott's first government post, although she is also a member of the Health and Social Care Committee, the Neonatal Care (Leave and Pay) Bill Committee, and the Taxi and Private Hire Vehicles (Safeguarding and Road Safety) Bill Committee.

Her appointment followed the departure of MP for Brentwood and Ongar, Alex Burghart, who has since moved to the Cabinet Office.

Although only spending a short time in the role, Burghart was involved in some key initiatives, including overseeing the laying of dashboards regulations in parliament and appearing in the DWP's campaign marking the 10-year anniversary of auto-enrolment (AE).

However, LCP partner, Bob Scott, suggests Burghart may have "happened to be in office when these things happened, rather than causing any of them!"

Rising to the challenge

Putting Burghart's short time in the role aside, Trott will have much to get to grips with, and big shoes to fill following the departure of the UK's longest-serving Pensions Minister, Guy Opperman.

Although Opperman has since been confirmed as the new Minister of State for Employment, his departure was seen by many in the industry as the end of a period of stability, with experts praising

his time in the role.

A spokesperson for the Association of British Insurers, for instance, says the group enjoyed a "productive relationship with DWP and government ministers on key priorities in the long-term savings space", including work around pensions dashboards, savings adequacy, advice and guidance and #PensionAttention.

"We look forward to building on this relationship and working with the new Minister for Pensions in these important areas," they comment.

However, Aegon head of pensions, Kate Smith, points out that it is difficult to avoid delays when there's a change in ministers, particularly given such big changes in the top roles.

Indeed, Dalriada head of technical, research and policy, John Wilson, says that the industry is already experiencing delays, pointing out that the regulator's single code of practice is ready to be laid, "we just need the Pensions Minister to do it".

Working for the long game

The recent governmental game of musical chairs has also prompted concerns

"Political instability will inevitably influence Laura Trott's period in office, and it seems likely that there will be few (if any) significant policy initiatives before the next general election"

over the future of the Pension Minister role, as Wilson says for many, the position was seen as a stepping stone, even before Theresa May downgraded the role to Under-Secretary of State in 2016.

Agreeing, Quilter head of retirement policy, Jon Greer, explains that the role requires long tenure. "Any change, when it comes to retirement policy and the state pension system, demands enormous time to implement and any Minister needs to be at the helm for a material amount of time to ensure there are no unintended consequences," he says. "The constant merry-go-round of Ministers over the past few months certainly cannot improve output."

Pensions Management Institute (PMI) director of policy and external affairs, Tim Middleton, also suggests that the political fortunes of the government as a whole look volatile, arguing that "political instability will inevitably influence Laura Trott's period in office, and it seems likely that there will be few (if any) significant policy initiatives before the next general election".

However, Trott seems ready to rise to the challenge. Speaking to *Pensions Age*, Trott said that she is "delighted to be Minister for Pensions," highlighting the role as "one of the most important jobs in government; working to support our current pensioners and delivering for the record number of people across the country now saving for retirement".

Reflecting on the work ahead, Trott says: "AE has completely transformed how people save – with staggering results. Alongside continuing to build on this success, I'm committed to ensuring people have access to the support and information they need to make informed choices about their savings – including with the introduction of pension dashboards and through our ongoing work on value for money with TPR and the FCA.

"As well as committing to the biggest state pension increase in history from next April, the government is also boosting pension credit by 10.1 per cent to support the poorest pensioners. Building on the excellent efforts of my predecessor, I want to increase uptake of this vital support to make sure pension credit is reaching everyone who needs it."

Written by Sophie Smith

Creating a legacy

The passing of the Pensions Schemes Act will surely be remembered as perhaps the biggest achievement of Opperman's time in the role of Pensions Minister, with Opperman himself highlighting the "ground breaking" act as a key achievement in his initial resignation letter in September.

Indeed, Aegon head of pensions, Kate Smith, says that the introduction and passage of the act was "undoubtedly" Opperman's biggest achievement, highlighting it as "a piece of landmark legislation which will influence pensions for years to come".

The act legislated for a range of new policy initiatives, including the framework for pension dashboards and collective defined contribution (CDC) schemes, giving The Pensions Regulator greater powers, and introducing new climate-related reporting requirements.

In particular, PMI director of policy and external affairs, Tim Middleton, highlights the roll-out of the Pensions Dashboards Programme (PDP) as, without doubt, Opperman's flagship project.

"The dashboard has the potential to be a real 'game changer' for private pension provision, and its longer-term role within society will ensure that Guy Opperman's period in office will be remembered by all of us within the industry," he says.

In contrast, LCP partner, Bob Scott, suggests that Opperman's single biggest achievement was to raise the profile of climate issues, "which are now viewed as mainstream issues rather than a 'nice to have' by an increasing number of trustee boards".

With a number of landmark achievements to choose from, it is clear that Opperman will have a lasting impact on the pensions industry, but efforts to maintain this momentum will be crucial.

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Pensions Age Scotland Conference: Rising to the challenge

Gilt yield volatility, rising inflation, assisting vulnerable customers, improving member outcomes, the energy crisis and preparing for upcoming regulatory and industry changes were just some of the hefty issues discussed at our inaugural Pensions Age Scotland Conference

The magnificent sight of Edinburgh Castle provided the stunning backdrop for *Pensions Age*'s first Scottish Conference. The great and good of Scotland's pensions sector – and beyond – gathered at the luxurious Waldorf Caledonian Hotel in Edinburgh on a sunny day in early November to network and contemplate industry developments.

There were certainly plenty of upcoming changes to discuss. Therefore, the first keynote speaker of the day, The Pensions Regulator (TPR) head of policy, Louise Davey, set the scene perfectly by providing a whistlestop tour of some of the regulator's key priorities.

The primary goal of TPR is to protect the money that savers invest in pensions, particularly in this backdrop of economic uncertainty, as financial insecurity is increasing member vulnerability to scams, and placing increased pressure on business, she explained.

"We want to put the saver at the heart of everything we do…this is not an overnight change for us, part of what this signals is a rebalancing of our focus from DB savings to tipping our focus more towards DC schemes, as that is where the majority of the UK are saving for their retirement," Davey said.

"With the current economic climate, we know that we can expect to see more instances of corporate distress, particularly affecting DB schemes, and we also have to focus on the funding level of DB schemes at the moment, with the revised Funding Code due to be published," she added.

Along with ensuring pensions security, value for money (with a TPR framework consultation for this aimed for the end of the year), scrutiny of decision making, embracing innovation and bold and effective industry regulation were highlighted by Davey as key priorities for TPR.

She also emphasised the role pension funds have to play with tackling scams, and climate change, along with there being an increased focus on equality, diversity and inclusion within the sector.

Davey rounded off her presentation by discussing innovation in the sector, particularly pensions dashboards and collective DC (CDC) schemes.

Following Davey and looking back at the recent dramatic events within liability-driven investment (LDI), and the current period of high inflation, was Pictet Asset Management head of multi asset London, Andrew Cole.

"Inflation has been at the forefront of our minds for the past year and will be for a good while yet. I would say there is a fair amount of wishful thinking that a recession will be short and sharp and quick and will be brought back down so we can go back to everything being normal," he said.

Cole noted how the current inflation spike is a material change from the past 25 years: "Recent gilt yield rises have been nothing like we had in the 1970s. At the moment, there is a consensus that this inflation is probably largely temporary and it will come back down and, for a lot of investors, they do not need to panic yet. However, be careful what you wish for as just that modest rise in bond yields in recent weeks has had a powerful impact on your returns."

Despite the gilts turmoil earlier this year, there have been no meaningful change in long-dated gilts yet, he said. However, looking at the real total return of UK bonds, a decade of returns has been wiped out over the past couple of years, Cole revealed.

Governments looking to reduce the burden of repayments will seek to keep real yields negative, Cole stated, and drive investment towards government, irrespective of potential returns.

"We have to be a bit savvier about when do I want to buy index-linked and when do I want conventional bonds? That relationship is going to be more

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volatile and I think, as trustees examining your increased income, you will want to be more aware of that," he stated.

Scottish Widows take to market specialist, Robert Cochran, then considered a different aspect of the current inflationary environment – the cost-of-living crisis and how it may be affecting vulnerable customers.

Cochran discussed the findings of Scottish Widows' *Retirement Report*. With four out of five respondents concerned about the cost of living, the report found that 11 per cent have already reduced their pension saving: "Consumer confidence is currently at -49 *[as at end September]*," he revealed, "the lowest-ever level on record, since 1989. Four out of five of these *[worst months for consumer confidence on record]* have been in the past five months."

Ethnic minorities are more likely to cut back on pension contributions due to the cost-of-living crisis, the report found, and are also more likely to use other sources of income at retirement, making them more vulnerable to the eroding effects of inflation.

"Within pensions, financial distress was the number one issue for vulnerability. Second was the lack of English as a second language," Cochran stated. "Between March-August 2022, each month there was an increase in the number categorised as vulnerable."

Building upon their previous talk at our recent Autumn Conference in London *[see November PA for more details]*, Evolve Pensions CEO, Paul Bannister, and director of strategy, Jessica Rigby, looked at the ways a DC scheme can use the value for member assessment to improve member outcomes and the overall governance of the scheme.

"The government legislation for DC schemes *[to assess value for member]* is not just a tick-box exercise … it is not that simple a process," Bannister warned.

They went through the 'basic', 'better' and 'best' approaches a DC scheme could take towards investments, administration, governance and communications.

Focusing on the issue of costs, Bannister said: "The data that you need to gather for this is a lot more than you initially think. For a DC scheme to do this, the support you will need from external sources is great. You will have to rely on investment consultants, managers and EBCs. There is a hell of a lot of work to do in this area."

Rigby added: "If attempting a value for money assessment then you are probably spending a lot of time and money in being able to stay in the market so you have got to look into the future. The regulator is going to raise that bar. Value for member will feed through into value for money assessments and they will want to reduce that market so you will need to stand up against the best."

After a quick break, M&G head of real assets, Anish Majmudar, resumed proceedings with an overview of the current energy crisis, contemplating whether it will lead to an acceleration towards energy transition.

Global events have re-emphasised the significance of energy security, he said, noting the struggle to find the balance between energy security, environmental sustainability and energy affordability.

Majmudar highlighted how a combined $680 billion of policy funding from the EU, USA and UK aims to mobilise significant private investment into clean energy, tackling climate change and reach net-zero.

This provides a number of opportunities for new investment, he stated. M&G takes a real-asset impact approach to this, Majmudar explained, giving the examples of its investment in battery storage for electric vehicles, and carbon capture and storage: "The crisis of this year is driving some profound changes. Those changes in the near term are pretty challenging for everyone to grapple with. Medium term it hopefully leads to a much more accelerated transition. But COP27 said we are not moving fast enough… Private capital has a huge part to play in fixing that. Private markets are willing to take the long-term view that is needed," he said.

Bringing the focus back to the member were Standard Life master trust member experience lead, Alana Brown, and Phoenix Group's vulnerable customer – centre of excellence consultant, Karen Stewart.

They brought to life just how many people can be classed as 'vulnerable' – for instance 71 per cent of Standard Life's customers displayed at least one characteristic of vulnerability in 2022 – up from 67 per cent last year.

They highlighted how the company assists these vulnerable customers through its helping hand programme, e-learning for staff – including reducing the 'empathy gap' by creating a programme to help staff 'experience' what it is like be vulnerable, such as having reduced vision – and having a group-wide consistency of approach.

"Mental health is a challenge that is on the increase," Stewart says as an example, "so through our helping hands programme, we make it easy for customers to record and disclose a vulnerability with us – they just have to do so the once. That includes their accessibility requirements."

Aon investment principal and actuary, Kenneth Ettles, was up next, providing an overview of the recent gilt

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yield moves and subsequent leveraged LDI liquidity crunch.

Ettles discussed the initial learnings from the crisis, such as the importance of speedy decision making and actions, and how pension fund portfolios may adjust as a result: "Liability hedging has worked, does work and will work in the future, but where trustees and corporate sponsors have LDI hedging programmes, it is critical to have sufficient liquid collateral within the LDI fund or for it to be easily available within the pension scheme. That is because the focus on speed can override all other considerations," he stated.

He urged schemes to reassess their hedging levels, along with reappraising their funding strategy and how this relates to their journey plan stage.

They need to anticipate a world with less liquidity and more volatility, he added, and to align their speed with their risk profile.

After lunch came the next speaker, DLA Piper partner and head of London pensions team, Matthew Swynnerton, who provided a fascinating round up of current legal issues.

He began with the topic of pension scams; specifically, the Conditions for Transfers Regulations and the number of complicated issues that remain.

For instance, some schemes may use a 'clean list' of pension arrangements deemed not to be a scam and so can transfer without carrying out the full checks for red or amber flags. However, Swynnerton said, one of the amber flags is if "there are any overseas investments included in the receiving scheme".

Given that almost all pension

arrangements are likely to include some overseas investments, "there is a disconnect between policy intent and the way the regulations have been drafted, meaning that if you do use a clean list, there will be a technical breach of the regulations", Swynnerton explained. "I hope the regulations will be amended to remove this disconnect."

Moving onto occupational pension schemes and Sharia Law, Swynnerton warned that schemes may be at risk of their auto-enrolment obligations or in breach of the Equality Act 2010 if they did not provide at least one Sharia-compliant fund for their Muslim staff.

He ended by discussing upcoming changes to the notifiable events regime, and their potential to affect transactions on a day-to-day basis. For instance, there will be a requirement to have TPR and trustee notification of a company deal at an earlier stage in the transaction process than currently, potentially generating extra time and cost for the employer.

The penultimate session consisted of a fireside chat between Origo head of strategic partnerships, Kim Campbell; chief commercial officer, Richard Clark; and head of new product development, Ian Muir. They discussed Origo's position as a key Pensions Dashboards Programme (PDP) technology partner in delivering the central digital architecture for the pensions dashboards ecosystem, and what the programme will mean for pension providers and consumers.

Origo Dashboard Connector, which is for UK pension providers to connect to the pensions dashboards ecosystem, was also highlighted, along with the issues faced between providers and advisers in dealing with Letters of Authority.

"The PDP has now hit the accelerator button," Clark said. "Many actions are needed to take place. The key thing is to get your data ready. Establish how you are going to approach the estimated retirement calculations and how you are going to cope with the scale. We estimate that it may have 15 million users, which we estimate means you may get 100,000 find requests a day. So your systems need to be able to cope with this or have a supplier that can," he added.

Continuing the topic of pension dashboards implementation for the final session of the day was keynote speaker, PDP principal, Chris Curry. He provided an update on the programme's progress, what's next over the coming months and what the industry can do to prepare ahead of staging dates.

"One of the big responsibilities alongside the design and managing the build of the central digital architecture is setting the standards for pensions dashboards," Curry stated.

"These *[recently published]* standards come alongside the primary and secondary legislation, which set out what has to be done, and the standards set out how to do it. It's kind of the guidelines for how people operate the system."

Curry said it was important that the PDP published the standards as early as can be to give the industry as much notice as possible of what the standards are going to say, so they can start to work out what this means for them and how they will connect to the central digital architecture going forward.

Having so brilliantly chaired the day's events, industry stalwart, Roger Cobley, summarised the discussions at the conference using two key words: 'Risk' and 'uncertainty'. That may be the case for the pensions sector right now, but one thing's for sure: Having had such an insightful and enjoyable inaugural event, there's no risk or uncertainty of *Pensions Age* not returning to host another conference in Scotland. See you next year!

Written by Laura Blows

Getting the band back together

Ross Trustees CEO, Andrew Bradshaw, chats to Sophie Smith about his love for drumming, his favourite awards show moment, and the ups and downs of being a Manchester United supporter

What's your employment history (including jobs outside of pensions)?
Becoming CEO of Ross Trustees in April this year was a major milestone and career highlight for me after 10 years with the company. As one of the company's founding directors, I have progressively taken on more responsibility for business development.

My earliest experiences of work were as a delivery driver, labourer and silver service waiter in and around Bolton, where I grew up. I entered professional services by training as a pensions lawyer, working at Arthur Andersen and spending many years as a partner at Sackers.

What's your favourite memory of working in the pensions sector?
At an awards ceremony many years ago, I had my photo taken with the comedian Dara Ó Briain, which is genuinely my favourite thing in 25 years of working in pensions!

If you did not work in pensions, what sector do you think you would be in instead?
I'd quite like to set myself up as a psychologist – I could get a nice office in Highgate, a comfy couch, and psychoanalyse all the people who've worked in the city for 20-30 years and have decades of stress to go along with it. I think those answers might be quite revealing…

What was your dream job as a child?
I always wanted to play football for Manchester United, but it was probably more of a pipe dream than reality. Being

a drummer in a band was a slightly more realistic prospect and I still have my kit in the attic gathering dust! Drumming is a world away from pensions, but pensions is a nice industry full of talented and dedicated people and people end up staying because they like it.

What do you like to do in your spare time?
Like most people I love spending time with family, but when I can I go to the cinema and see a lot of live music and football matches. As well as my old drum kit, I have a little electronic one in my office, but it's been 15 years since I was last in a real band. I'm still waiting for the right moment to take it up again – before Covid there was an event called Pensions Rocks, which people took very seriously so it could be time to revive that!

Do you have any hidden skills or talents?
I'm not sure I have any skills that are hidden! I make an excellent Lancashire cheese and onion pie, but that might be about it, beyond drumming.

Is there a particular sport/team that you follow?
I'm a Manchester United supporter through and through. We had an amazing 20 years over the 1990s and 2000s so a bad 10 years seems like a small price to pay, despite everything. I do attend quite a few Arsenal games in London, too.

If you had to choose one favourite book, which would you recommend people read?
Joseph Heller's *Catch-22* would be my recommendation. It has a fascinating and thought-provoking approach to life and death that has always stuck with me.

And what film/boxset should people see?
I'm a big cinema fan so for me, *Goodfellas* is one of the best films ever made and it has been my favourite ever since it was first released. For a boxset, I'd have to say *Curb Your Enthusiasm.*

Is there any particular music/band that you enjoy?
I grew up loving Madchester. My favourite bands are still New Order, Happy Mondays and The Stone Roses, with occasional new names thrown in every so often.

Who would be your dream dinner party guests?
It would have to be Larry David, Lily Allen, Eric Cantona and Tony Wilson of Factory Records.

Is there an inspirational quote/saying you particularly like?
My nan always used to say: "If in doubt, say nowt." I think we should all follow that advice more often – even if I don't always do so myself!

Written by Sophie Smith

Baby it's getting warm outside

With more schemes now in scope of TCFD reporting requirements, *Pensions Age* asks those who have been through the process how they found the experience

Until recently, most scheme regulation of environmental, social and governance (ESG) issues and investment matters was limited to disclosures, with the government at pains to point out that they weren't telling trustees how to invest. However, the Pension Schemes Act 2021, and the climate-related governance and reporting regulations that followed, have ushered in a new era of climate-related 'governance', and disclosures. For the first time regulations prescribe not just what trustees must disclose but also certain actions they must take.

Schemes in scope must carry out specific actions, such as climate scenario analysis and identifying and monitoring certain climate-related metrics, but the wider requirement is that trustees must establish and maintain clear governance frameworks and processes for identifying and managing scheme related climate risks.

For the first wave of schemes and now the second, it has been this requirement to get systems and processes in place that has been a primary focus over the past year or so. Data is a key issue and the requirement to select appropriate metrics and ensure availability of data from managers has also been taking up a lot of trustee time. Although more reports will be published during 2023, at this stage, it is probably still too early to say to what extent trustees have made changes to their overall investment strategies as a result of the regulations.

Sackers partner, Stuart O'Brien

The new climate disclosure regulations represent brand new territory in terms of reporting for pension schemes, resulting in a fairly labour-intensive process, albeit supported with very clear guidance from the Department for Work and Pensions (DWP). Getting access to schemes' data was by no means straightforward, and the data we were able to obtain was often incomplete, resulting in challenges interpreting it and crucially making it meaningful.

With the first year only applying to scope one and two carbon emissions, with scope three and beyond set to come into the standards from 2023 reporting, the complexity of the task here is therefore only going to increase meaning schemes must continue to change the way they record the necessary data. A further challenge for trustee boards going forward is to decide what actions we take from this year's findings as we continue to develop the most appropriate metrics, scenarios and targets to ensure both best practice and best results.

Ross Trustees trustee director, Roger Mattingly

We have found the Task Force on Climate-related Financial Disclosure (TCFD) requirements to be a valuable

framework for meeting the need for consistent climate-related disclosures, which can help us measure our climate-related risks and our progress towards our climate-related targets, while also providing accountability.

We recognise there are still hurdles to face, mainly in relation to suitable data quality and coverage, in particular for scope three emissions. Also, the impact of using different methodologies and underlying assumptions continues to make comparability to peers difficult.

Regardless of these challenges, the disclosures still go a long way to standardise climate-related reporting and it helps that, with trustees, advisers, peers and asset managers, we are tackling this together.

Smart Pension investment proposition manager, Fiona Smith

Schemes coming into scope for TCFD in the second wave are benefitting from lessons learned by their larger peers the previous year. Whilst collecting data is important, it is becoming apparent that focussing on data and metrics without first thinking through your scheme's strategy and journey plan can lead to high costs and undertaking work that may need to be redone very soon in the future.

The best approach is to think about where your scheme is now, and where it is going, and to consider how climate change might impact that journey in a holistic way. When schemes can take this high-level strategic view, it becomes easier to amend existing governance processes and provide meaningful reporting, rather than thinking they need to start fresh to tick boxes.

We should find that reviewing how climate change might impact your sponsoring employer should become easier as more UK companies are required to produce their own TCFD reports. Where employers are able to share this analysis, there can be significant savings for schemes.

20-20 Trustees associate director, Alexandra Westley

The new TCFD requirements have presented challenges from start to finish. With many different aspects for schemes to tackle, clearing the ground and figuring out the current position for each scheme has been a key starting point. Assessing the current position has immediately led to schemes designing new, and developing existing, governance processes. This has included discussing and recording investment beliefs around climate change, building key climate concerns into risk reporting, ensuring that written policies are in place where appropriate, and ensuring any delegations of responsibility are clearly defined.

On top of developing each scheme's approach to the climate, reports to date have by necessity been written from scratch with little precedence. Forerunners in disclosure have therefore had to grapple directly with the regulations and sought compliance in the fashion they believed most appropriate. The Pensions Regulator has been indicating that there will be a high level of scrutiny during this phase of the TCFD rollout, which adds further pressure. Even for a scheme with well-defined policies, there can still be problems getting all of the appropriate data from managers, and analysing that data, to correctly understand what progress is being made and what can be done to help a scheme that is off target.

Zedra client director, Dan Richards

The TCFD report itself is long and detailed, but some schemes are opting to produce short member-friendly summaries which are helping with that engagement. One of the more useful things to come from TCFD has simply been the opportunity to be open about what schemes are, and are not, doing on climate with sponsors. Where the sponsor and members have a strong interest in climate, it has been an opportunity to have open conversations about the path to net zero and why excluding whole sectors is unlikely to be appropriate. It's also been an opportunity for two-way dialogue, with sponsors and members able to give feedback and share their expectations with trustees.

In terms of challenges, the process of producing the first report has been quite time intensive and data availability remains a challenge. The majority of managers have not been able to provide all the metrics asked for at the outset. Where data is available it is often limited in some way. This has sparked debate about whether it can be used as a baseline from which to start net-zero initiatives.

Despite these challenges, TCFD has prompted a wider discussion with managers on the climate metrics that are potentially available and which are most meaningful in terms managing the particular risks of that asset class. In turn this will help deliver the actions by managers that drive change in the real world.

Independent Trustee Services director and APPT ESG Committee chair, Tegs Harding

Fidelity International is supportive of the increased focus on climate change reporting across financial services, and specifically the DWP's requirement on larger pension schemes. Furthermore, Fidelity has supported the Fidelity Master Trust in producing its first report, which will be published early in the new year.

As with any new initiative, one of the key challenges at this early stage of evolution for climate reporting is the availability and quality of data. Currently, a complete coverage of carbon emission data across investee companies and asset classes is not available. Obtaining and aggregating data, particularly where more complex fund structures are used, can take time so trustees need to plan accordingly.

Fidelity International head of pension products & policy, James Carter

Written by Jack Gray

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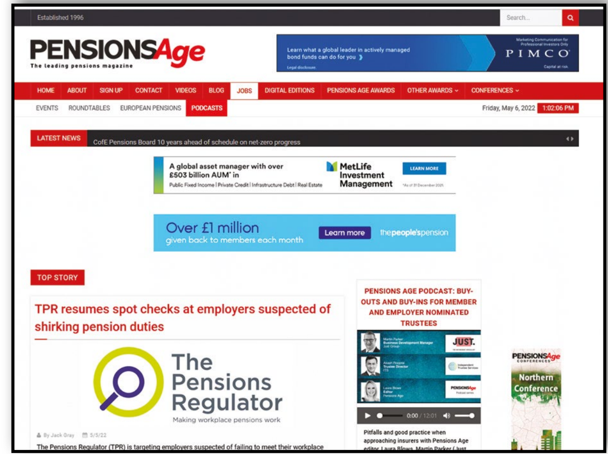

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Thinking outside of the box

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Innovative attitudes

How keen is the pensions industry to embrace change?

The pensions industry, for so long considered a staid sector of gradual change, has seen a burst of activity in the past decade or so, fundamentally changing the nature of pension saving and provision itself.

It's little wonder then that a recent survey from Hymans Robertson found that nine in 10 (90 per cent) pension professionals believe that the pensions industry is innovative.

The survey, which was conducted at the PwC Pensions Conference 2022, found that 27 per cent of respondents thought that the sector was always innovative, while 63 per cent believed it was 'sometimes' innovative.

A third (33 per cent) of those surveyed believed they themselves were always an innovator, while 60 per cent said they were sometimes an innovator and 7 per cent did not see themselves an innovator.

The survey also examined which areas of the industry they believed were the most in need of innovation in the future and found that end game options were identified most often.

Almost half (48 per cent) of respondents believed that end game options were the issue that most requires industry innovation, ahead of interest rates and inflation (identified by 29 per cent of respondents), covenant (14 per cent), administration capacity (10 per cent), and longevity (0 per cent).

According to Gowling pensions partner, Chris Stiles, most current innovation in occupational pensions has a common theme: Finding more efficient uses of capital to take pension risk away from trustees and employers, to be assumed by those who are better placed to earn a reward from it.

He gives the examples of longevity swaps now being accessible to a wider range of pension schemes, along with the emergence of two 'superfunds', and various capital-backed models that use external capital to deliver a better outcome for the pension scheme and to earn a return on investment for the provider *[for more information on capital-backed models, see page 74].*

On the DC side, master trusts deliver the same or better member outcomes as schemes set up by an employer, and take away the burden of compliance, Stiles states, while CDC is now attracting greater interest to improve those outcomes further *[see page 51 for more information on CDC decumulation].*

For Redington head of DC and financial wellbeing, Jonathan Parker, many recent innovations – CDC, pensions dashboards, DB superfunds, simpler annual statements – within the UK pensions industry have come about through a close working partnership with government and regulators to ensure they are developed on a strong legal foundation.

"The one that has the potential to be most impactful on pension saver outcomes is likely to be pensions dashboard, as this will allow every single person with a pension (basically, the entire adult population) to see all of their savings together in one place for the first time," he says. "As has been shown in other countries that have dashboards, the engagement potential is vast, as individuals are reconnected with forgotten savings and shown how much income they may have when they reach retirement."

Parker highlights that another recent innovation that is beginning to percolate into the world of pensions is open finance. "This takes the pensions dashboard to the next level and allows savers to view not only their pensions, but also other forms of savings including bank accounts and ISAs. Open finance innovators like Moneyhub and Bud Financial provide the facility for savers to view a much more holistic picture of their finances," he adds.

"The pensions industry remains conservative, however," Stiles says. "That is as it should be – trustees should not take unjustified risks with members' pensions – but it does mean that translating good ideas into practice can be a slow process. The UK has so far seen only seen a handful of completed capital-backed deals, one CDC scheme, and no completed superfund deals. The challenge for the industry is to ensure that costs and vested interests do not act as barriers to successful outcomes."

Innovation in the industry

Pensions Age asks the industry the recent developments it considers to be the most innovative and where more innovation needs to occur

Technology

The focus of innovation in the pensions sector has been on major automation for pension provision, demonstrating technology's role as a vital enabler in improving organisational excellence, competitiveness, and quality of service. But technological development alone cannot deliver next-generation pension solutions to scheme members and retirement savers without the involvement of experienced advisers supporting the adoption of technology.

Technological enhancements save time on pension administration and provide around-the-clock access to client information, dealing and applications. Furthermore, they ensure onboarding support to all advisers, as well as the data security and protection of the members. Significant investment has been made by leading providers who offer reliable and secure access to state-of-the-art portals.

Notwithstanding the benefits of technology and innovations, it still needs to be combined with high standards of personal service to support the adoption of technology.

iPensions Group group CEO, Sandra Robertson

The acceleration of digitisation of the industry, particularly the rollout of pensions dashboards will enable members to engage with their pensions to engage with their savings as easily as they do with their bank. Industry laggards will be forced to improve the quality of the data they hold and as a result trustees will benefit from greater insights into the service provided. Whilst this is a significant step in the right direction, with increasing governance demands from The Pensions Regulator we now need a truly digital-first approach from trustees (including the monitoring of key risks and robust audit trails to aid faster decision making).

Financial wellbeing is another area with huge potential for innovation. Managing and ultimately accessing pension savings has remained a key challenge for members. While high earners can afford to pay for detailed bespoke advice, the ability to engage with more members via lighter touch guidance and coaching is an area where huge advances will be made. Innovative approaches are being developed to help, ranging from developing self-service online tools to employers facilitating coaching services for employees to allow them to optimise the value of their benefit package.

Isio head of research and development, Iain McLellan

We believe that the use of artificial intelligence (AI) in pensions is particularly interesting and will become more prominent in 2023 and beyond. AI is increasingly accessible, and we expect to see AI-led innovation across the pensions industry, in particular in areas where data is abundant.

One of the benefits of AI is that it can automate more and more of the 'handle turning' for a clearly defined problem, helping to free up time for trustees and scheme advisers to focus on the value add for members. As an example, we are already seeing applications in the defined benefit covenant space, where AI is being used to offer proportionate covenant assessments for multi-employer or small schemes.

Cardano Advisory director, Felix Mantz

Perhaps the most obvious innovation project is the creation of pensions dashboards. Dashboards have the potential to revolutionise how savers engage with their pensions by enabling them to access their information online, securely and all in one place, thereby supporting better planning for retirement and growing financial wellbeing.

The project is complex and demanding and has involved the creation of entirely new infrastructure to support it and sophisticated approaches to matching will be required to enable full

coverage over time.

There are still many technical and practical issues to overcome, for example, ensuring schemes and providers can successfully connect to the ecosystem, being confident that personal data matching works well so pensions can be found, and reducing the risk that savers are confused by the information they see.

Undoubtedly, getting the data and design standards right will be challenging and they will evolve over time. The project is making good progress, but to ensure savers are protected and dashboards work as intended, we would expect to see extensive user testing before any dashboard can go live.

PLSA director of policy and advocacy, Nigel Peaple

DC

The DC population reaching retirement today, and the generations behind them, need more help. Access to financial support, advice, and even awareness of financial products, is vastly dependent on wealth as our recent research has shown. This is a social inequality issue that must be urgently addressed.

In order to do this we need to see new propositions developed that enable consumers to utilise a wide range of potential different assets (state pension, DC, wider savings and property) as part of a joined up and effective retirement income strategy.

Also required is personalised digital engagement through simple customer journeys, helping people understand their own retirement needs and identify options that could best meet their own objectives and preferences.

Decision implementation support will also be needed, which spans the range of products a customer might need and can be accessed via both non-advised and advised channels.

Today too much money is lost by people who can ill afford it, by lack of awareness of the options available to them, and support in reaching the right decisions. Innovation as set out above will make a meaningful difference to huge numbers of people, and help address the social inequality issues arising from the disparity of support available based on an individual's wealth.

Hymans Robertson head of digital wealth, Paul Waters

In the context of today's markets, and with the cost-of-living crisis deepening, it is critical that pension schemes generate the best possible outcomes for members both now and in the future, and sponsors should be prepared to provide for this. DC schemes need to address their default funds to make them better suited for the needs of future pensioners. Less liquid investments make sense, adding real assets (like natural capital) members can engage with, whilst bringing much needed illiquidity premium, diversification and impact/ESG factors.

Of course, new apps and digital platforms will likely encourage members to be more engaged with where their money is invested, and with this enhanced transparency savers could be inspired to increase contributions.

Clearly the low-fee environment needs to change to bring about more demand from the industry, and at the same time investment managers need to drive the innovation agenda, by developing solutions with integrated liquidity, if necessary, if we are to see the wider adoption of these private assets to bring about improved outcomes for members.

Natixis IM head of UK DC sales and strategy, Nick Groom

Collective DC (CDC)

As the 'Boomer' generation retires, UK pensions face a raft of new challenges. Chief amongst these is managing the 'decumulation phase' where, until now, innovation has been slow. How things change!

Outside defined benefit schemes, miserly annuity rates over the past decade have made this option increasing rare. But today's most common alternative, 'drawdown', also has its problems. Draw down savings too slowly and quality of

life could suffer unnecessarily. But draw down too rapidly and savings might run out – a nightmare scenario and an increasingly difficult balance to manage deep into later life.

Recent market movements mean annuity rates are higher than any time in the past decade. But a new alternative, CDC, now looks set to provide further step change. Here, costly guarantees are replaced by variable indexation that allow more growth focused investments. This could potentially support pensions a third higher than traditional annuities. This could also be a win-win for employers looking to improve retirement outcomes for their employees and authorities seeking to encourage more productive uses of retirement assets.

For now, CDC can only be provided by large employers, but over the next three years we expect to see enormous change with multi-employer schemes and also potential for the next generation of savers who have spent careers building up DC pots to convert to CDC-style annuities at retirement – offering higher incomes, inflation protection and certainty.

Wider innovation also looks likely. What options come to dominate may not be clear for some time, but for most of today's savers, retirement options look set to change for the better.

LCP partner, Steven Taylor

Recent innovations in CDC have the potential to improve quality of life in retirement for millions of people. CDC pensions are a 'third way' of pension provision in the UK – providing an alternative to the current DB or DC provision. This has needed wholesale change within the industry, rather than fine tuning or adding onto existing benefit provision options. And it has needed a high degree of creativity, such as around assessing whether CDC designs are viable, and has needed new capability within the industry to model CDC.

CDC is fundamentally different to existing benefit provision options – unlike DB or insured annuities it has no guarantee, so can invest in growth assets to seek to generate higher levels of pension. And, unlike DC drawdown, income is managed and longevity risk is pooled so people will not run out of money. This is the pensions industry doing what it should – innovating to improve retirement prospects for society.

Many organisations in the UK pensions industry have already come together to make CDC possible for large employers. To take this further, the introduction of CDC for multi-employer schemes and master trusts could in time make CDC readily available to anyone in the UK.

WTW GB head of collective defined contribution, Simon Eagle

The UK's first CDC scheme came into existence as a solution to a dispute at the Royal Mail. CDC is not an entirely new phenomenon – it has operated very successfully for many years in the Netherlands and Denmark – but its implementation in the UK would represent an exciting new development in workplace pension saving.

Firstly, CDC achieves the 'Holy Grail' of equitable risk sharing between the membership and scheme sponsor. Secondly, research demonstrates that pensions paid from Dutch CDC schemes are as much as 20 per cent greater than those paid to UK members of traditional DC schemes. Thirdly, although the value of a CDC pension is not formally guaranteed and may be scaled back if there is a funding strain, the benefit will be paid for life.

Were CDC to be implemented in the master trust sector, it would be perfectly suited to automatic enrolment as there would now be a system of end-to-end defaults. Members would enrol by default, accrue by default and be paid a lifetime pension by default.

CDC is not without its critics, but it represents an exciting opportunity to improve on some of the more problematic aspects of our current system of pension provision. The pensions industry – and society as a whole – should embrace it with enthusiasm.

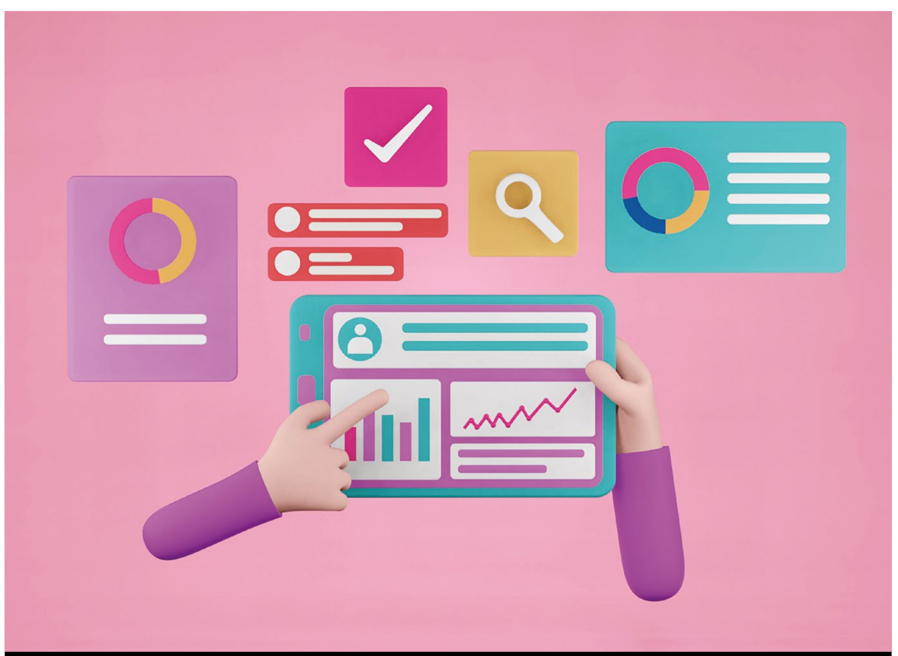
PMI director of policy and external affairs, Tim Middleton

Over the summer, TPR's CDC code completed its path through parliament and the regulator is now open for trustees of single employer schemes to submit applications for authorisation.

Although given the required scale for a CDC scheme to be viable, only organisations with certain necessary characteristics in the UK are likely to consider it, we expect a consultation from DWP on the extension of the CDC to multi-employer and master trust models soon. These models are likely to be of more interest to more employers given the potential to place numerous schemes within one, increase scale, theoretically increasing returns and reducing member costs.

CDC has the potential to complement DB and DC schemes in specific circumstances, such as where large employers do not wish to continue offering a DB scheme but would prefer not to opt for individual DC arrangements, so the PLSA supports the government's desire for innovation to improve outcomes for savers. However, it is important to recognise that CDC entails some challenges, particularly regarding the communication of benefits, complex governance and high running costs.

PLSA director of policy and advocacy, Nigel Peaple



Designing defaults

Joanna Sharples explains how default investment strategies must evolve to meet members' needs

Almost all defined contribution (DC) scheme members rely on the performance of the default investment strategy to grow their retirement savings and provide them with the money they need to enjoy their expected standard of living in retirement.

Most members recognise that short-term market shocks will affect the immediate value of their savings, but over the long term they need certainty that their default strategy will deliver the returns they need to retire.

Default fund investment strategies need to evolve and innovate to meet members' expectations. Good, ongoing investment governance is crucial to helping members build sufficient savings, manage investment risk and be confident that their pension is invested responsibly.

Help me build the right size of pension pot

One of the biggest challenges for members is understanding how much they need to save to achieve an adequate standard of living in retirement, and whether they are on track to achieve it.

The PLSA's Retirement Living Standards are rule-of thumb figures showing how much members need for a minimum, moderate or comfortable standard of living. These are being adopted by an increasing number of DC pension schemes, including Aon's DC default solutions where we target the moderate standard of living from the PLSA's figures.

We use these standards, combined with an understanding of roughly how much an average member is likely to contribute regularly and how long they might work for, as the basis for our investment strategy design.

In our default strategy, we target an overall long-term return of inflation-plus 4 per cent per annum, gradually reducing to inflation-plus 2 per cent at retirement. If members continue to make adequate contributions to their pension savings over time, we believe these returns should provide them with a moderate standard of living.

But as the last year has shown all too clearly, investment returns can fluctuate over the course of a member's working life. While younger workers have time for their savings to recover from difficult market conditions, those approaching retirement have less flexibility – but still need to be confident their pension will deliver the returns they need.

With inflation increasing sharply as market returns have fallen, our long-term targets have been challenging to achieve this year. However, because we are aiming to achieve our inflation-plus targets over the whole of a member's savings lifetime, we can take a dynamic approach and consider our funds on a backward-looking basis and explore whether historically our funds have outperformed those targets. Using this information, we can then consider reducing investment risk in the portfolio earlier than expected and still be confident of delivering the overall returns needed to meet members' needs.

We were able to do that last year and earlier this year for a number of our funds. Our five-year annualised returns to 30 September 2022 for the passive investment default fund, for a member in the growth phase, continued to deliver the inflation-plus 4 per cent per annum target, even though the one-year performance has been affected by market volatility.

Manage my investments for me

There are many reasons why members do not take a hands-on approach to pensions investment, from lack of time or confidence in money management, through to trust in the expertise of their pension providers.

We also know that members rarely monitor the performance of their pension pots, even when markets are volatile. For example, our 2021 DC member survey, *Keeping on Track in Challenging Times,* found that only 7 per cent of DC members checked the performance of their pension savings during the first quarter of 2020, when Covid-19 disrupted life and markets. A similar proportion said they were likely to check them over the following 12 months.

That means schemes must create good value default investment strategies that will grow members' savings and manage risk effectively on their behalf. It also means that good investment governance such as monitoring market conditions and adjusting strategies accordingly is crucial. Taking a set-and-forget approach could mean missing out on important opportunities to improve member outcomes over time and leave them exposed to unnecessary risks.

Aon reviews its default fund asset allocations regularly to make sure we have the right asset mix to achieve our inflation-plus targets. For example, we have adjusted the balance between growth equities and bonds, as well as thinking carefully about the types of gilts that we hold, to make sure we keep on track over time.

Until this year, gilt yields were exceptionally low which made it increasingly difficult to meet our inflation-plus returns target, particularly for members at retirement. In response, we increased our allocation to equities and corporate bonds and removed long-dated index-linked gilts which were expensive and expected to deliver returns below inflation. Instead, we decided to focus on short duration gilts. This has been an important decision for members approaching retirement, given recent market movements.

Being able to make these types of asset allocation changes is only possible because of our governance structure. Regular reviews of the default fund investment strategy enable us to identify risks and poor value for money, and take advantage of emerging opportunities.

That will continue to be the case in the future. For example, inflation is currently high and may rise further, but we expect it will peak at some point and start to fall again. To combat rising inflation, the Bank of England has already raised interest rates and seems likely to carry out further increases. This feeds through to the gilt market, leading to higher yields and lower prices. For our members approaching retirement this reduces the cost of buying gilts and possibly even creates a buying opportunity which could further help members close to retirement.

Invest responsibly on my behalf, but still deliver growth

As well as providing sufficient funds for their retirement, scheme members want their pension savings to be invested responsibly. Climate-aware investing and wider environmental, social and governance (ESG) factors, such as good employment practices, have become higher profile through public campaigns such as Make My Money Matter. That means ESG considerations now need to be at the heart of a well-managed default fund strategy.

However, this has been a tough year for ESG fund returns and the robustness of schemes' responsible investing beliefs. The war in Ukraine and rising energy prices has had a marked effect on controversial sectors in ESG investment, such as defence and energy stocks. Both have soared in value, leading some schemes and investors to question whether ESG-focused funds can deliver long-term growth on a par with more conventional investments.

There are many different approaches to ESG, including exclusion (i.e., omitting whole sectors such as weapons); low-carbon factor-based investing (i.e., a low-carbon tilt on a mainstream index) and more bespoke funds, such as Aon's Climate Transition Fund (CTF). The CTF focuses on those companies that will benefit from the energy transition and, rather than taking an exclusionary approach, invests more in stocks that focus on ongoing carbon reduction over the long term, green energy such as renewable energy and green technology, as well as companies that are having a positive societal impact.

There is a big difference in the way these different types of funds have performed over the course of 2022. It is becoming clear that simplistic approaches, such as excluding entire sectors, are not the most effective way to achieve ESG-related performance. By comparison, the CTF has performed well to date against market cap (all sectors), which is a good early indicator that its more sophisticated approach will deliver strong returns over time.

ESG investment does not have to mean constraining your opportunity set. It is possible to be focused on delivering growth as well as positive impact. It is also proof that, with the right governance structure, an ESG-driven default strategy can combine growth that DC members need, with a wider environmental and social impact increasingly valued by members.

The objective of a default investment strategy has to be to help members achieve an adequate retirement living standard, assuming they are making appropriate contributions over time. That requires robust investment governance and innovation from pension providers, with careful management of risks and opportunities. This is at the heart of Aon's approach to DC investment.

In association with AON

*2021 DC member survey, Keeping on Track in Challenging Times: https://aon.io/3V73FfG

Company Profiles

Aon

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Summary
- The cost of annuities and the risk placed on members with drawdown has caused the industry to consider whether new retirement products could be more beneficial to savers.
- Decumulation CDC would pool investment and longevity risk and provide a regular income until death, but without the income guarantee of an annuity.
- The need for scale and communicating the product structure effectively to members are challenges to CDC's creation.
- Decumulation CDC products may enter the market within a few years.

Rushing to the end stage

Collective DC (CDC) for accumulation is only in its infancy, yet already conversations are growing about the role it could have in the decumulation space. Laura Blows finds out why

After years of discussion and debate, collective DC (CDC) regulations covering single-employer schemes finally came into effect in August, enabling Royal Mail to set up the first UK CDC scheme and other employers to follow suit if they so wish. Having barely got off the ground, conversations are already moving onto how CDC could evolve, with the Department for Work and Pensions (DWP) consulting soon on how CDC regulations could be expanded for multi-employer and decumulation-only use.

"I think the reason everybody's talking about decumulation CDC is because of the train crash that's coming down the line for the Gen X retirees; the people who are sleepwalking into a huge standard of living plunge at retirement at the moment," Zedra head of proposition development, Mark Stopard, states.

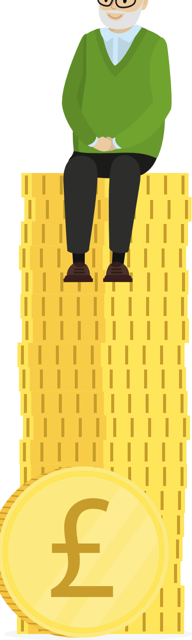
"There is a recognition that DC decumulation options are in some way lacking," the Society of Pension Professionals CDC expert, Edd Collins, acknowledges. "It's a bit of a binary choice at the minute between annuities, which are very attractive in that they pay you a guaranteed income. But that guarantee comes with a cost that most individuals choose not to pay.

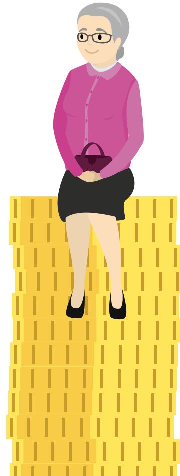
"People are then entering into drawdown, which allows them far greater flexibility and probably higher income levels but comes with the drawback that they've got to manage that income themselves for an unknown period of time, which is fraught with difficulty.

"So, there is a lot of work thinking about what some of the solutions to that are and decumulation CDC is one of those pieces of the puzzle."

Structure

CDC, already prevalent in a number of countries and now in the UK via Royal Mail's offering, pools contributions and investment returns, and shares longevity risk across members of all ages. It has a target, such as increasing income in line with CPI, instead of providing a guaranteed amount. The income it provides each year may increase or even decrease depending on investment returns, inflation and life expectancy. CDC provides less risk for the employer providing it for their employees compared to DB, while offering some greater certainty of income for members than standard DC saving. Yet questions have been raised about CDC, particularly around the scale required and the risk of





around the scale required and the risk of intergenerational unfairness.

However, using CDC only for the decumulation stage would work similarly to annuity purchase, WTW CDC director, Shriti Jadav, says.

"You would use your DC pot to buy a CDC pension at retirement, perhaps with some choice around the level of target increases and whether you want some income to be paid to a surviving partner after your death, and in return you would be paid an income for life.

"The key difference to an annuity is that the income provided by the CDC pension would be variable, depending on underlying investment performance and the combined demographic experience across all members. The CDC vehicle would target much higher income than from an insured annuity, through growth asset investments, and can do this because there is no insurance guarantee," she explains.

The value of CDC at decumulation is therefore in the pooling of retirement savings with others, Aon partner and head of collective DC, Chintan Gandhi, says. "Being able to invest in higher returning investments for a longer period of time, but also benefiting from the longevity of pooling means that they can expect to receive more in retirement, but for that money not to run out," he explains.

However, such a product would require enough people within the vehicle to pool risk and there are the costs of running the decumulation CDC to be managed and mitigated. Therefore, Collins states that existing providers or existing master trusts clearly have an advantage in terms of building scale "because they've got a naturally captive audience that they can market this to more easily than a fully new entrant into the market".

Gandhi also sees decumulation CDC typically being provided by existing master trusts, having a separate CDC decumulation-only section that they set up. "That means that savers who are saving towards a pension with that master trust can stay on; they'll have the option to take some money as tax-free cash, buy the CDC pension with some of their pot and maybe put the rest of it into drawdown. I also see this working very much in the retail space, where there will be some master trusts that provide this and people have choice as to which one they go to," he says.

Commenting on the idea of master trusts providing CDC at decumulation, HSBC Tomorrow Master Trust CEO, Alison Hatcher, says: "As master trusts continue to scale, the concept of collective DC is one that should be highly beneficial to members of pension schemes. Whilst there is a lot more work to be done around collective investments, CDC is a step in the right direction – all innovation has to be a good thing as we seek to enhance member value and retirement solutions."

Decumulation CDC sitting within the master trust sphere would see it regulated by The Pensions Regulator (TPR), with contract-based decumulation CDC regulated by the FCA. "A CDC decumulation option could work under either regulatory model but, in light of the progress TPR has made with the regulation and authorisation process for CDC so far, it would seem the natural initial home for at-retirement regulation," Jadav states.

Decumulation CDC would need to be regulated like any other scheme, "but there will need to be extra focus on the level of benefits being paid, as "it would be easier for the actuary setting the assumptions to defer bad news, rather than limit increases or even reduce benefits in the worst-case scenarios", Muse Advisory CEO, Ian McQuade, says.

The product would also require extra regulatory effort to avoid claims of mis-selling, as the decumulation CDC providers would offer different target pensions and different levels of indexation, backed by different investment strategies. "So, it's going to be very important for the communications and marketing of these to be regulated robustly, so that members can make informed choices to suit their needs," Gandhi says.

A regulatory balance would also need to be struck between ensuring adequate protection and not being so stringent as to restrict the model.

Stopard suggests allowing decumulation CDC to be a default or a soft default option, so that it can be bought by the mass market without advice, "because as soon as you go into the advice space I think everyone is going to want control, leading people towards drawdown".

The name of these products should also be a serious consideration.

"Decumulation CDC obviously is a complete mouthful; nobody's going to buy that," Stopard says. "We need to settle on a name that works, that people can buy into. The best way of doing that is if the DWP or the regulators come up with a name and that will then get picked up by the industry. Otherwise, you'll have different providers coming up with different versions of pooled retirement income, lifetime retirement income, pooled lifetime retirement income, etc and we'll all end up completely confused."

Benefits

It may take a lot of time, cost and effort to get decumulation CDC to market, but there are many reasons why this could be a worthwhile endeavour.

"The main reason for introducing this is to bridge the gap that exists between drawdown and annuitisation. It can provide an 'income for life', but without some of the guarantees (and protections) that exist with annuities. It protects members against running out of income in retirement under the drawdown option and doesn't price in all the guarantees of an annuity, so therefore provides a higher initial pension. It also negates the need for an individual to

drawdown to annuity, which may pose a difficulty for those in later years who have suffered a degradation in cognition," McQuade says.

While the income from decumulation CDC would be a target that can go up or down, Gandhi suggests it could provide 30 per cent better outcomes compared to annuities. Also, the pooling of investments and the long-term horizons that CDC will be able to take naturally aligns it with investing in a responsible, sustainable ESG oriented way, he adds, along with being able to invest in illiquid assets.

One of the main benefits of offering CDC as a master trust decumulation option is so employers can offer CDC without a complete overhaul of their current pension provision or 'defaulting' people into CDC, Jadav says.

"This is a simpler route for a smaller employer trying to provide their employees with more options at retirement, without the need to worry about changing the current DC accumulation. Additionally, separating the accumulation phase from decumulation would give individuals greater flexibility around the investment of their DC pot and their decumulation choices at retirement," she adds.

As well as solving future problems, decumulation CDC may also help with an issue today. While CDC would remove the creation of small DC pots, decumulation CDC could absorb the number of the small pots that exist today, Collins suggests.

According to Hymans Robertson partner, Kathryn Fleming, a CDC decumulation solution might be well suited to an individual who is looking for a stable income, is in good health and has access to other sources of income to smooth out the financial lumps and bumps of retirement.

Jadav agrees that decumulation CDC would primarily be for people who want to stretch their money as far as possible to provide an income that will last for their lifetime – "for example, someone in good health at retirement and with a £100,000 pot, who would otherwise find it difficult or impossible to provide for themselves and their spouses in retirement".

Of course, decumulation CDC is not the answer to all retiree's needs. Some will take it all as cash, other will want the flexibility of being able to access money from their drawdown pot whenever they choose, or the potential to bequeath unused funds, whilst individuals favouring an annuity may prefer the protection from fluctuations in their income. Others may wish to split their pension pots into some/all of these products.

Risks and barriers

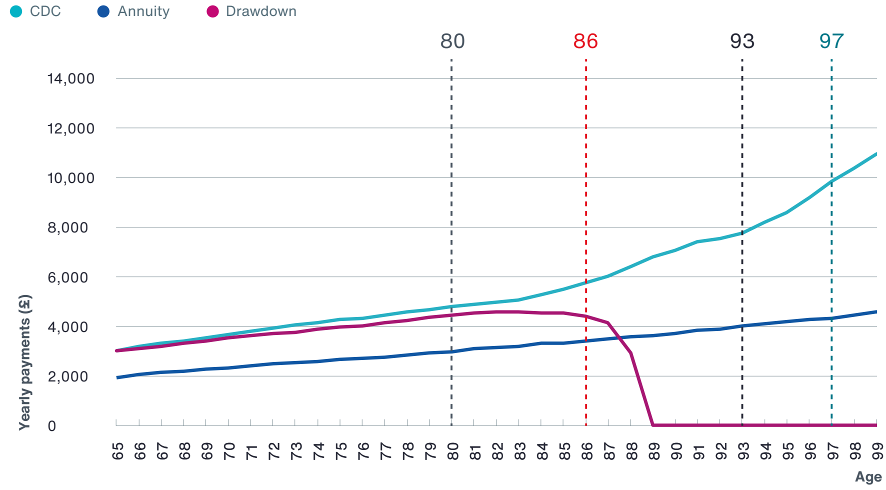
Indeed, the DWP may be looking into CDC for decumulation, but speaking at the PLSA Annual Conference in October, DWP head of CDC policy, Julian Barker, warned: "The government believes that CDC has an important part to play in the helping pension scheme members get better outcomes than they would otherwise do in standard DC schemes, at a fixed cost to both the member and employer, but it is not magic bullet."

One of the concerns with decumulation CDC's creation is the need for scale.

"It's very easy to see how this could work once you've got 10,000 members in it, all in the pool, all taking their lifetime income. But when you've got 50 members in it, the income is going to be hugely variable," Stopard says.

"That is much more like a basic tontine where the income's going to go up and down significantly. Not so much based on the investment performance, but just based on the chance of who's alive and dead at any particular point in time.

"So, what is the way to start one of these things off, until you get that scale? It's going to need additional capital, which someone's going to have to provide. People providing capital are going to need a return on it, so that's going to dilute some of the benefits. You could have a fund seeded, or you could leverage an insurer's or reinsurer's balance sheet to start the thing off. But then you start to run into fairness issues,



Income comparisons for a member retiring at age 65 with a £75,000 pension pot, having already taken their 25 per cent tax-free cash lump sum at retirement. ***Source: Aon CDC in Decumulation - The Power of Pooling, November 2022***

as people who joined the pool down the line don't need the same amount of capital support as those who've joined initially. So how do you make sure that that's fair and people pay their fair share?" he asks.

Even if initial challenge of scale can be overcome, decumulation CDC may still have some risks once up and running.

"The obvious risks are the sensitivity of member outcomes to payments, investment design and perhaps the more complex area of member profiling and using underwriting to achieve an element of equity," Fleming states.

"At the extreme, if a member transfers in a fund in order to receive an income for life, and that ends up not being the case, the fallout could be catastrophic," she adds. "Independent industry analysis and debate will certainly help quantify, navigate and manage these downsides. Where I have less confidence is the ability to manage member expectations. If it is viewed as a 'do it for me' solution, any changes in income further down the way, or even no change in income at all, could cause confusion due to simple lack of understanding and as an industry we are still grappling with pensions engagement."

According to Jadav, this variability will need to be explained to individuals in an unbiased way and which allows comparison between competing products, compliant with the new regulations to be developed by DWP. "And the scheme will need to be governed by the trustees to a high standard, with oversight from TPR, to ensure that pension increase decisions treat retirees of all ages fairly."

For the member, they need to be able to easily compare different CDC options and make informed choices," she adds. "An extra dimension with CDC is that individuals will need to be able to compare the extent of variability across different options. Good communication with retirees and some form of consistent way to make comparisons between products will be key to enable retirees to make informed decisions."

Another potential barrier is industry engagement, or lack thereof.

"We need the industry to be ultimately developing the solutions because government can legislate for it, but they're not going to provide products for decumulation CDC"

"We need the industry to be ultimately developing the solutions because government can legislate for it, but they're not going to provide products for decumulation CDC," Collins says. "So I think it's important that we get the industry bringing ideas, working together, developing solutions, and I guess helping DWP through the regulations as well."

Without this engagement, "there is the risk that decumulation CDC could be a great idea in theory but never achieves enough traction in practice to really get off the ground", Jadav warns.

As Fleming says: "Regulations aside, there has got to be a viable commercial business case for pension providers to want to offer this as a solution. It will be imperative to be clear on what the member outcomes will look like under the range of decumulation solutions, current and evolving, and whether CDC will be a realistic fit for a pension provider's membership profile and strategic ambitions. Currently, there are plenty of creative alternatives being developed, so there is a risk that CDC for decumulation will just not take off as providers are committed to other ideas."

Existing annuity providers may be slightly unhappy at this new offering, McQuade warns, as decumulation CDC is similar to an annuity, but without the guarantees and some of the same solvency protections that are in place. "As those changes mean it can offer a higher initial payment, so existing annuity providers may feel that it skews the market against them, albeit that they may decide to enter the market," he says.

Timeline

The current restrictions to decumulation CDC could be overcome with products entering the market within a couple of years, Jadav predicts.

"With a fair wind, following DWP's initial consultation on principles in Q1 next year, DWP could consult on new regulations towards the end of 2023, with the possibility of providing a new CDC option from 2024," she says.

"However, launching a new CDC offering is a big endeavour, needing expertise in a variety of disciplines, and so we expect some providers will hang back and wait for a first vehicle to be launched, then consider whether to adapt the design for their own offering. We'd hope that, within a few years, there might be several offerings, so that employers and individuals can choose between them."

A slow start is not unusual for the industry.

"It wouldn't surprise me if it was similar to when master trusts were first introduced," Stopard says.

"That started off very slowly, with a lot of suspicion and uncertainty, even though a lot of people thought they clearly were the answer. Hey presto, 10 years later it has been proved they are the answer and they've taken over. So, I could see decumulation CDC going nowhere for a long time and then taking off with a bang."

Written by Laura Blows

Essex Pension Fund investment steering committee chairman, Councillor Susan Barker

Stafford Capital Partners CEO, Angus Whiteley

Seeds to success

Francesca Fabrizi speaks to Essex Pension Fund investment steering committee chairman, Councillor Susan Barker, and Stafford Capital Partners CEO, Angus Whiteley, about how timberland investment is helping the pension fund see attractive returns while making a positive impact

Please give a short introduction to the Essex Pension Fund, Stafford Capital Partners and the Stafford Carbon Offset Opportunity Fund.
Barker: The £9.6 billion Essex Pension Fund provides pension benefits on behalf of more than 740 employers to its 174,000 members and is one of the 87 funds making up the Local Government Pension Scheme (LGPS) in England and Wales.

Whiteley: Stafford Capital Partners (Stafford) is an independent private markets investment and advisory firm with $7.5 billion in assets under management and more than 170 institutional clients worldwide. Stafford was founded over 20 years ago and invests in timberland and agriculture, infrastructure, sustainable private equity and private credit.

The Stafford Carbon Offset Opportunity Fund is a new Article 9 impact fund that will develop new commercial timberland plantations and restore natural forests on a global basis. The fund aims to provide access to a diversified portfolio of commercial forestry assets, whilst generating a supply of carbon credits verified by recognised international carbon standards.

The fund has a $1 billion fundraising target and seeks to invest in approximately 200,000 hectares of sustainably managed timberland globally, including around 150,000 hectares on which new commercially managed plantations will be established and natural forest planted.

It will generate approximately 30 million verified carbon offsets for investors (each equivalent to one tonne of C02) and provide a source of sustainable, low-carbon timberland materials; and contribute to a significantly negative carbon intensity metric to Essex Pension Fund's investment portfolio.

The strategy is designed for investors that are looking to allocate capital into solutions that deliver attractive returns and positive impact.

Why did Stafford decide to establish this fund?
Whiteley: The forestry sector has seen a lack of new planting over the past 30 years that is leading to shortages of wood and increased pressure on the world's forest resource.

Commercial forests represent just seven per cent of the world's forested land mass yet provide approximately 50 per cent of the world's wood supply. So they play an outsized role in providing sustainable timberland products and materials, as well as alleviating the pressure on natural forests as demand grows.

The economics of investing in new plantations has changed with the introduction of carbon credits, allowing investors to receive income in the form of these credits while the trees are growing. Historically this would not have been the case, with investors needing to wait until harvest revenues were available, many years after making their investment. Investment in new plantations was simply not happening unless supported by government subsidy. At Stafford,

we felt the time was right for a global strategy with a focus on planting new commercial forests, to help meet future demand for timberland products, but also in recognition of the positive role new plantations play in sequestering carbon at scale.

Tell us about Stafford's track record
Whiteley: In our 20-year history in the timberland sector, we have been able to deliver an 8 per cent IRR to our investors through investments primarily in unlevered, mature, operational timberland plantations globally.

The Essex Pension Fund recently made a £100 million anchor commitment to the Stafford Carbon Offset Opportunity Fund. Please tell us the reasons for this commitment/why you chose this fund.
Barker: The Essex Pension Fund was one of the first LGPS funds to invest in the timberland sector. Over the past few years, we have seen a significant improvement in our funding position which has enabled us to implement our medium-term de-risking programme, resulting in the fund's strategic allocation to timberland increasing from 2 per cent to 4 per cent.

We are committed to being responsible investors and our investment in Stafford's Carbon Offset Fund reemphasises that commitment. We chose Stafford's Carbon Fund because we have a long-standing relationship with Stafford, which has been appointed to manage our timberland allocation over the past 11 years. This has been borne out of a similar investment ethos, whereby we look to invest in funds that will not only meet our risk/return appetite but will provide a tangible environmental and societal difference that may not have otherwise existed.

With this investment, we also recognise the unique role timberland can play in helping provide a sustainable supply of materials and products, while also sequestering carbon dioxide at scale.

Forestry is expected to deliver almost 20 per cent of the reductions needed to meet global emissions targets, and afforestation strategies, such as the Stafford Carbon Offset Opportunity Fund, can play a part in addressing climate change.

How does it fit with Essex Pension Fund's other fund investments?
Barker: Timberland delivers a valuable long-term return within our portfolio. It is also a very good diversifier as it has very low correlation with equity, debt and traditional asset classes. While on the flip side, it has very high correlation with inflation, so delivers a long-term inflation-linked return.

More broadly, we aim over time to have close to 10 per cent of the Essex Pension Fund invested in impactful investment solutions that deliver positive environmental and social benefits that would not otherwise happen. This aligns not only with our responsible investment (RI) policy and priorities, but our commitment to achieving net zero across our portfolio by 2050.

How easy was the process?
Barker: Stafford is the fund's appointed timberland manager and manages four per cent of the fund strategic allocation. This 'top-up' investment was a result of a periodic review by the investment steering committee in order to maintain our target allocation to this asset class.

Essex Pension Fund and Stafford are long-standing investors in the timberland sector – can you tell us why and how successful this has been to date?
Whiteley: Among UK institutions, Essex Pension Fund has been a leader in the timberland sector. As many UK pension schemes set ambitious decarbonisation pledges across their portfolios, it is unsurprising that Essex is, again, leading the way in establishing and implementing a net-zero investment strategy across their portfolio.

How else is Essex Pension Fund working towards net zero?
Barker: As a fund, we recognise both our responsibility to be a trusted investor and the range of potential long-term risks associated with climate change that the fund, as a long-term investor, faces.

The fund undertook a robust process in regard to reviewing our investment strategy statement (ISS) which included engaging with our stakeholders. The outcome was the formulation of a new RI policy based on a set of RI investment beliefs and the identification of 10 RI priorities.

The fund's business plan investment areas of activity have been driven by our commitment to demonstrating we are a responsible investor. From developing an investment engagement strategy and holding dedicated RI meetings with all our investment managers, to setting climate risk metrics in line with Task Force on Climate-related Financial Disclosures (TCFD), to reviewing in turn each of our investment manager mandates to ascertain their alignment with the fund's RI policy.

As part of this review, we recently partnered with UBS Asset Management and Hymans Robertson to launch the UBS Life Global Equity Sustainable Transition Fund – a new fund that will invest in companies that are believed to be best placed for the transition to a low-carbon economy, and with better sustainability characteristics than those offered in other indices. This fund not only better aligns to the fund's RI policy, will deliver the fund's priorities but with wider asset growth.

In addition, I am pleased to confirm that the fund was recently successful in gaining Financial Reporting Council 2020 UK Stewardship Code signatory which was a huge achievement for us.

Written by Francesca Fabrizi

The value of switching

After DWP research suggests employers are sticking with their pension provider because of the perceived costs and difficulties of switching, Andy Knaggs asks how member benefits can be kept at the forefront of considerations

Summary
• DWP research reveals employer reluctance to switch pension provider due to perceived costs and difficulty.
• VfM framework in development from the government and regulators seeks to provide clarity on pension scheme value for money.
• Employers should be engaged and knowledgeable about their scheme, helping them get the best out of existing or new providers for employees.

The UK's DC pensions market is large, complex, and competitive, and within it, the needs of scheme members should always be paramount. Is that the reality though? Are there situations where those needs might be swept aside for reasons of convenience?

This might be a conclusion to reach from the results of recently announced research from the Department for Work and Pensions (DWP), which suggested that employers were at times reluctant to switch pension provider due to resource, administration and time burdens. It added that the scheme's value for members was the second most considered factor.

The complexity of the DC pensions market makes any kind of generalisation around this subject problematic. There are several types of DC pension scheme, such as single-trust-based schemes, where administrative responsibilities and costs are very tangible for the sponsors and trustees; master trusts, which consolidate administration and costs; and contract-based schemes, where a switch of provider require members to transfer their existing pension assets to the new provider.

Engaged employers

Employers should ensure the pension scheme they provide to employees is delivering good value, but the process of switching is often time-consuming and should only be undertaken when the right degree of research has been conducted.

Fidelity International head of workplace distribution, Dan Smith, comments: "The UK workplace arena is changing rapidly. It's therefore important that employers periodically look at the market to make sure their arrangements are providing good value and are meeting their needs now and in the future.

"In terms of moving schemes, it is a large undertaking but the risk of remaining with a supplier who is not meeting the needs of your employees is even larger. Providers have increasingly sophisticated tools, which can minimise risk to employers and employees."

It requires employers to be engaged, however, and there can be a deficit in this regard, according to Dalriada professional trustee, Paul Tinslay, who identifies an important point in the DWP research – employer pension engagement is often influenced by the amount of knowledge or resource the employer has. "Low levels of knowledge are typically translated into a perception that a switch is a bigger burden than it probably is in reality."

Zedra client director, Sam Burden, feels that switching provider is somewhat of a nuclear option, and that employers should first focus on getting more from their existing provider. "As a general principle, it makes sense to be reviewing your scheme to make sure charges are

competitive and that your provider is investing in the proposition and developing investment options.

"With most employers it will cost them money to switch, rather than saving them money. The cost of communicating to members, bringing in advisers, changes to internal payroll – these will be the same whether for master trusts or contract-based schemes. If it's not working well, the employer might want to put pressure on the existing provider to make things improve, and if they don't, then that might mean a decision to move."

Burden adds that employers can be proactive in this regard by establishing a governance committee: "It's about getting the best you can from your existing provider, rather than pressing the nuclear button of switching."

Competing priorities

There might also be other factors employers consider to be more demanding of urgent attention, according to ITS associate director, Jennifer Adams, who says: "From an employee perspective, they could be dissatisfied with the current provider's service and platform functionality but if the costs are low, the employer may not take on board the desire to change, particularly if there are too many competing priorities of business focus to be able to devote the time to making a change."

The implications of staying with a provider when better deals might be on offer are more about whether the employer has access to their provider's latest and best thinking, according to Standard Life workplace director, Gail Izat.

"If employers are not regularly upgraded to more modern technology they may be missing out on products and features that would enhance the member experience and result in better retirement outcomes. This is where regular value for money (VfM) assessments conducted by either an adviser, independent governance committee (IGC) or trustee board can help by evaluating the overall member experience and establishing whether this constitutes VfM when compared with other providers," Izat states.

Providers have also been aiming to make switching a simpler process. People's Partnership, provider of The People's Pension (TPP), head of business development, Dave Lunt, says that to ensure a smooth transition, TPP has an experienced implementation team that works with employers and intermediaries.

"However, just switching providers for staff doesn't have to be complicated – we have a simple online process and support for the employer setting up the scheme, along with providing employees with information and guidance on how to transfer their existing funds into TPP," he notes.

"It's about getting the best you can from your existing provider, rather than pressing the nuclear button of switching"

Developing framework

VfM is at the nub of the issue, and the DWP, The Pensions Regulator (TPR) and the Financial Conduct Authority are working to develop a VfM framework and regulatory regime for DC schemes. This framework aims to provide a "standardised understanding of value via clear metrics, allowing more transparent comparisons to be made between pension schemes", says a TPR spokesperson.

They add: "At this stage, the framework is aimed at the professional audience and decision makers including trustees, IGCs, providers, and other industry professionals. However, while there are no proposed requirements for employers, we would be supportive of employers using VfM assessment results in due course when deciding which scheme to automatically enrol their members into, or when considering whether the pension scheme their employees are in continues to provide value for money to their employees."

Currently, the VfM measurements published by pension providers are not consistent. "Everyone does it in a slightly different way, so they are not directly comparable," says Aegon head of pensions, Kate Smith. "Consistent measurement will enable a lot of the groundwork to be done, and it will make it easier for employers and advisers to look at other providers' schemes, compare them, and say 'this is a good reason to do something different.'"

Potentially important

There are some concerns about how this VfM framework will be implemented. PLSA head of master trusts and lifetime savings, Alyshia Harrington-Clark, says it is "potentially important but also potentially a massive red herring".

She explained: "It could be helpful in that it could provide some common understanding of points of comparison of value. As we understand it at this time though, there are some strange things in their proposals that could act as massive red herrings in what value is. We are concerned that some crude metrics and some strange proxies of value might be put into the mix, and we are particularly concerned with the possibility of league tables."

Harrington-Clark claims that a similar approach in Australia served to disincentive risk-taking. Neat league tables are not possible across a subject as complicated as this, she maintains.

"We are doing all we can to make sure that the value-assessing framework works in the best interests of members," she continues. "The regulators and the government are making the right noises about listening and there have been some discussions.

Written by Andy Knaggs, a freelance journalist

For investment professionals only. Capital at risk.

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Reaching for net zero across asset classes: *LGIM is committed to achieving net-zero greenhouse gas emissions by 2050 across all assets under management. Here's how it is targeting this goal within different investment capabilities* ***p62***

Rising to the challenge: *Abigail Williams considers climate-related issues across asset classes* ***p64***

Net-zero focus:

A goal for all

LGIM head of sustainability solutions, Caroline Ramscar, and head of responsible investment strategy, Amelia Tan

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Reaching for net zero across asset classes

LGIM is committed to achieving net-zero greenhouse gas emissions by 2050 across all assets under management. Here's how we're targeting this goal within different investment capabilities

This year has been characterised by geopolitical and market upheaval. It has also demonstrated the importance of energy to the global economy. We believe the most effective way to achieve energy security over the long term, and avoid a climate catastrophe, is by achieving net-zero emissions.

To this end, we have set concrete targets; our ESG strategies are increasingly incorporating net-zero considerations; we continue to engage investee companies – with consequences, should they fail to act – and we are investing in 'green' opportunities.

In this article, we outline the key features of our approach across different asset classes and investment capabilities.

Decarbonisation pathways in index strategies

Index strategies can offer clearly defined decarbonisation pathways. There are a few ways in which to decarbonise index strategies, including exclusions and capital reallocation; we deploy both approaches.

Exclusions – also known as negative screening – involve avoiding specific stocks or industries represented in an index. Some investors prefer this approach as it is transparent, easy to communicate and can offer peace of mind.

As the level of exclusions increase, however, the adjusted index often strays from its parent benchmark, deviating from delivering a market-like, risk-return profile. We also believe that engaging with companies is a more effective way to achieve systemic change than deploying blanket exclusions.

Meanwhile, capital reallocation can involve reducing emissions intensity by a fixed percentage relative to a parent benchmark. The index portfolio would then continue to be decarbonised by additional percentage points year-on-year. The goal is to reallocate the exposure from high to low-carbon intensive stocks, while keeping active weights within certain geographic, sectoral and security-level limits. Although it is possible to decarbonise a global index with a low tracking error, our analysis indicates tracking error rises sharply when decarbonisation increases beyond 50 per cent.

In our view, a potentially powerful route to decarbonisation of index portfolios involves a combination of exclusions, where minimum standards are not met, with greater reallocation of capital between climate 'winners' and 'laggards'.

Targeting laggards in an active equity climate transition strategy

A broad sweep of companies is critical to the energy transition – not just those with solid climate credentials.

We recognise that climate laggards will also need to achieve net-zero emissions or risk becoming stranded assets. So within our active equity climate transition strategy, we utilise our LGIM Destination@Risk framework to identify and invest in those laggards, where we see potential to help them advance the energy transition and reach net-zero goals.

Indeed, we can unlock value to effect real-world outcomes, in our view, by engaging and partnering with such companies, drawing on the combined expertise of LGIM's investment stewardship and investments teams. We believe we can use our size and scale to support the transition to a low-carbon economy, even within sectors like energy and materials that are typically excluded from many active, climate-aligned strategies.

Climate metrics for credit

Managing a credit portfolio with a dual target of financial performance and net-zero objectives requires a thoughtful optimisation exercise between yield- and climate-related considerations.

LGIM's net-zero framework is applied to such portfolios, with an emphasis on the reduction of GHG emissions versus the reference benchmark and an improvement in temperature alignment over time. As such, our net-zero portfolios are aimed at achieving relative and measurable decarbonisation, while also investing in issuers on the pathway to net zero by 2050.

Our targets capture past and future improvements in climate-related metrics. This means active managers can look for alpha opportunities in sectors with high GHG emissions intensity, rather than excluding them entirely. As these sectors will continue to require capital to transition towards net zero, we believe issuers transitioning adequately should eventually benefit from a lower risk premium. This is because market participants are likely to start repricing climate-related risks and model their impact on credit ratings.

We also establish targets for our net-zero portfolios at the outset – and make them more stringent over time – as well as engaging with laggards and closely monitoring progress by issuers.

Harnessing climate science in multi-asset

In our multi-asset solutions, we use both top-down and bottom-up tools to align funds with LGIM's net-zero framework, in addition to engagement with companies within all physical holdings, whether held directly or indirectly through other building block funds.

We start by setting interim decarbonisation targets for 2025 and 2030 relative to an end-2019 reference point. Our plan is to review progress and set out new five-year targets towards 2050. Using this process, we aim to ensure the decarbonisation pathway responds to improvements in available climate science, technology and investment solutions.

These targets are currently expressed as a reduction in carbon footprint, but in the future may also reference specific temperature alignment. They are derived in part from accepted industry frameworks, as well as insights and tools from LGIM's climate solutions team.

We are fortunate to access a wide range of LGIM index and active building blocks across equities, credit, direct property and emerging market debt, which often have decarbonisation commitments of their own. Many also exclude radically misaligned companies, such as those that generate more than 20 per cent of their revenues from coal mining and that fail to respond adequately to our Climate Impact Pledge, a targeted engagement programme. We apply the same exclusions to all our direct corporate security holdings.

Finally, we also invest in carefully constructed targeted baskets to help us reduce the carbon footprint of our alternative holdings. These focus on positive selection within sustainable timber and low-carbon infrastructure.

The start of a journey

While asset managers have made material progress in setting climate targets and innovating to meet client needs, we recognise that there is much further to go. That's why at LGIM, in addition to the steps outlined above, we are also collaborating with policymakers and other stakeholders to make a net-zero future not just possible, but probable.

Written by LGIM head of sustainability solutions, Caroline Ramscar, and head of responsible investment strategy, Amelia Tan

In association with

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Rising to the challenge

Abigail Williams considers climate-related issues across asset classes

Summary
• Challenges faced by pension funds in considering climate-related issues across different asset classes include the availability of data, as well as the unique climate related risks and opportunities presented by different exposures across geographies, sectors, and asset classes.
• A key piece of advice is to start on the journey even if data is imperfect and challenges remain. It is better to start than to try and wait for the perfect landscape to appear.
• Tools that will enable broader comparability across asset classes and sectors are advancing rapidly.

In the ongoing quest to improve ESG performance, a growing number of pension fund investors are focusing on the management of climate-related issues in their portfolios, despite the challenges it may bring.

Challenges

According to Pensions for Purpose founder and chair, Karen Shackleton, the primary challenge faced by pension funds in considering climate and climate change-related issues across different asset classes is the availability of data. In particular, "although climate change data is better with listed assets, especially equities, private markets remain more elusive around data because of a lack of regulatory frameworks, standardised data reporting and general transparency in a way that applies to most of the private markets".

Other challenges highlighted by Shackleton include distinguishing between decarbonisation and climate solutions, as well as not declaring a public net-zero goal and a lack of clarity in investment beliefs.

"Listed assets generally focus on decarbonising either through sustainable strategies or by divesting, whilst climate solutions, like renewable energy natural capital investment and so forth, play more naturally to the private markets. Both help a pension fund on their net-zero journey, but pension funds need to be clear on the difference," she says.

Differentiated approach

Elsewhere, LGIM head of responsible investment strategy, Amelia Tan, observes that there are at least two key challenges facing pension funds in addressing climate change in their portfolios. Firstly, as asset owners that invest across different geographies, sectors and asset classes, these different exposures "each present unique climate-related risks and opportunities".

"Hence, pension funds should consider a differentiated approach depending on these specific risks and opportunities. For example, when considering climate transitions in emerging markets, we need to determine how countries can decouple greenhouse gas (GHG) emissions and GDP growth while solving for energy poverty," she says.

Secondly, while data and methodologies to assess climate risks have "certainly matured", she says that some exposures are still faced with limited availability and quality of data, particularly in private markets.

"The good news is that listed securities have fairly reasonable coverage in terms of Scope 1 and 2 emissions and the regulatory environment is generally supportive of improving disclosure. There is still room for advancement in terms of Scope 3 emissions disclosure, as well as disclosure of credible plans for companies' climate-related targets," she adds.

According to LGIM head of sustainability solutions, Caroline Ramscar, investors have traditionally thought about equities when considering climate change in their portfolios and had the ability to influence outcomes, given the ability to vote on the stock.

"However, this view is outdated, with understanding growing of the collective power of bond investors to effect change by pushing for improvements in the disclosure of ESG information and engaging with companies on ESG considerations.

"If these concerns are not taken seriously, then companies may struggle to raise debt or find that it costs them more to do so," she says.

Data availability
For the Impact Investing Institute programme coordinator, Sophia Omar, one of the key challenges that many pension funds looking at climate-related issues have is allocating across private markets and private equity.

"Private markets are where we see some of the greatest opportunities for addressing key climate challenges, including infrastructure for renewables and innovations in emission reduction technologies such as carbon capture and biodiversity," she says.

Omar also reveals that many pension funds are already making "exciting investments" in this area, and the institute has highlighted many examples including Nest's investment in Octopus energy and Nottinghamshire Pension Fund's direct investment in Nottinghamshire Community Energy.

She says the institute has also highlighted a wide range of investable opportunities across asset classes in emerging markets that address the most common concerns of institutional investors, for example around currency, liquidity or ticket sizes.

"Although progress has been made, high-quality, reliable and, crucially, comparable data across the climate space still poses challenges to pension funds when choosing investments," she adds.

Meanwhile, UKSIF head of policy and communications, Oscar Warwick Thompson, observes that challenges remain around reporting and data quality for various asset classes beyond listed equities, including sovereign debt and private debt, where carbon footprint reporting remains more nascent.

"More accurate disclosures across various asset classes would lessen investors and other firms' current reliance on data estimates for certain companies in their portfolios, a particular issue for unlisted and smaller companies in portfolios. Government, regulators, and industry should look to work together to address these data availability issues and more broadly widen their focus to assess the specific contribution that each asset class, beyond listed equities, can play in the transition to net zero," he says.

Advice
Even if there are data imperfections and challenges to be overcome, Shackleton stresses it is "better to start than to try and wait for the perfect landscape to appear".

For Tan, the best advice is to begin with a clearly stated objective of what pension funds are trying to achieve when considering climate-related risks and opportunities. Next, funds "will want to be able to assess their portfolios".

"Capabilities are advancing rapidly that will enable broader comparability – climate change modelling toolkits like *Destination@Risk*, a proprietary modelling tool that we have developed at LGIM, are enabling asset owners to assess which climate scenarios corporate and sovereign issuers are aligned with based on past performance and forward-looking commitments relative to sectoral decarbonisation pathways," she says.

In Tan's view, pension funds can then use these inputs in portfolio implementation, whether "through avoiding the laggards, tilting towards leaders, or investing directly in issuers that enable the transition".

"None of these options are mutually exclusive. That said, pension funds are increasingly recognising that they are universal owners – the diversified nature of their investments means that they effectively own a broad slice of the economy. If so, climate change must be considered a systemic risk that cannot be completely diversified away from their portfolios. Hence, active ownership is an important tool in raising market standards across the board," she says.

"I would also advise that the consideration of climate-related investments should be treated as per any other investment and follow the same steps – what is the governance in place? How do we evidence this? And how do you work with your asset manager to get the data you need to make an informed decision?" adds Ramscar.

Future trends
When it comes to assessing potential growth in this area moving forward, Shackleton observes that the market has moved fast in recent years and sees no reason why it shouldn't continue to do so.

"Yes, there are lots of innovative investment opportunities, ranging from vertical farming, to carbon offset investments, to biodiversity solutions that all address real-world global challenges and deliver positive impact, and yet still offer investors a strong return," she says.

Elsewhere, Omar observes that the industry is moving away from a very narrow focus on carbon emissions to "a broader understanding of the ways in which things like biodiversity loss and land usage play out in the climate space".

Ultimately, Warwick Thompson thinks the issue lies with decision-useful data that is available rather than the quantity of data alone that investors can use to inform their allocation of capital.

"We are seeing more focus in the industry on how climate change and sustainability-related factors can be addressed across a wider range of asset classes, and we hope to see this trend continue in the coming years," he says.

"We also expect the climate-related information and disclosures available to pension funds and other investors to gradually improve over time. In the UK context, this is already happening to an extent due to the mandatory roll-out of TCFD across the whole economy by 2025, and this needs to continue," Warwick Thompson adds.

Written by Abigail Williams, a freelance journalist

In association with

Hitting the milestones

Pensions Dashboards Programme (PDP) principal, Chris Curry, sits down with Jack Gray to discuss the programme's progress on dashboards over the past year and what the next stages are

How has progress on pensions dashboards been this year and are you on track?

There has been an awful lot of progress this year. It was only at the start of this year that we first had the draft regulations in place and over the summer we did the draft standards. Now, the regulations have been through both houses of parliament and we're just waiting for them to come on to the statute books. We've also now published our final version of the standards to be authorised by the Secretary of State.

We've also done an awful lot of work internally. There's the small issue of the technical build, making sure that pensions dashboards have a central digital architecture to work on. We've been working with our partners in the industry, so everyone is aware of what's happening and helping with our build.

Are we on track? Absolutely. Big milestones keep falling. The regulations are there now, the standards are there now, the central digital architecture has been built and we're now doing that testing phase.

We're on track for the next big milestone, which is the start of compulsory onboarding.

What have the key milestones been?

We've had so many *[milestones]* in so many different parts of the programme, but a big one is completing that technical build. It's only just over a year since we started working with Capgemini and Origo. To have completed the technical build in that time is quite an achievement. That's alongside the consultation on the standards and now publishing the final version, and that's important because that underpins the dashboards legislation.

That's also a good illustration of how we need to do things in the right order. Obviously, we can only complete the standards once the legislation is in place, but we needed to do consultations on both of those.

The work doesn't stop with doing the build. One of the big milestones has been the testing that we did initially over the summer and now bringing in over 20 early participants to work with us on testing that architecture is important.

One of the things we don't often talk about, but is important, is that the reason we are building dashboards is for the consumer. We've been doing a fair amount of consumer work, including looking at what the likelihood is that people will use dashboards and how much value they place on using dashboards. We also do the usual progress update reports as a way of making sure that people are aware of what's going on. Keeping in touch with everyone and communication is an important part of what we do.

How has working with various sectors of the industry been and what stages are they at?

It's really rewarding. Right from the start we've seen this as a collaborative process, and a large part of the industry has bought into that and have really helped up getting us where we need to go. The engagement is going well. It can be patchy; there are different parts of the industry that are more progressed than others. The key thing for us is the ones we need to engage with most that are going to be going through the staged onboarding next year are the ones that are most engaged and are far enough ahead. We engage with them in several different ways. We do a lot of work, especially with our early participants, to not just help them understand what they need from us to do the early engagement and connection, but what we can learn from them as well to make sure we get the processes right and make it easier for when it becomes mandatory for everyone to be able to onboard easily.

There are several reasons why we are going for the largest ones first; partly because they are more likely to be resourced and be able to work with us. Also, from a consumer point of view, getting the bigger ones on earlier helps us get that broader coverage that we think is important for dashboards. When we are

talking about some of the administrators, those organisations might end up helping other organisations by becoming integrated service providers, for example. If they have that knowledge, then that will help meet the needs of a wide range of organisations.

We are finding that being able to focus on a smaller number of organisations is going to give us the reach to make sure the knowledge we pick up from there filters through the rest of the industry. When we've done this for a few months, hopefully the problems we get coming up will be smaller and fewer and further between, because we would already have encountered some of those and the learnings will be passed out to the rest of the industry.

What were the challenges and were there things that were easier than expected?

I don't think there's anything that's been easy! But we have been incredibly lucky. For me personally, just to pay tribute to the team we have at PDP, they've coped with everything thrown at them. We've worked with a large number of partners that have helped us; it really has been a joint effort to get to where we are. On challenges, I think uncertainty.

"Right from the start we've seen this as a collaborative process, and a large part of the industry has bought into that and have really helped up getting us where we need to go"

There's been a lot of uncertainty this year in terms of the political environment, the economic environment, the labour market environment. It all affects us in the same way it affects others. We are particularly thankful to our early participants that stuck with us and helped us through some challenging times. They've been flexible when we've needed to flex ourselves in order to meet those milestones.

We have to do things in a very specific order. When we are in a time where there is a high level of political uncertainty, there's always that thought in the back of your mind that 'we need this to happen now because if it doesn't, then we can't publish the standards, and if we don't publish the standards, we can't get on to the stages onboarding on time'.

It's all very linked together and one of the big challenges has been making sure we keep progressing through the year and hitting all those milestones, because the ones that come next are so dependent on the ones we've already met.

What's coming up next for the programme?

We are moving into the voluntary connection and testing phase. We've got more than 20 participants that are going to help us with that testing. We are already inter-testing with a couple of them.

We're working with the MoneyHelper dashboard and the state pension team at the DWP to bring on both the first dashboard and first data provider.

We are looking to bring the private sector early participants in early in the new year, but well in advance of that April deadline when mandatory onboarding starts.

We had the call for input for the design standards for dashboards over the summer and we're running the formal consultation at the same time as the FCA is looking at the regulations in that space.

We want to make sure people can look at both of those together so they can see the whole picture and give us their feedback on the two things next to each other.

Written by Jack Gray

DB end game alternatives: Capital-backed journey plans

Laura Blows explores what capital-backed journey plans are and the role they could play within DB schemes' end game strategies

Summary
• A capital-backed journey plan (CBJP) is a generic term for a range of products that give pension schemes access to external capital to help them meet their funding and investment objectives using an agreed investment strategy and timeframe.
• CBJPs can provide many benefits, including the increased certainty of reaching the end objective, greater funding stability and 'promised' higher returns.
• However, in return for access to the provider's capital, the scheme must give away upside in investment returns. Also, the timeframes of some CBJPs may be longer than schemes would look to target.

As DB scheme funding has become more dynamic in recent years, so too has the journey to their endgame destinations, with an increasing number of options available to help DB schemes de-risk *[see boxout].*

One new addition is capital-backed journey plans (CBJPs), also known as underwritten journey plans.

CBJPs

A CBJP is a generic term for a range of products that give pension schemes access to external capital to help them meet their funding and investment objectives, such as becoming 100 per cent funded or targeting buyout. An investment strategy and a timeframe to meet that goal is then agreed between the scheme and third-party provider.

"The provider will put up its own capital to increase the chance that the scheme reaches the agreed objective, with the capital providing protection against under-performance against the plan. In return the provider will retain any upside from generating asset returns above those needed to deliver the plan," Aon partner, Colin Cartwright, explains.

There are a wide variety of capital buffers that can be offered, including "physical assets that are held alongside the pension scheme assets in a lockbox structure, which the scheme has a first call over, so they can't go back to the provider until they have delivered what was promised. In other cases, I've seen them be guarantees or a mixture of both", PwC head of alternative pension solutions, Matt Cooper, states.

"A key feature of CBJPs is, unlike superfunds, they don't change sponsor covenants, so that the employer stays connected to the pension scheme. You also keep the existing trustee, so it's really an investment decision," he adds.

"Most of these deals are typically structured as a commercial contract and so are not regulated by the PRA or covered by the FSCS, but a small number of providers can offer these as an insurance contact," Hymans Robertson head of alternative risk transfer, Iain Pearce, adds.

There are currently eight providers who will quote on CBJPs, Cooper says, "and if you go back maybe 18 months or two years, there was just one provider in this market". The first entrants were private equity firms and now includes large fund houses and asset managers entering the market, he adds.

According to Hymans Robertson's May 2022 report, *A closer look at capital backed journey plans,* there are several providers who have a CBJP offering and are either actively promoting them or quietly targeting specific schemes where a CBJP could help. To support these endeavours, there is over a £1 billion of committed capital from investors looking to build and grow this market, it states.

CBJPs present an opportunity for capital providers to invest in the rapidly growing DB de-risking market without requiring that investor to establish an insurer, which is a long and costly process, and so can be an attractive option for new entrants, Pearce notes.

On the trustee side, "experiences such as the stress in the LDI markets around the time of the mini-Budget demonstrate the enduring risks facing schemes and so, if anything, should increase trustee interest in seeking out opportunities to de-risk if able", he adds.

Suitability

According to 2020 Trustees trustee director, Duncan Willsher: "The beauty of a CBJP is that they are suitable for a wide range of schemes, and because of the bespoke nature of them, using different variables such as time, security, end goal and whether the sponsor pays a premium or not, they can be structured

to help schemes wherever they are in their journey plan."

However, Cartwright believes CBJPs are most appropriate for DB schemes that have strong sponsors who are relatively small compared to the pension scheme and so may be constrained in their ability to pay the required level of contributions.

"The sponsor needs to be strong as these products are not covered by The Pensions Regulator's DB superfunds guidance and so are not typically viable if the sponsor becomes insolvent," he explains.

Cooper predicts that a scheme would need to be "at least £50 million, maybe even over £100 million of assets before a provider would quote at the moment".

"It is likely that it will take a number of transactions to build understanding and confidence in these products but then we could well see CBJPs carving out a role within the industry"

Case study

The first capital-backed journey plan (CBJP) by a UK pension scheme was completed in May 2020.

The structure of this CBJP saw capital 'locked in' alongside scheme assets, allowing scheme members to benefit from an additional layer of security in addition to the existing sponsor covenant.

A future date for the buyout of benefits was also agreed at the outset, with the assets then invested to target the cost of buyout at the agreed date and provide a suitable return on capital.

This allows the unnamed scheme to draw down cash as needed to pay benefits until the buyout is achieved, with interest rate and inflation related risks hedged out in full during the period.

The new structure is expected to allow sponsors to give 'undivided attention' to their business, while trustees are able to deliver 'enhanced security for member benefits' thanks to the external capital.

The transaction was led by Aspinall Capital Partners on behalf of Portunes Capital, which was the investment vehicle for the transaction.

Both firms were advised throughout the process by PwC, in addition to Travers Smith for corporate and financial aspects of the transaction.

Commenting on the deal at the time, 2020 Trustees founder and chair of the scheme, Antony Miller, said: "Alongside the consolidation vehicles, the capital-backed journey plan answers the government call for pensions innovation and provides the market with a real solution that is sorely needed, especially in the current climate.

"It also shows that these types of capital-backed structures can be implemented quickly and at relatively low cost."

Considerations

For those schemes that do implement a CBJP, there are many benefits they may receive, including the access to capital other than from the sponsor, the flexibility of both the CBJP design and of the trustees still managing the scheme, the greater certainty of reaching the end objective and the cheaper cost of doing so. There is also greater funding stability and 'promised' higher returns, along with the potential to run higher investment risk and so reduce the time to reach a long-term target.

It is not all positive though; CBJPs do also come with some potential downsides.

Cartwright notes that the timeframes of some of these products may be longer than the trustees and sponsor would look to target. Plus, in return for access to the provider's capital, the scheme must give away upside in investment returns. On the flip side, if losses against the agreed plan are too large, they could exhaust all the provider's capital.

These products typically work best in a stable funding environment rather than one where solvency funding is improving quickly, he adds, and there is a question if these products will deliver their wider aims in a lower leveraged LDI environment, or whether the supporting business model may need revising.

It is important schemes consider

whether the size of the capital buffer is adequate for the downside funding risk that may being run, "because when you have a third party promising a level of return to the pension scheme, you've got to assess that counterparty risk, as you would do whenever you enter into other assets", Cooper says.

"CBJPs do bring extra complexity, extra monitoring requirements, and some pension schemes may not need the extra complexity, especially if they have got a super-strong covenant and are happy to carry on with their current model," he adds.

According to Willsher: "CBJPs are complex legal agreements and the way the assets are managed can be complex too. The worry of having to get the deal right first time, can also be concerning for trustees and sponsors."

Delays

Could this be the reason why, despite the opportunities a CBJP could provide, there has only been one deal announced so far, back in 2020? *[see boxout].*

"Certainly plenty *[of schemes]* have looked at it, but some of those who were looking have found they have accelerated towards their end game over the course of the recent yield rises, and so have had to restructure or call off the deal. Additionally, as more solutions have come to market, or have been close to market, trustees and sponsors have been keen to see what the other options are," Willsher says.

Pearce also notes that the market is clearly still immature.

"Each provider has developed their own version of CBJPs and so each market offering is not directly comparable. This can mean that it can be quite challenging to understand the range of options and get to a position where trustees are comfortable entering into a multi-year CBJP," he explains.

"The pensions industry does take time to embrace new innovation, and this is new," Cooper states. "The transactions are complex. They're not something that trustees are familiar with. They'll need a lot of due diligence on the provider, a lot of expertise, professional advice, and that's expensive to do."

Role

Despite the lack of deals announced, CBJPs are expected to have a role to play within the DB de-risking sector.

Cooper does not expect CBJPs to become as big as the bulk annuity, with its approx £50 billion of transactions a year, "but over time, it could become a reasonable, not insignificant part of the risk transfer market".

However, CBJPs are not competing with buy-ins and are very much a complementary option for pension schemes, Pearce notes.

He adds: "It is likely that it will take a number of transactions to build understanding and confidence in these products but then we could well see CBJPs carving out a role within the industry."

Written by Laura Blows

The range of DB pension risk transfer solutions

Capital Backed Investment Products - Additional capital provided by third party to support investment risk during journey to full buyout. Capital can be provided directly, or in alternative form eg surety bond

Longevity Swap - Asset owned by the pension scheme which insures longevity risk for a proportion of liabilities (typically pensioners). Longevity risk is typically transferred to reinsurance market

L&G Structured Products
- Insured Self Sufficiency (ISS) -L&G provide investment management and additional security to support long term run-off (or potentially ultimate buyout), but without full protection against extreme downside outcomes
- Assured Payment Policy (APP) - A buy-in style insurance policy based on expected, not actual, cashflows which insures investment-related risk, but not longevity risk Includes the potential to convert the policy to a buy-in in the future

Superfunds - *Full risk transfer for sponsor and trustee, covering all scheme liabilities but with lower capital protection than buyout*
- Clara Pensions- 'Bridge to buyout' model – scheme held as segregated section within 'superfund' until later buyout
- The Pension Superfund – 'Run-off' model – scheme added to consolidated 'superfund' targeting long-term run-off. One-way profit-sharing model could enable uplifts to member benefits

(Partial) Buy-In - Bulk annuity held as a scheme asset which matches a subset of liabilities (often pensioners)

Captive Buy-In - As per buy-in, trustee receives bulk annuity from regulated insurer but insurer reinsures policy to sponsor-owned captive insurance vehicle. Insured risk transfer for trustee while sponsor retains upside

Buyout - Fully insured solution for liabilities of all scheme members. Full risk transfer for sponsor and trustee. Often considered 'gold standard'

Source: The range of DB pension risk transfer solutions, Mercer, September 2021

Prepare for lift off

With DB pension schemes' funding levels continuing to improve, Maggie Williams investigates what this means for the buyout market

Summary
- This year has been a strong year for buyouts as gilt yield increases improved scheme funding positions.
- Preparation is key for schemes, including benefits specifications and data cleansing.
- Small as well as large schemes have been able to transact with streamlined processes.

"If you were to travel back in time a couple of years and ask what the impact on defined benefit (DB) pension schemes would be of a global pandemic, followed by a war in Europe, high inflation and market instability, most people would have said it would be a disaster. But actually, for the majority, it's been the complete opposite," says K3 Advisory managing director, Adam Davis.

The whirlwind in markets that accompanied some of those world events has driven major improvements in the funding position of most DB schemes over the past year. As a result, many have found themselves far closer to buyout than they could ever have expected. According to analysis from Barnett Waddingham, FTSE 350 DB schemes' time to buyout reduced by around four years over the course of 2022.

"Many schemes will have seen their funding level improve as gilt yields have risen," says Zedra client director, Louisa Harrold. "Schemes that had been hedged to 100 per cent of technical provisions might have had a slight under-hedge on a buyout position. Therefore, as gilt yields went up dramatically, they closed that gap to buyout. That's meant the timeframe of their journey has shortened, in some cases quite dramatically."

"Ironically, some DB schemes that were less well-prepared have also fared well in 2022, due to their much lower interest rate and inflation hedging," adds Cartwright director of investment consulting, Sam Roberts. "If those schemes were also able to move quickly, they could lock in a buyout surplus they could have only dreamt of before."

Widening corporate bond spreads have also made 2022 an attractive year from a buy-in and buyout perspective, says Davis. "Corporate bond spreads have been wider this year than in 2021, so buy-ins makes more sense than in a tight

credit spread environment. But, buy-ins have been overtaken in many cases by improvements in funding positions that mean schemes have looked at a full buyout instead."

A busy year for buyout

These factors mean that total buyout business is likely to be brisk for 2022. The first half of the year saw £12 billion of bulk annuity deals completed, but it's too early to identify the full volume of deals in 2022. Estimates are between £25 billion and £35 billion depending on whether some larger transactions complete before the end of the year.

This is roughly on a par with the £27.7 billion written in 2021. However, almost every scheme's liabilities will have shrunk as a result of rising gilt yields. So, while the total premiums may look consistent, behind the headline figure the volume of deals being struck has increased. "There were around 75 to 80 transactions in the first half of 2022, and I would expect as many if not more in the second half," says Mercer head of risk transfer and DB journey planning, Andrew Ward. "There is a strong pipeline and insurers are likely to be signing deals most days between now and Christmas. And, although the first quarter of a year is usually quite quiet, the early part of 2023 is looking very busy indeed."

Preparation, preparation, preparation

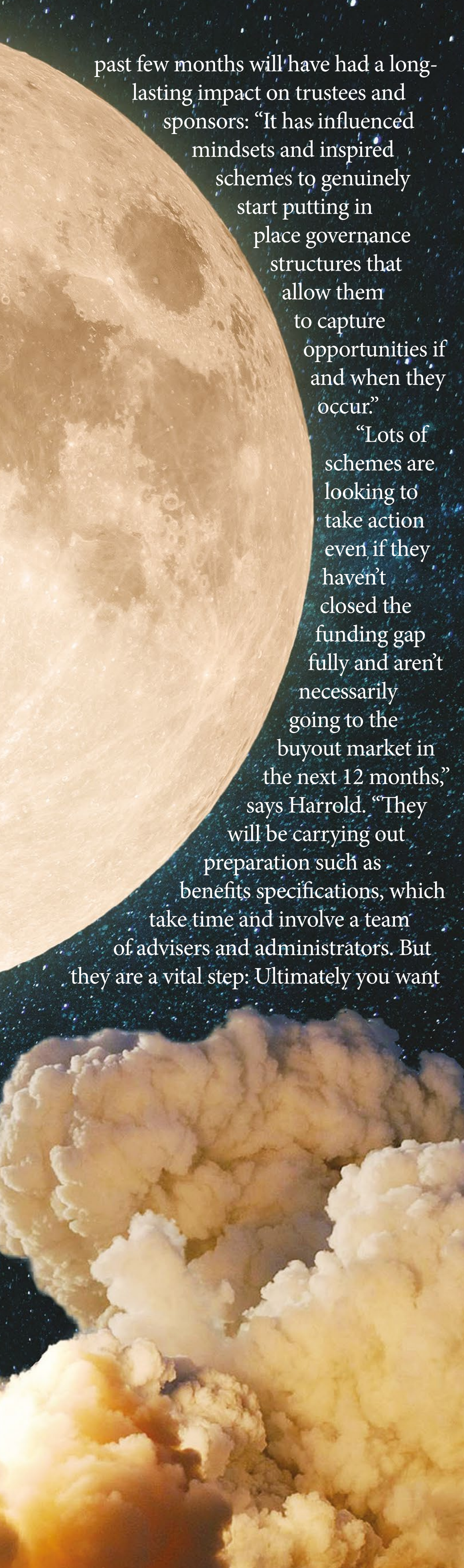
Being preparing for buyout is about more than an improved funding position. "Over the past few years, there has been increased focus on schemes being well prepared, nimble and able to make decisions quickly when market opportunities appear," says Aon partner, John Baines.

"Back in September and early October 2022, buyout pricing was spectacular, but only lasted for a few days. It really tested that preparedness to the max, along with whether schemes and their advisers were able to think and make decisions quickly."

Baines says the experiences of the

Five stages to become buyout ready, according to Mercer head of risk transfer and DB journey planning, Andrew Ward

- Feasibility: Are trustees and sponsors confident that the buyout proposal makes sense? Have a realistic target price so that you are not wasting insurance time with transactions that are at best very speculative.
- Due diligence: Does the scheme have an accurate benefits specification? Have any issues around scheme rules been resolved? Increasingly there may be surplus considerations to think about as well.
- Data: Is data fully prepared, including addressing any gaps such as spouses' data.
- Assets: How will the scheme address any illiquid assets and exit these if necessary?
- Governance: What is the scheme's preferred decision-making structure? Will the process need a sub-committee and/or joint working group with the sponsor? Is there a clear timescale and good project management?



past few months will have had a long-lasting impact on trustees and sponsors: "It has influenced mindsets and inspired schemes to genuinely start putting in place governance structures that allow them to capture opportunities if and when they occur."

"Lots of schemes are looking to take action even if they haven't closed the funding gap fully and aren't necessarily going to the buyout market in the next 12 months," says Harrold. "They will be carrying out preparation such as benefits specifications, which take time and involve a team of advisers and administrators. But they are a vital step: Ultimately you want to make sure you are insuring the right benefits when you do go to buy-in or buyout."

Ward identifies five key stages of preparation for buyout *[see boxout]*. "These make sure that you can tell a compelling story to insurers and give them confidence that a deal is likely to happen and won't cause excessive headaches in operational terms."

"Insurers are now certainly looking at some very large transactions and these will inevitably attract lots of competition because of the size"

The people puzzle

Scheme preparedness and efficient governance are likely to become increasingly important from an insurer perspective. "If you look at insurers' balance sheets, it's clear that they have the capital to write a huge amount of business, a multiple of anything that's been written so far," says Baines.

"I also don't see reinsurer capacity running out," adds Ward. "And Solvency II reforms will make it easier for insurers to invest in long-dated stable cashflow assets such as wind farms, solar panels, social housing, infrastructure – many of the opportunities that the UK economy also needs over the next decade or more. So, I don't see any major constraints from an asset perspective either."

"But a potential issue is the people and skills insurers need to write transactions and implement administration in the back end," explains Baines. "That could be the biggest challenge for the industry over the next few years if the buyout market is to continue to grow."

Davis believes that people capacity is an issue from a scheme perspective as well. "The pensions industry is dealing with a lot of initiatives that have to be done, such as GMP equalisation. That is taking up administrator capacity, which is really important for buyout."

He argues that both schemes and insurers need to work more efficiently in order to minimise this risk. "We've worked out ways to work more smartly with a number of insurers. It's also meant we can transact small schemes more quickly with streamlined processes."

Roberts adds that small scheme deals have been a major success story in 2022: "There has been an acceleration in the ability of small schemes to transact quickly and safely, destroying some previous assumptions that such schemes cannot get quotes or transact."

"Different insurers will have different priorities," adds Ward. "Insurers are now certainly looking at some very large transactions and these will inevitably attract lots of competition because of the size. But that doesn't mean there isn't interest for small and medium schemes too, if you can make the process efficient and be realistic about the terms. For example, there may be an acceptable good quality set of standard contractual terms on offer from insurers."

The economic chaos that has characterised 2022 will have a long-lasting impact on the buyout market, with many schemes either unexpectedly able to transact or moving significantly closer to that goal both in terms of funding position and overall preparation. Schemes that have been able to lock in the funding gains they have made will benefit, especially as gilt yields could start to fall again next year. "Those schemes that act first are likely to get the best deals," concludes Roberts. "Those that delay may find themselves with the same frustrating buyout shortfall they had a year ago."

Written by Maggie Williams, a freelance journalist

Avoiding the trap

With DB funding levels having improved significantly over 2022, the issue of trapped surpluses has been exercising minds, but sponsors looking to claw back their capital may well end up being disappointed

The quasi-margin calls made on pension funds following the LDI liquidity crisis in late September opened up a veritable Pandora's Box of problems for the UK's entire defined benefit (DB) supply chain.

On the trustee and sponsor side, headline-grabbing cash injections have understandably caught plenty of attention. Even in early November, news was still funnelling through of high-profile DB rescue packages or liquidity mitigation plans, with Sainsbury's revealing in its interim results that it had set up a three-month £500 million loan facility on 18 October to ensure its DB scheme could cope with any future collateral needs on its LDI facilities.

At the same time, almost paradoxically, further scrutiny has been placed on the strong solvent position of the UK's DB system. In early November, PwC reported that its new Buyout Index had maintained a broadly unchanged funding level, with a surplus of £170 billion, meaning that many DB funds are in a position to enter buyout agreements. In the same month, the PPF 7800 Index indicated that the aggregate surplus of the UK's DB schemes had increased to £374.7 billion in October 2022; a year-on-year rise of £271.5 billion.

Rising gilt yields have clearly reduced DB liabilities over 2022, but in some cases, fresh capital boosts during the gilt crisis have led to immediate and lasting improvements to funding. And as WTW retirement business senior director, Edd Collins, points out, other factors have also contributed to the change. "The longer-term impacts of Covid-19 are leading to reductions in future life expectancies, and caps on inflationary pension increases have had an impact in a high inflation environment," he says. "While some of these impacts could reverse in future, a number of schemes will have taken steps to lock in these funding improvements by reducing the risk they are running. It is therefore likely that dealing with surpluses is something that many more DB schemes and their sponsors will need to consider than has been the case for many years."

Summary
- Cash injections following the LDI liquidity crisis have both emphasised and shed further light on DB schemes' strong funding positions.
- Schemes will be expected to work out how accessible a surplus is for a sponsor, what it means for a scheme's endgame and whether or not to continue to de-risk.
- The danger of 'trapped' surpluses has risen, as a result, and cumbersome scheme rules, statutory requirements and accounting systems, may mean that employers never get their capital back.
- Direct ways of avoiding a trapped surplus include stopping contributions, funnelling them elsewhere and augmenting pension benefits.
- Indirect methods include revised LDI strategies.

Although the situation is a welcome relief from years of grappling with deficits, it has also created new puzzles. In a recent report produced by LCP, the consultancy stressed that the realistic prospect of long-term surpluses mean that schemes will have to review their overall strategies. LCP says that when viewed through the IAS19 accounting measure, FTSE100 organisations have the potential to realise over £150 billion of value – if their schemes are run on. Given such a number, schemes will be expected to work out how accessible a surplus is for a sponsor, what it means for a scheme's endgame and whether or not to continue to aggressively de-risk.

The trapped surplus

In some cases, scheme trustees and sponsors may have to act quickly to avoid surplus money becoming 'trapped'.

This scenario can occur when there is a question mark over who owns the surplus in the event of a wind-up, once a scheme's liabilities have been discharged. In a blog published in October, Dentons partner, Eleanor Hart, wrote that this query is usually addressed within a scheme's rules, but there also statutory requirements in place that must be met before any surplus can be returned to the sponsoring employer. For example, any power to augment benefits that exists

must have been already exercised, and members must be given at least three months' notice that the surplus is to be returned to a sponsor.

Aside from following the rules to the letter, there could also be some confusion over how to account for a surplus on a sponsor's balance sheet. "It can be possible to account for a surplus, even if on a technical provisions basis the scheme is still underfunded, and in all likelihood no monies will ever end up being returned to the employer on a winding-up of the scheme," writes Hart.

"The return of any surplus to a sponsoring employer is therefore not an inevitability or a straightforward process, despite what, if anything, the scheme rules say," she warns.

Ending contributions

One way of avoiding a trapped surplus problem may be to stop contributions or divert them into another vehicle.

Collins says that in cases where a scheme is fully funded on its Technical Provisions basis, the sponsor may want to stop paying contributions. The nature of this discussion will be scheme-specific, but there are a number of examples where agreements to stop contributions have been reached, he says – both in relation to deficit contributions and also contributions for future benefit accruals.

"Before trustees agree to contributions stopping, they are, however, likely to want to agree when contributions restart, should positions subsequently deteriorate," says Collins. "Trustees can also protect their position by adopting a buffer above 100 per cent funding that needs to be reached before contributions turn off, or requiring the scheme to have remained fully funded over a specified period of time. With improving funding positions, we anticipate more corporates and trustees wanting to build automated switch-on and switch-off contribution mechanisms into future valuation agreements to avoid the need for ad-hoc agreements to be reached as funding positions change."

EY-Parthenon head of pensions alternative financing solutions, Eimear Kelly, says that for many corporates and trustees, the use of a structured vehicle – which sits outside the corporate – is one of the best ways to solve the contributions conundrum. "It offers an innovative, agile, and secure solution for both parties," she says. "It allows companies to efficiently manage capital, as the structure will funnel money into either the pension scheme or the company, as needed, whilst trustees and schemes can benefit from the security of a vehicle that provides adequate funding and is not at risk of bankruptcy from the corporate."

Other avenues

In XPS Pensions Group partner, Adam Gillespie's, experience, most trustees are very practical over the issue of a surplus, and generally believe that it should return to an employer if possible.

Nevertheless, in the current general cost-of-living crisis, there is a possibility that there will be widespread discretionary increases to pensions. As Gillespie says this could be quite tricky, as augmenting member benefits would involve working out how much to pay each cohort, while being as fair as possible.

"It has come about due to the high inflation environment, obviously, as virtually all pension payments are capped at either 5 per cent increases or lower. Current pensioners aren't getting full inflation increases, so there's been there's been talk about possibly using surpluses, to provide some sort of respite for pensions in that regard."

Gillespie has also heard stories about employers with multiple schemes, where one scheme is in surplus, and one scheme is in deficit, wondering whether they can merge the schemes together, and effectively share all the assets and all the liabilities.

Natural erosion

Avoiding a trapped surplus could also occur due to the change in LDI strategies that has taken place since the gilt crisis.

As the LCP report states, LDI managers have permanently imposed lower limits on leverage levels, typically around 1.5x to 2x (compared to 3x before late September 2022) as a "new normal". In essence, this means schemes will either have lower hedge levels or alternatively lower allocations to growth assets in order to maintain high hedging levels at lower leverage.

"It is possible that as schemes revisit their investment strategies and funding positions, some schemes find that they have to allocate more assets to maintain the same hedge positions and as a result forego returns on growth assets," says Hymans Robertson co-head of DB investment, Elaine Torry.

"In this case, the aggregate future expected return on scheme assets may be lower than previously assumed, as there are fewer assets invested in return seeking asset classes. The extent to which this eats into schemes' surpluses will depend to a large extent on what funding basis the surplus exists on. The greater the strength of the funding basis that the surplus exists on, the more likely it is that the scheme doesn't need the extra return and hence the less likely it is that the surplus will be eroded."

A great problem to have

Although losing out on DB surplus capital would naturally be viewed as a highly undesirable outcome, Gillespie says that over the course of time, it could still be viewed in a positive light.

"While an employer might not be able to get all their money back and they've paid more into the scheme than they needed to, they've reached nirvana, the ultimate goal. They're got more than enough money to get the pension scheme off their balance sheet and get all their defined benefit promises fully secured with an insurer.

"That's an absolutely great outcome."

Written by Marek Handzel, a freelance journalist

In association with

Defined benefit roundtable

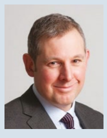
CHAIR

Pradeep Kachhala, Regional Director & Client Partner, SEI
Pradeep serves as a regional director and client partner and is responsible for delivering bespoke solutions that meet the needs of defined benefit pension schemes and charities. He also serves as an additional point of escalation across some of SEI's key client relationships. Prior to joining SEI, Pradeep spent eight years with UBS and was responsible for growing the charities and endowments business, in addition to managing and advising on the relationships thereafter. Pradeep started his career as a portfolio analyst at State Street Global Advisors.

PANEL

Don Baines, Client Strategy Director, SEI
Don is responsible for formulating and delivering strategic investment advice to occupational pension schemes in the UK and Europe, as well as institutional clients in the Middle East. His role includes coordinating and managing day-to-day client relationships. He is responsible for client deliverables, including development and evolution of the investment strategy, reporting and all aspects of implementation. He also provides ongoing trustee training. Prior to joining the institutional group, Don spent a year in the global trading team at SEI.

Dickon Best, Trustee Director, Ross Trustees
Dickon has broad pensions experience, having worked with and advised trustees and corporates for over 15 years at a global accountancy firm. He brings significant experience of managing change and transition within schemes, through ownership changes, scheme separation and scheme mergers. Since joining Ross Trustees, he has been involved in some of Ross Trustees' complex structuring work. He has led projects, managing input from advisers, liaising with stakeholders including dialogue with The Pensions Regulator.



John Dunn, Head of DB funding and transformation, PwC
John has over 20 years' experience of advising corporates and trustees on employee benefit issues. He advises clients across all sectors on funding, cost management, end-game strategy and liability management. His career includes advising on the first longevity swap to be transacted by a UK pension scheme and one of the first pensions 'co-investment' vehicles to be used to manage trapped surplus risks. His current focus is leading for PwC on the funding and transformation of defined benefit schemes.

Bob Hymas, Trustee Executive, BESTrustees
Bob has over 20 years' experience of working with pension schemes. Following a senior in-house role at a multi-billion pound scheme, he joined BESTrustees in 2016. He is a highly experienced pensions professional and trustee and is either the chair, co-trustee or sole trustee of 12 clients. His clients vary in size, but several have assets of less than £100 million. He values the broad range of experience and backgrounds of the boards he sits on and helps the governance process by guiding boards through complex issues.

Payam Kazemian, Client Director, Zedra Governance
Payam is an investment professional with over 12 years of experience in the pensions industry. He has worked with trustee boards, sponsors, pension consultants and asset managers to design, structure, and implement pensions de-risking solutions for a wide range of defined benefit schemes up to £60 billion in size. Throughout his career, he has worked collaboratively with trustees and sponsoring employers: first to understand their funding challenges, and then to design bespoke solutions, using liability-driven investment (LDI) as well as asset-side focused strategies.

Nadeem Ladha, Trustee Director, 20-20 Trustees
Nadeem joined 20-20 Trustees in 2018 and works across London and the Midlands. Before joining, Nadeem was a senior member of PwC's Midlands pensions practice and prior to that spent seven years at Hymans Robertson. Nadeem has advised trustee boards and sponsors with pension schemes ranging in size from £10 million to £4 billion. He has worked on a range of strategically-focused and complex projects with clients that operated across a number of sectors including financial services, energy, media, telecoms, construction and professional services.

Alex Lindenberg, Managing Director, Redington
As a strategic adviser to DB pensions funds totalling c.£50 billion in assets, Alex has significant depth and breadth of experience in helping clients to navigate a range of investment and funding challenges. He particularly enjoys working collaboratively with investment committees, in-house teams and trustee boards to align investment strategies with client objectives and implementing changes efficiently and effectively. Prior to joining Redington, Alex worked at an economics consultancy engaging with central bank policymakers and institutional investors.

Emily McGuire, Investment Partner, Isio
Emily has advised a wide variety of organisations on their investment arrangements for 25 years. Emily joined Isio from Aon where she was on the leadership team for 12 years alongside working with clients. She has practical experience with a variety of different governance structures including in-house fund management, evolving common investment funds/structures and implementing fiduciary management. She is a regular contributor to the pensions press.

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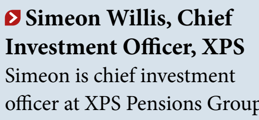
Giles Payne, Professional Trustee, Capital Cranfield
Giles joined Capital Cranfield in 2018 and has more than 30 years' experience in various roles in the pensions industry. He has worked a professional trustee since 2009 and has experience working with defined benefit, defined contribution schemes, master trusts and independent governance committees. He acts as chair to a number of schemes as well as investment sub-committees. His career has included working for an asset manager, consultancies, and an insurance company. He is a regular contributor to the pensions press.



Simeon Willis, Chief Investment Officer, XPS
Simeon is chief investment officer at XPS Pensions Group. He is responsible for XPS' client investment journey planning and approach to asset allocation, while also leading the group's investment research output. An investment specialist with over 20 years' experience, he advises XPS' trustee and corporate clients on a full range of investment related matters, with a particular emphasis on strategy and risk management. He is a regular contributor to the pensions press and is a highly regarded speaker at industry events.

DB twists and turns

Our panel discusses how recent events will impact defined benefit (DB) schemes going forward, and what the future holds for this part of the market

Chair: Let's begin by reflecting on what happened in those few days after the mini-Budget. It was probably one of the most significant periods in DB pensions in a long time. Liability-driven investment (LDI) suddenly became mainstream – if you went on Twitter #liability-driven investment was trending!

From a staff perspective, for those who work within the pension sector as investment professionals, consultants or actuaries, there were a lot of late nights, a lot of rebalancing that had to happen, a lot of speaking with clients. For the independent trustees, there will have been calls with consultants and other trustees and so on. How did you feel about it all?

Willis: If you'd asked many trustees at the start of the year what was on their wish list, a rise in yields would probably have been top of that list, and a rise at around 1 per cent would probably be the sort of number that would have made a big difference to them.

But what caught them out is that it happened in the course of three days rather than spread over a comfortable length of time. So it's actually a good news story for pension schemes, apart from them potentially being thrown off the bus as a result of the collateral calls – the level of volatility in the gilt market created a situation where well-structured, well-hedged schemes were just not able to maintain that hedge through that volatile time.

So we needed a period of calm so they could get their footings shored up, but we shouldn't lose sight of the fact that rising yields have created a good situation for many schemes and there's opportunity that has come out of it.

Chair: That's the great irony of this – we saw massive volatility and turmoil in the gilt markets over a short period of time, but if you actually look at the past four to five months prior, it's been a nice ride for pension schemes. A lot that were in deficit are now closer to fully funding, if not beyond that.

Payne: In terms of looking at things over the past year, we've had a compression of time to buyout, which has been very nice and, as a result, we have also seen a real crunch on the administrators as well, because suddenly everything is urgent as many schemes are in a good state to buy out.

Looking at the immediate situation post mini-Budget, in those few days, we obviously saw fund managers closing out pricing and threatening to reduce hedging, so that caused a sharp intake of breath! But opportunity is the key thing here. I have one client who was meant to

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be four or five years away from buyout, that was all of a sudden fully funded; so I had a chat with the chief executive and CFO, saying that we needed to consult about the investment strategy in order to take all the risk off the table and try to secure the funding of the scheme. We couldn't buy out immediately because there's too much to do, but we could certainly immunise against buyout funding. It's only a small scheme.

The call to action therefore at times like these is quick, clear, decision making to take advantage of these opportunities, because they could turn around.

McGuire: I agree. Some of the trends that we've been seeing have just been accelerated, so that governance piece is all the more important. Trying to capture even just what their current positions were was a challenge for a lot of schemes, amidst all that was going on, but they also needed to take a step back, and keep a clear head and, as has been said, some schemes will be a lot closer to buyout than they previously were. So lots of things have improved, despite all the negative headlines that we saw.

Dunn: Post mini-Budget, we were in the middle of a real storm, which felt uncomfortable, because it was putting a lot of pressure on the industry. But that storm has potentially and collectively just blown all these pension schemes in the right direction. I'm also seeing schemes that were 10 years away from being able to buy out to now being one or two years away from it.

By the end of this year, I believe we'll

step back and look at the position of many of these schemes and think, "wow, that is incredible what has happened". Then the real issue will be around all these pension schemes wanting to do similar things at the same time, for example, buyout, de-risk, restructure their LDI, do all their necessary data work and so on.

That will lead to the question of whether there are enough people in the industry to do it all. Or the right people in the right places to do the jobs that now need doing – to price the bulk annuities, to do the data work, et cetera.

So it's a little depressing that some of the newspapers turned pensions into a bad story in recent months. Of course, there are issues out there in the industry, including LDI issues and collateral issues, but I still think we'll step back at the end of the year and think it is quite incredible what's happened to many of these schemes.

Baines: On the point around capacity and potential bottlenecks, I was with a client recently that was 15 years from buyout at their last actuarial evaluation and now they're in surplus! Based on the fact that they were 15 years away from buyout, they were entering into infrastructure assets and all sorts of things like that. So, in some cases, even if you wanted to go to buyout next year, and everything fell into place from a data and legal perspective, on the investment side how are you going to realise some of these assets? There could be a lock-in for another three years. Some schemes may have just bought into private equity, where there may be a 10-year lock-in. So, it is about managing those sorts of liquidity risks too. It's not just about meeting collateral calls in the short-term, but in the longer-term how we are going to actually transact.

It's going to be interesting to see how the buyout market reacts to that. Are they going to find creative ways of taking on assets like that? It's going to be a problem.

When you think about UK property funds, for example, everybody's looking to redeem. I know across a number of property funds that we hold in our client base that the managers are talking about extreme redemption requests, and I wouldn't be surprised if it's not too long before that starts hitting the headlines – that they are gating their funds.

Chair: From a fiduciary manager's perspective, over the past three to four years, a lot of the market was talking about allocations to illiquids. From a strategic asset allocation perspective, with lessons learned in terms of being mindful of these things in extreme market scenarios, how do you assess that from a long-term strategy?

Lindenberg: First of all, everyone is reassessing what the definition of an extreme market environment actually is. In one day, we had a 160 basis point intra-day move in the 30-year index-linked gilt. That's utterly extraordinary.

The issue is you have pension schemes that have calibrated their collateral buffers to what they consider to be that prudent shock, which is absolutely fine if it emerges gradually in the market – and most of us around the table would have probably expected a normalisation of interest rates in the current economic climate. But the fact that it happened in the space of two or three days was most unusual. There were pension schemes that were in a strong position on Friday and were not concerned about their collateral positions. But then there was a domino effect, where you had schemes that were a lot more leveraged having to force the sale of other assets in the portfolio. Often they couldn't do that quick enough, in which case they were having to actually

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unwind hedges. That adds to the selling pressure on gilts, which then creates this domino effect that brings other less leveraged pension schemes into the mix.

So it was challenging. A real lesson learned in terms of the definition of liquidity was that we are talking about assets that you can realise for cash really quickly, and you might see a shift in portfolios towards holding higher LDI collateral buffers and potentially relying on more liquid higher-returning growth assets elsewhere in the portfolio so you can realise cash quickly as needed.

Best: From a corporate perspective, you'd probably describe this as overtrading. We've talked today about those schemes, probably larger schemes, which are well funded, but it was a real challenge for some of the smaller schemes that were focused on trying to manage their risk using LDI where they were being potentially caught out on these collateral calls, combined with the fact that, on the other side of the equation in terms of trying to manage inflation, they might have been in illiquids, and there is a cost to exiting those.

So, in the long run, we'll see this as a positive story, but there are some schemes which will have faced challenges and, for them, it was about engaging with the sponsoring employer around what was happening, and what they intended to do. It was important, in some cases, to relook at perhaps the strategy that they had been taking, and think about whether it was still appropriate.

Hymas: That's a valid point because, thinking about my co-trustees on smaller schemes where, over the past two to three years, they have been convinced that LDI is the thing to do, they will now be asking questions. The fact that LDI has been in the spotlight means that they will think about it and ask "was it the right thing to have done?" "Should we continue with it?" "Is it achieving what we want it to achieve, looking at the overall investment strategy?"

Also, we must not forget in all of this what's happened to growth assets – whether they are staying level, whether they are going in the same direction, and so think about the overall portfolio; and moreso we need to be talking more about the long-term objective, rather than just technical provisions. We have often focussed on technical provisions, but the long-term objective is now where The Pensions Regulator (TPR) is focused. We should talk about settlement and some of the options that might exist, and run-off is one of those options; so it's about thinking about all components of funding and investment.

Ladha: The biggest issue that we're going to have is taking the opportunity – absolutely, volatility does create opportunity, but only if you can execute on it. It was a lot harder to get it at the optimal time. Of course, the spreads on gilts were blown out as well at that point, meaning that if you were going to buy gilts, you were doing so recognising that you were giving away value.

In those days following the fallout, engaging with the sponsor was hugely valuable. We had to do it with a very well-funded scheme that was fully hedged on a prudent basis, and being able to do that felt like a great place to be.

Suddenly, when we needed liquidity we were well placed to access a liquidity loan from the sponsor to prevent the scheme from losing the hedge. Losing a hedge when rates were high would have created a funding deficit if rates were to fall again – which of course they did.

De-risking

Chair: Let's move on to de-risking. There are two elements here – the will to do it and the market opportunity.

The irony is that LDI is a correct way of using hedging and derivatives within the pension space. It's certainly a responsible way. Let's assume the opportunity does return to de-risk, where's the discipline there from a trustee's perspective to enact that?

Kazemian: Just taking a general view of this, the main issue has been an acceleration of the rates rise, but that's in a way a good problem to have from a scheme's perspective versus a scenario where rates were going in the opposite direction at the same pace. Generally, funds would have been expected to be in a better position.

From a trustee perspective, for the schemes that were out of the valuation cycle, this was also a big enough event to require them to conduct another valuation. So, it was about going through the investment strategy review, maybe looking at the liabilities again, looking at the whole journey plan, just to reset everything and make sure that the scheme is taking the right risk versus return, and has the right asset allocation.

The other issue from a trustee perspective to consider is the company side. If a scheme is four or five years away from buyout, and the plan was to increase hedge ratios as the scheme gets closer to full buyout, it could now, all of a sudden, be in a position where the scheme has a trapped surplus. Companies probably expect trustees to keep an eye on that. Therefore, that is another thing we need to get on with very quickly as trustees, to make sure we minimise the chance of

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that happening.

But to your question about hedging or de-risking, I generally think we are talking about pension funds so, yes, there will be times when things go favourably for us, and there will also be market events that go against us. So, we always have to think about it from a de-risking perspective, in a prudent way. I don't think LDI is a bad thing from that perspective. If there were journey plans previously placed to de-risk, I think that those need to be followed. There is no need to take a gamble from that perspective and try to time the market. You could argue that if you're under-hedged, let's not hedge more now, because we have more upside if rates keep going up. But I don't think that's the right approach for a pension fund. De-risking is always the prudent thing to do.

Hymas: Trapped surplus is one thing, but employers are also now in a very difficult economic environment, which is going to affect them in different ways depending on what sector they are in or the nature of their business.

Ladha: It's why escrows are becoming more common. Sponsors feel more comfortable putting money into another vehicle because whilst the cash may be needed by the scheme, if it isn't, say, because markets outperform or demographic experience is net positive, they can access it without penal tax consequences. Depending on how the escrow is structured, they can potentially access it earlier than end-of-life of the scheme as well. Will that become business as usual?

McGuire: There's an extra piece here around de-risking, and that's the de-leveraging part, and then there is going to be the aftermath of that and there are going to be lessons learnt in the industry. I cannot believe that we're going to be in a world a month or two down the line where leverage levels aren't coming down across the piece. It's not going to be available, whether it's in pooled funds, to be able to leverage up as much.

Payne: Also, if you're trying to do it with physicals, there is a capacity issue there – there just aren't enough physicals in the market to do it.

Going back to the surplus point, I believe, as trustees, we've got a big argument coming in terms of who owns the surplus and what we can do with it.

Dangers of not de-risking

Chair: We've talked about the discipline of having to de-risk when you get the opportunity. What are the dangers of not having that discipline?

Baines: There are obviously dangers to it. But I look at discipline in two ways. Sometimes discipline is taking action when you need to, but sometimes it's about stepping back and taking account of everything that's going on. There was a lot of volatility at the start of the week post the mini-Budget, and some very well-known LDI managers were stopping to price their funds etc, so the industry needed to react.

So, it's about taking everything in the whole, taking a step back and considering whether you should be taking action or not. Of course, in the event that you can capture opportunities, you'd want to.

We're focusing a lot on the LDI portfolio, but it's also about what's currently in place in the growth portfolio too. One of our clients recently, for example, had a surplus on buyout and so they wanted to lock in the position as quickly as possible. Fine – but ultimately what we'd like to do is de-lever them. Of course, we would. They can afford to. But also they have 35 per cent in illiquids. (They didn't have that before the volatility, they had 20 per cent, but because everything else sold off so much, what was 20 per cent almost doubled).

So we're talking about doing a day one portfolio, where we are only in illiquids as far as we can be in the growth portfolio, obviously, with adequate liquidity levels, and then the LDI portfolio, and then doing a phased transition through to what would be the holding pattern before a potential buyout. Then being as close as possible to the potential buyout provider so that, where we can, we are mimicking what is happening on the buyout pricing. So a mixture of credit and gilts.

But if there are some nuances, you want to start incorporating those sorts of things and start thinking about that. So that's the next stage on the LDI side.

Ladha: We talk about being able to de-risk, but when you start moving towards a long-term strategy, and if settlement is that strategy, then the obvious thing is to minimise your risk against buyout pricing. What makes de-risking harder when you get into the detail is the divergence in asset strategy within the eight main insurers. Does the scheme need a 10 per cent allocation to credit? Is it 60 per cent credit? Somewhere in the middle? In financial terms, that divergence creates a material risk exposure unless you start narrowing down your insurance partner.

Baines: That's where the escrow potentially comes in. We were talking recently to another client about escrow and they were very happy to take money out of the company and put it into an escrow, knowing they had the ability to draw down on that if, for example, they'd done the best they could with the information that they had at that time – they would have the flexibility if needed.

Also, maybe it's not always a case of completely de-risking to matching assets, but looking at holding a little bit of growth, not to the extent where your

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growth risk as part of the value-at-risk is significant but whereby, if we continue to see growth, we continue to grow a potential surplus and then hopefully not have to draw down on that escrow.

Hymas: For some, it is arguably time to start focusing the mind on self-sufficiency run-off as an option, because time may be required before buyout, partly because of the data issues, and most schemes are not ready to actually go to market. Also, we need to recognise there will most likely be capacity issues in the insurance market going forward.

Dunn: Yes it is going to take a long time for all those schemes that want to buy out to do so, especially given the current capacity in the insurance market.

So run-off over a period of, say, 10 years – or even longer – is actually where a lot of schemes are going to end up.

Ladha: In most cases, we're not really talking about actual "self-sufficiency". We might be talking about a self-sufficiency type actuarial basis, but we're not talking about a scheme actually being self-sufficient, what we are really talking about is incubation. How do you get to your end game in a capital efficient manner whilst you've got capacity issues in the insurance market, whilst you've got data issues to sort out, and whilst you've got immaturity still locked into your liabilities? It's through incubation, and that's the lens that we should be looking though for a majority of schemes.

Lindenberg: It's also about making your portfolio as attractive as possible to insurers, because they're going to be incredibly selective with such a volume of supply hitting the market. So having your data in order, having the portfolio as liquid as possible, potentially doing some stuff on the more liquid side to price match. But it's always going to be kind of a beauty parade where you've got a lot of pension schemes competing for a very narrow set of suppliers.

Dunn: Then, if you are incubating your scheme, you need to consider how insurer appetite might change over the next five or 10 years to do these deals. What buyout price are you aiming for? Are you being prudent on your buyout pricing? What margin are you going to have for the fact that insurer appetite might change? It might be beneficial now, but it could go the other way.

Baines: This risk that you're running over a longer time period becomes more real, because if your proxy isn't accurate enough, and you're running it for five years, that accentuates the problem.

Dunn: To a certain extent, these are nice problems to have because these pension schemes have got arguably sufficient assets to pay member benefits, and it's ultimately about paying member benefits. So there are all these technical problems, but the pension schemes are arguably in a really good place from a member perspective.

Hymas: I start to see this moment as being a step change though in what a scheme's long-term strategy can be. You've got TPR's view of long-term objectives and some of the current issues that come with that. But we need to take a step back and think about all of the different elements that we need to consider – ultimately it's about making your scheme as attractive as you can to what you think the insurance market will be when you want to approach it. But it's also about recognising that there are alternatives, and those alternatives start to look a little bit more interesting given all of these other factors.

Investment strategies

Chair: What does this all look like now from an investment strategy perspective?

Willis: I work with a number of schemes that are extremely well funded and, for various reasons, they're not going down the buyout route for the time being. That therefore changes the perspective of what you are looking for from a portfolio. The priority order of the risks changes, because the big risks are dealt with – you are fully hedged, the level of equity risk is removed, so you're then onto credit risk. You're thinking about the quality of the credit portfolio and perhaps, thinking about supplementing it with illiquid credit assets as well. So, we're investing like an insurer and the pensions industry will start thinking more like an insurer.

That is actually a very comfortable place for schemes to get to. It's relatively low governance. If you capture the credit spread within the liability basis as well, the funding position is pretty well insulated, and at the trustee meetings the types of questions you are asking are: What defaults have I had? Is this portfolio looking like I'd expected? How is the quality of the portfolio changing? And so on. These are all things that were a bit of a novelty a few years ago because we were worried about equity markets and funding levels. Schemes are already doing this, so it's just a question of more schemes doing more of it.

Payne: The issue of illiquids is going to become key going forward. You have schemes that are in surplus but have significant illiquid holdings, which they may well have to sell at a significant haircut. But the counterpoint is you've got schemes that are very well funded that haven't got any intention to buy out and therefore a secondary market

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could develop, because some of those illiquids are very good. If you look at infrastructure illiquids, for example, they often produce good regular cashflows.

Kazemian: With these dramatic moves that have happened in the market, the risk/return balance/dynamic has changed as well. Now probably for the same level of return, the level of risk that you need to take is much lower, so that should feed into the asset allocation design decision-making process. It may be the case that illiquids don't need to be the top asset class that trustees would think about in terms of getting the additional return (through illiquidity premium). Maybe even gilts or linkers would give you that now?

Lindenberg: I'm aware of a scheme that has traditionally taken a very growth-oriented approach with low levels of hedging. Given the moves over the past few months, they're now about 150 per cent funded on a gilts flat basis, and that just completely changes the opportunity set. You have the flexibility to migrate to a safe, low-dependency portfolio, probably just gilts and high-quality investment grade credit, and you've got high confidence you're going to be able to meet all of your benefits to the final cashflow.

Best: That also changes the relationship between the scheme and the sponsor i.e. your scenario does the sponsor ultimately want to achieve a buyout, if they have a big surplus on their balance sheet? They've managed the risk. Is run-off the right solution for them?

McGuire: If you've got to that

situation, 150 per cent funded, you've got choice, you can get a lovely strategy that runs off over time, or you can buy out.

Chair: In a challenging market for sponsors, possibly 2023 and 2024, if schemes are well funded, is this a problem at the top of their list right now? Do they want to spend money on an expensive buyout when that queue for buyout has suddenly become a lot bigger?

McGuire: Again it's about choice!

Hymas: And those choices are becoming clearer. The run-off option has always perhaps been seen as the unusual one, a bit of an outlier. But I think it'll become more of a central choice.

Payne: It then becomes a question of your role as a trustee, and that becomes a difficult thing. Because if you can buy out, if you've fulfilled your duties to secure the benefits due to members, do you do it, or do you go to a run-off? Whatever you say, there is still a risk.

Kazemian: Let's not forget the costs of running the scheme. There will be a break-even point when going for a run-off that it won't make sense anymore. Your assets have to meet at least your running costs for you to break even.

Baines: The whole landscape has changed. We were all anticipating that these pension schemes would gently drift towards buyout and suddenly some of them have burst through the finish line because of how much the market has moved. That opens up the possibilities. Suddenly, they may ask themselves why they should close this out when they could continue running it, and there could be a surplus.

Lindenberg: The other element to consider is inflation; most pension schemes have caps typically at 3 to 5 per cent which, in the past 20 years, was fine. But in a world where inflation is running much higher, is it right to buy out with those caps in place? Or would it be in the members' best interest to continue to build up more of a surplus so that you can award higher increases?

Hymas: Exactly. There have been questions around why are we not looking at discretionary benefits/discretionary increases, given where inflation is? If you can afford it, why wouldn't you?

Dunn: This run-off discussion is interesting and that discretionary increase point is part of it. Why would you transfer wealth from one group of shareholders to another, which is kind of what a buyout is doing? From a trustee perspective, if you've got sufficient assets and can run in a low reliance way with a big funding buffer there, it allows you to make decisions around transferring some of that buffer to members in the form of discretionary increases, which you can't do with a buyout.

Payne: We are talking about surpluses very freely here, yet it's about who controls those surpluses – it's going to be a difficult period for trustees when there are surpluses, because there will start to be arguments and court cases around what we can and can't do.

Dunn: We're seeing some of that already. We have done work with clients using escrows, or Scottish Limited Partnerships, to effectively be a side funding vehicle to the pension scheme, giving the option that, if there is surplus, it can be returned back to the employer.

But we're also seeing a situation where suddenly people are looking at the rules of pension schemes and asking: "How does this work on wind-up? Who has the power to control the wind-up? Who has the power to control the surplus?" There are often clear rules that say that the surplus must be spent on the member. There are other clear rules that state that the surplus goes back to the employer. But there are also rules where it's not completely clear what happens,

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or there are technical issues whereby the trustees own the surplus, but the employer controls the power to wind up. So unless the employer triggers the wind up, the trustees can't use the surplus. That leads to a negotiation in those situations.

Thirty months ago, when gilts were yielding less than one per cent, no-one would have ever thought we'd be talking about a buyout surplus. But there are lots of schemes that are in that position. Then sponsors have a real interest, because the sponsor will say: "I've been putting money into the pension scheme for the last 10-15 years, I'm entitled to see a return on that." Then, of course, there is still money going into some of these pension schemes. You can't forget that there'll be recovery plans in place that are still pushing money into schemes at the moment. Arguably, many of those schemes don't need that money anymore.

Baines: Intergenerational disparity is another point worth raising. We all know that DB pension schemes serve a certain demographic. Does the ability of accessing that surplus then re-address that issue? It may not, it depends on the rules. But there could be potential to then use the surplus on the defined contribution (DC) side, for example. It opens up all sorts of possibilities where, for a standard company, you might see anywhere between 3-8 per cent non-contributory contributions into DC plans.

However, if they've got a surplus from a DB scheme of, say, £100 million, could that be tweaked up? There are all sorts of possibilities and the landscape has shifted so much that things that we could never have dreamed of talking about are suddenly on the table.

Fiduciary duties

Best: The reality is, we are running 100s of million, even billion, pound "enterprises" here. This raises the question, conceptually, of why are employers winding these businesses down when they create value for pensioners and employees? It's an interesting question because, if you spoke to a corporate sponsor 15 years ago, pensions would have been number one or two on their list of biggest issues to solve; whereas now is it a potential opportunity? Whether that's simply a case of the pension scheme not needing the money that the corporate had committed to, and investing it within the business instead, or using these billion pound enterprises to do something better rather than just running it off, it's an interesting turn of events.

Ladha: It partly comes down to purpose – what are we as trustees actually trying to do? It comes down to fiduciary duty and it comes down to priorities. When you've got covenant risk sitting there, and you've got visibility of that risk over a period of time, you may well be in a good position. But can you lock down the risk sufficiently to say, "we're certain enough that we are not risking benefit security and we can use this opportunity to create value for something that potentially isn't a priority". You could argue that accrued benefits are a priority over discretionary benefits, for instance.

I've got a sponsor where one of the DB schemes that they sponsor is in a very good position, but the other one isn't. It's the same group. Fundamentally, it probably has similar cohorts of ex-employees in there as well. Should the sponsor not find a way to equalise that? That is a very legitimate argument. But how far do you push it?

Dunn: We are also seeing the scenario of one scheme that is well funded and one scheme that is not as well funded, and we've seen clients take advantage of that opportunity. We've also

seen the scenario of a well-funded DB scheme with a buyout surplus, with an attaching DC section, and that surplus is then used to pre-fund the employer's contributions to the DC section.

Hymas: You've got to increasingly look at it from the corporate's point of view and their strategy. I've got one client where the corporate has several schemes all at different funding levels. The way that it is being managed is that they have a single pot of money that is available and the approach is to make payments to the schemes in an appropriate way to try and move those that can be accelerated to buyout and to a settled position, recognising that the others need to catch up in an appropriate timeframe. Obviously, you've got to maintain the fairness between the schemes, but it's increasingly corporate strategy that's important when they're using a single pool of money to fund all of their pension arrangements.

Payne: There's more of a problem when you've got a scheme in surplus and a scheme in deficit and you try and merge them. Again, you go back to your fiduciary duty, which is to your members, not to fund the members in another scheme. As such, you've got some difficult questions. So it becomes a negotiation – how much of that do you secure for the members of a scheme in surplus, and how much do you give away? I see this becoming more difficult for trustees as we will need to take close legal advice as to our exact duties.

Kazemian: Going back to the

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Defined benefit roundtable

analogy with the business enterprise, it's a little bit different here because it's an unsecured debt on the company's balance sheet. From a trustee perspective, you've got to start from a negative position, and we're trying to get to zero, in a sense. Then, once you're there, you could take some risks and still go to a positive number. But it's not exactly analogous to a business where it is starting at zero and it could sink or get better.

So, on the pensions side, once the trustees have made the effort to get to zero, it's their fiduciary duty to just close it down, because they are not in the business of trying to take more risks to make profit. Even though you could, the risks outweigh all of the pensioners' and members' livelihoods effectively.

Lindenberg: It comes back to that core debate – what is the objective of the scheme and what is a trustee's fiduciary duty? Because if you focused very narrowly on securing the accrued benefits, then of course you just buy out as quickly as you can when it's affordable to do so. If you take a slightly broader view of member interests, then it becomes more nuanced.

Payne: I don't think that's strictly true of trusteeship. Trusteeship is governed by the rules and, as such, your duty is not to think of altruism; your duty is to provide the benefits to the members. It's not to provide a lot of 'what ifs' and 'nice fors' – your duty is purely to the members. It's not to the company. We have to be cognisant of the company, but our first duty is to members. If we can provide the benefits, and we can secure those benefits, we need to secure those benefits. Because the chances are that we will be heavily criticised if we take risk and then can't provide the benefits.

Baines: But on the company side, as Payam *[Kazemian]* highlighted, yes, we were expecting to drift from a negative into a zero position. But the reality is, as the way things have shifted, you've heard some people that were getting close to that number and then suddenly they are plus 10, plus 20, then you have an opportunity. You have to make a decision based on that. Similarly, some that are very close now or even past it, that might be £100 million in size, which insurers are not going to look at for the next five years or whatever the case might be, unless there's an existing relationship, you have to continue managing that scheme. Then that zero position could similarly grow over time. So, I appreciate that a pension scheme is not similar to a corporate, but there are so many contributing factors that could change the dynamic.

Chair: Is there a nuance here if there's an overseas sponsor, particularly a US sponsor, where they look at this on group accounting in a very different way?

Dunn: Yes – overseas owners will now look at their UK subsidiary, particularly when they get the numbers at the end of this year and see this huge asset in the pension scheme. Then you've got the nuances of accounting standards in different parts of the world and how you treat a buy-in or buyout in the overseas groups accounts. How, if you do a buyout, that gets pushed through the accounts and the effect on the corporate can be quite different in different accounting regimes. In the UK, if you structure it in the right way, it's generally not a negative. But in some jurisdictions, it can have a big impact on the accounts.

So, accounting and surpluses on corporate balance sheets may end up driving corporates' attitude as to whether they encourage trustees to buy out and lock down the risk, or whether they actually favour running off.

Willis: There's an important point there which is: Whose decision is it? Because, for the winding up of the scheme, you need to get agreement with the sponsor. But the purchase of a buy-in asset, trustees can do with consultation. So actually, the trustees can achieve the risk reduction part in isolation according to their responsibilities.

We do see some of what I would describe as distortionary behaviours coming out of accounting principles, for instance the US, where you can get a profit and loss benefit from having a higher returning investment strategy, and those sorts of factors are very prominent in discussions between the sponsor and trustees. But where the scheme finds itself in a very favourable position, there's actually nothing holding it back from taking action that it feels is correct if it does want to reduce risk, for instance, through a buy-in. But yes, the final steps to buyout would need that agreement.

McGuire: I would also flag up that there is a very different focus for example if you are dealing with local government pension schemes. There the discussion is about buying illiquids, and you haven't got any LDI there, and it's fully open. There's such a long-term time horizon, that there is a natural buyer for some of the issues that are facing corporate schemes in terms of liquidity.

Hymas: There is also pressure on pension schemes to invest in UK PLC and infrastructure.

Willis: I'm not sure it's as simple as that because, in my experience, insurers are very keen to hold these illiquid assets, but one of the hurdles is the transaction between pension scheme going to the

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insurer, where it's a question of what price am I going to get for this illiquid asset that I hold? For a long time, fund managers selling services managing illiquids have said, "if you buy this, insurers will want it". You've got a hurdle at the point of the transaction as to how much they will pay you for it.

If you're planning to do a buyout or buy-in transaction anytime soon, I'd be advising clients to steer well clear of illiquids and give yourself the best leverage in that discussion.

The future

Chair: To conclude, I'd like you all to get your crystal balls out, and give me a trend, challenge or a benefit you think we'll see in the next five years?

Dunn: We're definitely going to see a trend towards simplifying investment strategies. We're also going to need to see more innovation in areas such as consolidation, DB master trusts, capital providers coming in to boost schemes along on their journey plans. So in three to five years' time, I believe we'll have seen a lot more of that innovation.

Best: We started this discussion by recognising that funding levels are a consequence of what's happened in recent weeks. Schemes should be in a better position as long as stakeholders can take action to manage the risk. Therefore, I think it will drive more transactions, more innovation and therefore a market for new ideas.

With the corporates, there'll be two groups – those that think, "now we're actually closer than we thought to buyout, I'm going to put my hand in my pocket and solve this problem". Then, others might say, "well, now it's not in my top 10 issues to manage, do I actually need to get rid of it?".

Willis: I think the industry is going to get better at managing those previously second order risks, better precision of the hedge, better management of a credit matching portfolio, incorporating the credit spread into liabilities, and we're going to see a greater proportion of schemes using those strategies. Those that are already being used today, that's just going to spread.

Baines: In the next six months or so, we're going to see problems with illiquids, property funds especially. Moving further out into the future, we will see new ideas coming to the fore. It's going to be a smaller, more streamlined industry, and there are going to be opportunities, which will hopefully lead to innovation.

Hymas: I believe we'll see more schemes that are buyout ready structured as a run-off so self-sufficiency, but they're ready both in terms of data and funding. So will there be an app that's available to match those schemes to insurers, so it can just happen automatically?

Payne: I think trustees will have a better understanding of their absolute obligations. There are going to be a lot of legal cases around exactly what you do in certain circumstances, and your duty between surplus and deficit and all of the points we've raised. There's going to be a lot of legal work done.

Ladha: There'll be more willingness and ability to grasp complexity, too, which will unlock the innovation that's already out there. What we'll see is a divergence in routes and a divergence in solutions being used. As was stated before, people will probably flip between them, depending on which part of the journey they are.

Lindenberg: There's going to be a lot of soul-searching about the role of LDI in pension strategies. I don't think there'll be a move away from hedging more broadly as the principle of matching your liabilities with assets that behave in a similar way remains absolutely valid.

But I do think there'll be a lot of potential changes to the extent of leverage within pension schemes, re-assessing what a conservative collateral buffer looks like, thinking about the composition of the wider portfolio in terms of liquidity, rebalancing triggers, and so on.

Kazemian: The simplification of the investment strategy will create two camps. The risk/return balance change that has happened in the space will mean that those schemes that were struggling to aim for high return targets, as they were taking as low a risk as they could because the employer was weaker in terms of covenant, can now either aim for similar return for lower risk targets or keep the same acceptable risks as before and aim for higher returns. Similarly, you will have those that had a strong employer and were able to have a higher return target, that could now decide to reduce those risks for the same return or increase return for the same risk.

What this means is that you'll have those that could afford it, they'll keep the risk the same and they'll have higher return strategies going forward, and those that actually couldn't comfortably afford it before, they will now dial down.

McGuire: Five years on, everything's going to have happened – a huge amount of activity. Everybody made some really good points there, but I do think, and I know people have been saying this for years and years, there might even be a greater focus on DC!

Chair: I think, compared to where we were before, the future looks positive for members and schemes.

A helping hand

The latest ONS stats shows a significant proportion of those economically inactive are aged 50-64, which may well have implications for their retirement savings. *Pensions Age* asks: What can the industry do to support older people to remain in the workforce?

Permanent withdrawal from the labour market at a relatively young age has a 'double whammy' on pension accrual: Contributions cease early, and, assuming that decumulation takes place early too, income levels are significantly reduced as well.

There are some options that the pensions industry could adopt to persuade older people to remain in the workforce longer. Firstly, a vigorous communications campaign could alert older people to the longer-term consequences of ceasing to contribute to a registered pension scheme. The excellent information provided via the PensionWise service still reaches too few citizens, and perhaps the government could do more to persuade people to use this service.

There is perhaps another lesson to be learned from the recent past. Contracting out via the Protected Rights route saw rebates paid as a basic flat-rate contribution and also as a significantly higher age-related element. Perhaps it might be possible today to offer older workers an enhanced rate of tax relief on pension contributions to accelerate pension accrual as they approach state pension age. Such an offer might persuade older people that there is life in the old dog after all.

Pensions Management Institute director of policy and external affairs, Tim Middleton

Females aged 50 and over are twice as likely to have caring responsibilities than their male counterparts and are therefore more likely to cut down on paid employment. Unpaid carers also reported difficulty re-entering the workforce after time out and achieving career progression. As a result, their ability to save into their pension is greatly affected, with men's pension pots growing by an average of £90,000 more than women's between the ages of 50-64. This is particularly worrying as women tend to live longer and often bear their own care costs.

Ultimately, government intervention is required to tackle this complex issue. Policies that support unpaid carers to participate in more paid work must be prioritised, alongside a wider cultural acceptance that caring responsibilities should be shared equally by all genders.

However, employers can also play their part in supporting older workers, by offering full flexible working. Allowing employees to work flexible hours is fundamental to supporting all employees to balance work with their other commitments. In addition, remote working allows people to spend more time doing the things they enjoy – whether that's seeing friends and family, pursuing a new hobby, or simply a chance to relax.

PensionBee CEO, Romi Savova

The industry can work with employers to provide support to help retain older workers in the workforce. One of the biggest differences is to offer flexible working, which can be really valued by older workers. On top of this, many older employees want more wellbeing support in the workplace. Pension providers can support older people by helping them to understand how much income they will need in retirement and how much they need to save to achieve this. Armed with this information, some people may find they need to save more for longer, which may be a deciding factor to keep them in the workforce.

Aegon head of pensions, Kate Smith

Managing the workforce is the responsibility of the employer. And it remains for individuals to decide whether to remain in (or rejoin) the workforce or to retire.

However, the pensions industry has a role to play in helping individuals reach informed conclusions about their retirement – key concerns are whether individuals considering retirement have a realistic appreciation of their likely lifespans, and what accumulated pension savings will be needed to ensure their chosen standard of living can be maintained for life. Additionally, retiring early will mean missing out on valuable (and tax free) employer contributions to their pensions.

The widespread move in the private sector from DB to DC pension build up has made these judgements harder to make, especially given the increasing numbers of different pension pots individuals will likely have built up.

This means that the level of understanding needed by individuals is much higher for current generations than previous ones and the experiences of older friends and relations may not be a helpful guide for future retirees.

Aon head of UK retirement policy, Matthew Arends

Some people in this group have stopped working due to illness, carer responsibilities or they have taken early retirement. The industry has a key role in ensuring that anyone who makes a life changing choice, such as early retirement, does it in an informed way. For example, communicating how long someone could be in retirement for and how much income they might need to support themselves.

There is also a distinction to be made for those who want to work but can't. There will be a number of individuals performing a vital role as a carer and as they have no employer, they will not be able to save for retirement. Often these carer's roles are performed by women and being a carer is one of the drivers behind the gender pensions gap. We are keen for the government to introduce an auto-enrolment carers credit to help improve pension outcomes. Getting behind the policy changes needed to tackle the gender pensions gap will improve pension outcomes for many, including this group.

Increasingly we are seeing leading pension providers support employers on topics such as menopause, wellbeing and providing access to virtual GPs. As an industry, collaborating with employers and working through the challenges employees face, just might shift the dial to help some in this group remain in the workforce.

Hymans Robertson partner, Kathryn Fleming

The pandemic and the consequent upturn in reported ill health for the over-50s interrupted the trend of employment rates for this cohort improving sharply since 2000. However, even at end-2020 the average exit age from the UK labour force was still only 63.7. While the DWP is, no doubt, working hard on designing policies to reverse this rise in the economically inactive, noting that some have opted for part-time self-employment, increasingly this cohort will become principally reliant on their DC pots to see them comfortably through their later years.

Despite annuity rates having shown a marked improvement over the past couple of months, most DC decumulators will, no doubt, continue to opt for the flexibility of income drawdown which, in the continued absence of greater guidance, frames of reference and accessible advice, will result in yet more avoidable sub-par outcomes.

Then, multi-asset funds aside, there's the paucity of solutions to underpin sustainable income withdrawal rates though decumulation CDC, if legislated, might offer an oven ready solution. Of course, all is not lost, as some mid and tail end baby boomers have benefitted from very generous DB pension provision throughout their careers which, when combined with the state pension at 67, should provide this group with a moderate, if not comfortable, standard of living in retirement. However, there is no getting away from the fact that the majority of those 50-pluses exiting the labour force are currently poorly served.

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

Pensions history

Pensions wealth

The value of pension rights only seeped into public consciousness towards the end of the last century.

The personal finance columns of popular newspapers began to highlight the importance of pension rights as well as the family home. And because many women combine their working life with family responsibilities and men accumulate a disproportionate amount of pensions wealth, it was important that financial settlements on marriage breakdown found a way to recognise that reality.

Taking effect on 1 December 2000, the Welfare Reform and Pensions Act 1999 introduced pensions sharing. This meant that a pension could be valued and split between the pension holder and ex-spouse. Subsequent legislation extended pension sharing to civil partnerships.

Before pension sharing became available the value of pension rights could be reflected in other ways. For example, a pension might be set off against other assets, or a percentage of pension income diverted.

Still, as the Association of Consulting Actuaries concluded in its 2001 Annual Review, pension sharing was likely to be of great assistance in dealing with the financial aspects of divorce. The Review noted in passing the ACA's contribution to work of the DSS Advisory Panel, a welcome acknowledgement of the efforts of many industry professionals in seeking to improve technical pensions legislation. It also noted that actuarial advice might be needed to ensure that the courts were properly informed!

www: pensionsarchive.org.uk/our-collections

The Pensions Archive Trust director, Jane Marshall

Fun and games

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I know that face...

Answer at bottom of page

I know that face... Answer: Ross Trustees CEO, Andrew Bradshaw

PENSIONSAge

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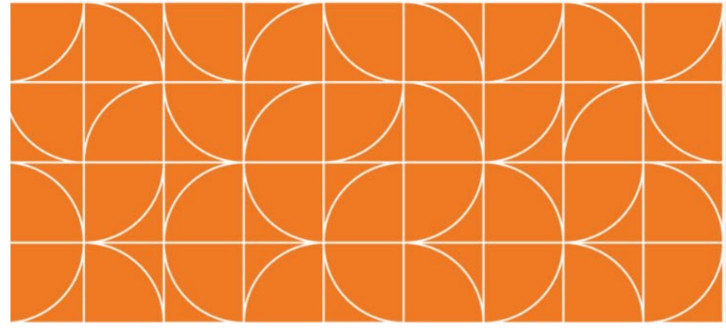

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