**DB funding levels**
Will the trend of DB schemes being in surplus continue?

**Retirement incomes**
The ways to help DC savers achieve the retirement incomes they require

**Longevity**
How the Covid-19 pandemic continues to affect longevity trends

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December 2023

# PENSIONS Age

The leading pensions magazine

***Scams:*** *The 'wins' that have been achieved in the fight against scams over the past year*

***TCFD:*** *How TCFD regulations have bedded in within the pensions sector*

# Drops in the ocean

**How much of a splash will superfunds make in the DB de-risking market?**

**2023: Pensions Age looks back on a year dominated by consultations**


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# Editorial Comment

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

This time of year throws up a lot of questions for me, and I'm sure for many of you too. What present to get for that hard-to-buy-for relative? How will I find the time to fit in visiting all the friends and family over the holiday period? Who will be revealed as the body on the Queen Vic floor in the *Eastenders* Christmas special? Will the Autumn Statement's pensions announcements ultimately shift the UK pensions system into a more Australian style model? So many questions.

Included in the recent Autumn Statement were proposals for employees to have a 'pot for life', enabling them to request that their new employer pay their pension contributions into one of their previous workplace pension pots, instead of into the company's own provider of choice, which led to queries as to whether this will represent a 'ground-breaking shift' to the industry, and what support savers will need in response to the change. Meanwhile, the government's plans to explore how the Pension Protection Fund could act as a DB consolidator has also caused confusion as to how this would affect the DB market.

These are just two pensions announcements amongst a bumper Autumn Statement for the pensions industry. Read about them all in our extended news focus on page 10.

The pensive mood continues in this issue of *Pensions Age*, as in our cover story on page 49 we consider the role DB superfunds may have within the de-risking market, now that Clara has finally announced its first customer, six years after its launch and two years after its TPR authorisation.

Where DB funding levels will end up is also on our minds, following the momentous year many DB schemes have had in the wake of 2022's LDI crisis, and what the swing to DB surpluses means for the still-yet-to-be-introduced DB Funding Code. *[Read all about it on page 46]*.

An arguably even-more tricky question to answer is what the future holds for longevity trends, considering how the Covid-19 pandemic is still having a negative impact on life expectancy improvements. But can this be somewhat offset by medical advances, and what knock-on effects do government policies have for longevity improvements? We get into this debate in our page 72 feature.

As well as posing so many questions, December naturally causes us to look back on the previous 12 months. Therefore, the many events and changes *[and consultations!]* the pensions industry has faced throughout 2023 is summarised in our article on page 32, if you want a recap.

On a personal/professional note, looking back over the year is tinged with sadness for us at *Pensions Age* and our parent company, Perspective Publishing, having lost two of our long-standing colleagues, Matleena and Marilou, in the first part of 2023. I would like to put in writing how proud I am of our team – always, but especially this year – for their hard work and efforts during what has been a challenging 12 months in many ways.

**"When you look back on 2023, please recognise the many reasons to be proud of what the industry has achieved"**

When you look back on 2023, please recognise the many reasons to be proud of what the industry has achieved *[for instance the many 'wins' in the fight against pension scams that have occurred in 2023, which we discuss in the last of our year-long focused articles on the subject on page 67*], despite the many questions this progress has now left us with, and that the industry will be hard at work answering in 2024.

I hope you all have a relaxing and wonderful Christmas break. It's certainly been earned this year – no question about that.

**Laura Blows, Editor**

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# Drops in the ocean

**DB superfunds are finally making a splash, with the first transfer into one having taken place in November. But what will the role of these funds be in the wider de-risking market?**

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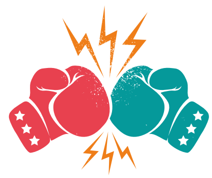

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**NEW circulation figures**

**Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 13,010 July 2021-June 2022 print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20).**

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Read our Retirement Voice report for more insights.

# Dateline - November 2023

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

**1 November** The **Pensions Dashboards Programme** (PDP) confirmed that it will be looking to engage with the industry on dashboards connection guidance in "autumn 2023", with further engagement on the dashboards standards set to take place over winter 2023/24.

**2 November The Pensions Regulator (TPR)** announced plans to share interim guidance on decumulation "next year", with fuller guidance to be developed over a longer timescale.

**6 November** The trustees of the Sears Retail Pension Scheme agreed to transfer around 9,600 members to **Clara Pensions,** in the UK's first DB superfund transaction.

**7 November** Industry organisations expressed disappointment after the **King's Speech** failed to make any mention of pensions, dashing hopes that the government could be set to introduce a new Pension Schemes Bill to progress the Mansion House reforms.

**8 November** Representatives from the Pension Protection Fund (PPF) appeared in front of the **Work and Pensions Committee** to provide an update on the PPF's funding position and the current challenges and opportunities facing DB schemes.

**9 November** The **Financial Reporting Council** announced that it had scrapped most of the original 18 proposals that were set out in its consultation on the UK Corporate Governance Code, following negative industry feedback.

**13 November HM Treasury** launched a call for evidence on pension funds' exemption from the clearing obligation, to help inform the government's long-term approach.

**13 November** Further concerns were raised around the government's proposed changes to the **general levy** on occupational and personal pension schemes, with industry experts warning that some options could risk overly burdening smaller pension schemes.

**13 November The Transition Plan Taskforce** launched a consultation on new sector-specific guidance, designed to help those preparing private sector climate transition plans.

**13 November** Then Pensions Minister, Laura Trott, left the **Department for Work and Pensions** (DWP) after being named Chief Secretary to the Treasury as part of Prime Minister, Rishi Sunak's, latest ministerial reshuffle.

**15 November** The **Bank of England** (BofE) launched the latest phase of its system-wide exploratory scenario (SWES) exercise, providing both bank and non-bank participants with a hypothetical stress scenario.

**15 November TPR** outlined seven key challenges it and the industry face in meeting its aim for all workplace DC pension schemes to become 'full-service providers'.

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

**16 November** MP for Blackpool North and Cleveleys, **Paul Maynard,** was confirmed as the new Pensions Minister at the DWP.

**20 November** The government shared its response to the **Work and Pension Committee's** recommendations on liability-driven investment, accepting a number of the committee's suggestions *[read more on page 16].*

**22 November** Chancellor Jeremy Hunt provided further updates on a number of pension reforms and initiatives as part of his **Autumn Statement 2023,** including launching a call for evidence on the potential for a new 'pot for life' model *[read more on page 10].*

**22 November** Data from the **DWP** revealed that the proportion of eligible workers auto-enrolled in a workplace pension remained stable at 88 per cent between 2019 and 2022. This is equivalent to 20.4 million people, with 'most groups' having seen trends in auto-enrolment participation stabilise in this period.

**27 November** The **Financial Conduct Authority** (FCA) banned two former advisers of West Wales Financial Services Limited (WWFS) (in liquidation) from advising customers on pension transfers and pension opt-outs. The FCA found that, between March and December 2017, WWFS provided unsuitable pension transfer advice based on the incorrect assumption that it would be in their customers' best interests to transfer out of their secure DB pension.

**27 November TPR** urged DB pension scheme trustees considering a capital-backed journey plan to engage with it at the earliest opportunity, following "significant activity" in this area. The regulator also confirmed that new guidance to help trustees and employers navigate alternative DB arrangements is expected to be published in 2024.

**29 November** The **FCA** confirmed its new sustainability disclosure requirements for asset managers and FCA-regulated asset owners. As part of the new requirements, the FCA will introduce a new anti-greenwashing rule for all authorised firms, as well as new product labels and naming and marketing requirements *[read more on page 17].*

**29 November** Representatives from TPR appeared in front of the **Work and Pensions Committee** to provide updates on the DB landscape *[read more on page 16].*

**30 November** The **DWP** confirmed that it had repaid £497m to individuals impacted by historical state pension underpayments as of 31 October 2023, having identified 82,323 underpayments. The latest update on the issue revealed that DWP had reviewed 593,964 cases between 11 January 2021 and 31 October 2023, identifying a total of 82,323 underpayments.

# News focus

# Autumn Statement: An avalanche of updates

**Chancellor Jeremy Hunt provided further updates on a number of key pension reforms as part of his Autumn Statement**

Chancellor Jeremy Hunt provided updates on a number of pension reforms as part of his 2023 Autumn Statement.

Industry experts were hopeful that the statement would include key updates after the omission of pensions in the King's Speech sparked industry frustration.

And the Chancellor did not disappoint, delivering a pensions-filled update, which included plans to offer employees a choice on their workplace pension provider, in what industry experts suggested could represent a "ground-breaking" shift.

The call for evidence aims to gather views on a long-term vision for workplace pension saving, focusing on whether a lifetime provider model would improve outcomes for savers, how the government can grow the collective defined contribution (CDC) market, and whether there are synergies between the two.

Under the proposed pot-for-life or lifetime pension model, savers would be given the option to ask a new employer to pay pension contributions into their existing pot. The Department for Work and Pensions (DWP) said it also welcomes views on possible alternative long-term visions it could set out, and what the evidence shows in regard to this.

The government has faced pressure to consider broader system changes such as a lifetime pension, with a pot-for-life industry lobby group launched earlier this year, urging the government to adopt its proposals as soon as possible.

However, industry experts have said that the potentially "seismic" change could present a number of concerns, warning that savers would need better financial education and support in making these decisions, while employers could face administrative challenges.

The Autumn Statement documents confirmed that the government would also be pushing forward with its plans to introduce the multiple default consolidator model for DC schemes, to enable a small number of authorised

**The Autumn Statement 2023 measures include:**

- Plans for a call for evidence on a **'pot for life' model;**
- Next steps on the government's plans to introduce the **multiple default consolidator model** for DC schemes;
- A consultation on changes to **rules around DB pension scheme surpluses** that aim to help well-funded schemes invest in assets with higher returns;
- Plans to introduce a **March 2025 pooling deadline for Local Government Pension Schemes;**
- Confirmation that the government will stand by the **state pension triple lock** in full, with pensioners to receive an 8.5 per cent increase from April 2024;
- Plans to explore how the **Pension Protection Fund (PPF)** could act as a DB consolidator, with a consultation expected in the winter;
- A review of the current **master trust** market;
- Updates on the joint value for money framework;
- Confirmation that the removal of the **lifetime allowance (LTA)** is on track for 6 April, and reassurance that the changes will not require income tax to be payable on inherited pensions when the person dies before age 75;
- Plans to develop a register of **trustees**, which would allow The Pensions Regulator to target those trustees and schemes that require additional support to fulfil their obligations.

schemes to act as a consolidator for eligible pension pots under £1,000.

Industry experts previously raised concerns over the government's plans to address small pots, with a number of organisations encouraging the government to give further consideration to a 'pot follows member' solution.

Commenting in the foreword, Pensions Minister, Paul Maynard, acknowledged that not all in the industry have agreed with the DWP's preferred option for a default consolidator, arguing however, that "in the long term, we expect commercial interests to be aligned with this ambition".

"Through the industry delivery group, we will work together, continuing to put members' interests first," he said. "The small pots solution is just a starting point. I want to understand how we can go further to set out a long-term vision for workplace pension saving. Savers will still be left with multiple pots to manage.

"This makes it harder to maximise their savings, understand what they have, and manage their retirement funds. Australia has successfully implemented a 'stapling' model, based on the idea of a pot for life. I want to understand what the benefits and considerations of this approach are."

The Autumn Statement documents also provided an update on the proposed value for money (VFM) framework, confirming that the Financial Conduct Authority (FCA) will consult on the rules for contract-based schemes in the new framework in the spring.

The government said it welcomed the current trend of DC consolidation and expected to see a market in which the vast majority of savers are in schemes of £30bn or more by 2030.

As part of the VFM framework, schemes will be required to compare themselves against others in the market, including large-scale schemes, to help ensure they are delivering value.

"The FCA will consult on rules for contract-based schemes in spring 2024, working closely with the government and TPR for consistency with the development of legislative requirements for trust-based schemes," it stated. "In the meantime, actions from The Pensions Regulator (TPR) will strengthen their existing supervisory approach."

**"The small pots solution is just a starting point. I want to understand how we can go further to set out a long-term vision for workplace pension saving"**

Indeed, TPR also issued a new statement on VFM, which explained how the regulator was looking at options to embed the disciplines of the framework ahead of legislation, with some schemes already winding up as a result of TPR's increased focus.

TPR interim director of regulatory policy, analysis and advice, Louise Davey, commented: "A VFM framework can only work if there is a level playing field across trust and contract-based pensions. That's why we continue to work with the FCA to develop their rules in anticipation of legislation for trust-based schemes.

"We will continue to jointly engage the market and devise joint policy solutions and want trust-based schemes to engage with the FCA's consultation. This will help ensure there are no barriers to implementing the framework for trust-based schemes."

This is not the only area that the government will be collaborating on with the regulator, as the DWP also announced plans to support TPR in developing a register of trustees, to allow TPR to target those trustees who require additional support to fulfil their obligations.

The DWP and HM Treasury previously held a joint call for evidence to deepen the evidence base around trustee capability and the barriers to trustees doing their job in a way which is effective.

The government response revealed that there was "widespread support" for a trustee register, with a "clear" message that there is space for action to ensure that all trustees are able to work effectively.

Given this, it confirmed that DWP will support TPR to develop and take forward a register of trustees, to enable TPR to target those trustees and schemes who require additional support to fulfil their obligations. The register is expected to help improve the communication of information and guidance to trustees, including relating to the proposed VFM framework once it is introduced.

The DWP also said that it strongly encourages all professional trustees to seek accreditation and will consider whether legislation should be taken forward to mandate this in the future, if required. In addition to this, it revealed that TPR's new General Code, once laid, will set accreditation for professional trustees as an expectation.

It also emphasised the need for those who provide trustee training, resources, and accreditation to consider expanding their provision of material.

"We believe that ensuring all trustees have a minimum level of understanding of all asset types will enable them to make the most appropriate investment decisions

# News focus

for their scheme's specific circumstances, whilst acknowledging that, at a board level, not every trustee needs to be an expert in all matters," the response stated.

TPR is also already producing additional guidance on this, with new guidance on investing in private markets expected by the end of the year.

**Support at retirement**

The government also confirmed that it would be moving ahead with new measures to better support savers at the point of retirement.

As part of this, it announced plans to require all trustees of occupational pension schemes to offer a decumulation service to members at the point of access at an appropriate quality and price "at the earliest possible opportunity".

However, plans to consult on draft regulations to extend CDC provision to whole-life multi-employer schemes, including master trusts, have been delayed until early 2024.

The DWP's response to its consultation on decumulation found that while there was strong agreement that there is a role for trustees in decumulation, there was less agreement on CDC; even those who supported the emergence of CDC in the decumulation market admitted that to facilitate it, the government will need robust legislation.

**Deadlines set for LGPS pooling push**

The government has confirmed that it will introduce a March 2025 deadline for the accelerated consolidation of Local Government Pension Scheme (LGPS) (England and Wales) assets, alongside new private equity investment requirements.

As part of the changes confirmed in the Autumn Statement, the government will share revised investment strategy statement guidance, confirming that funds should transfer all assets to their pool by 31 March 2025, and set out in their ISS assets that are pooled, under pool management and not pooled and the rationale, value for money and date for review if not pooled.

It will also revise pooling guidance to set out a preferred model of pooling, including delegation of manager selection and strategy implementation.

The government also intends to amend regulations to require funds to set a plan to invest up to 5 per cent of assets in levelling up the UK, and to report annually on progress against the plan.

This is alongside revised ISS guidance to require funds to consider investments to meet the government's ambition of a 10 per cent allocation to private equity.

The government's response acknowledged that there were some industry concerns, notably on the transition deadline of March 2025, aspects of the preferred model of pooling, and the 10 per cent ambition for private equity allocation.

However, the government argued that setting clear and up-to-date expectations in guidance on these matters is essential to securing a step change in progress on pooling and associated benefits of scale, and does not cut across the fiduciary duties of funds.

The government also confirmed that the new guidance will not mandate investment in any particular assets, instead expressing a strong preference for progress on a voluntary basis, embracing the benefits of scale and striving to deliver returns.

The DWP found that there is also a need for a framework to allow savers to not only compare CDC schemes but also to compare to annuity or drawdown.

Cost remained a key concern, however, with respondents to the government consultation warning that the cost of offering a CDC in decumulation would be higher than any of the other currently available products.

Indeed, one respondent was able to quantify costs, estimating that selecting a preferred drawdown provider could cost around £15,000 to £20,000, while CDC is "likely to cost in the millions".

In addition to this, several respondents suggested that the breakeven point for CDC in decumulation is likely be higher than any other product, while others mentioned that the cost is dependent on several factors, including scheme size and ongoing running costs.

However, the DWP argued that a clear timescale for legislation would give potential providers confidence that any work on CDC decumulation solutions is likely to be a worthwhile investment.

Given this, the DWP confirmed that it still intends to consult on plans to extend CDC, although this will be later than the expected autumn 2023 timeline.

"The government is committed to working with industry to facilitate their expansion and development on offering CDC offers for many more savers," Maynard said. "The regulatory framework is already in place and we intend to consult on draft regulations early next year to extend this to whole-life and multi-employer schemes, including master trusts."

**Opening up DB investments**

A number of specific DB measures were also announced at the Autumn Statement,

### The next steps for Mansion House

Ahead of his Autumn Statement, Chancellor Jeremy Hunt also announced a £320m plan designed to drive innovation and unlock the first tranche of investment from his Mansion House reforms.

In particular, the government will commit £250m to two successful bidders under the Long-term Investment for Technology and Science (LIFTS) initiative, subject to contract.

Alongside this, the government has announced that a new Growth Fund will be established within the British Business Bank (BBB) to complement private investment vehicles.

The Growth Fund is expected to draw on the BBB's strong track record and a permanent capital base of over £7bn to give pension schemes access to opportunities in the UK's 'most promising' businesses.

News of the Growth Fund has already been welcomed by eight pension schemes and fund managers as a potentially valuable addition to the market: Aviva, L&G, M&G, Smart Pension, Aegon, Phoenix, Aon and the Universities Superannuation Scheme (USS).

However, industry experts have warned that changes in workplace pension investments should not be rushed, with a number of organisations warning that it will take some time for the initiative to be commercially viable for many pension arrangements.

as Hunt confirmed that the government will be pushing ahead with plans to explore how the Pension Protection Fund (PPF) could act as a DB consolidator, again despite concerns from some industry stakeholders.

Documents published following the Chancellor's statement revealed that the government will be looking to consult "this winter" on how the PPF can act as a consolidator for DB schemes unattractive to commercial providers, with a view to establish a public sector consolidator by 2026. The exact details of this consultation are not yet known, however, as during his speech, Hunt also said that the government would be looking to "open the PPF as an investment vehicle for smaller DB schemes".

The PPF welcomed the plans, with a PPF spokesperson stating: "We welcome the government's commitment to establishing a public sector consolidator by 2026. We believe a public sector consolidator can help deliver the government's objectives and complement existing commercial solutions. As the government has recognised, we would be well placed to take on this additional and separate role. We look forward to working closely with DWP and industry as the detailed design of, and eligibility for, the new vehicle is developed."

However, some in the industry raised concerns that a public consolidator could limit the success of private sector solutions, with a number of competition concerns identified in response to the government's recent call for evidence.

The government's response acknowledged these concerns, revealing that respondents expressed caution to each of the options under consultation, "frequently expressing concerns regarding the potential for changes in the funding positions of DB schemes, the need for clear regulatory safeguards around surplus extraction, and the need to establish a clear market failure in existing DB endgame solutions before introducing a public consolidator".

Given this, the DWP confirmed that it will also launch a public consultation to consider the detail of measures to make surplus extraction easier, including design, eligibility, safeguards, and the viability of 100 per cent PPF underpin.

The consultation will also include new mechanisms on how to protect members amid the rule changes, with LCP saying it expected 100 per cent Pension Protection Fund underpin for those who opt into the new regime to be included as part of the consultation. This could help these schemes build up a larger surplus, sharing this with the sponsor, and make it easier for them to run on.

The government also announced that it would be reducing the authorised surplus payments charge from 35 per cent to 25 per cent from 6 April 2024.

**Written by Sophie Smith and Jack Gray**

# Paul Maynard named as Pensions Minister following reshuffle

**MP for Blackpool North and Cleveleys has been getting to grips with his new brief, after being appointed as Pensions Minister in Prime Minister Rishi Sunak's latest ministerial reshuffle**

MP for Blackpool North and Cleveleys, Paul Maynard, was named as Pensions Minister at the Department for Work and Pensions (DWP), as part of Prime Minister Rishi Sunak's latest ministerial reshuffle.

His appointment was announced following the news that former Pensions Minister, Laura Trott, had been promoted to the role of Chief Secretary to the Treasury.

Elected as the Conservative MP for Blackpool North and Cleveleys in May 2010, Maynard previously acted as Parliamentary Under Secretary of State at the Department for Transport between July 2019 and February 2020, and as Parliamentary Under Secretary of State at the Ministry of Justice from May 2019 to July 2019. Prior to this, he was Government Whip (Lord Commissioner of HM Treasury), and a Parliamentary Under Secretary of State at the Department for Transport.

Maynard's appointment comes at a busy time for pensions, with a number of reforms currently underway and further updates in the Autumn Statement.

However, industry experts have warned that the new minister will have no time to lose in getting to grips with his new role. Aegon head of pensions, Kate Smith, argued that "it will be vital for the new minister to get up to speed quickly, and continue driving forward these key pension initiatives".

In particular, industry experts have said that enacting the government's Mansion House reforms before the end of this parliament is likely to be a key focus for Maynard.

Indeed, the Mansion House reforms were a key theme in Maynard's first introduction to the industry at the Professional Pensions Investment Conference 2023.

Speaking at the conference, Maynard argued that while the pensions industry is a growth industry, a "significant transformative shift in the market" is needed. "We want to shift the focus of trustees, managers, and employers unambiguously from cost to value to boost returns in and throughout retirement, and increase the opportunities for investment in productive finance assets," he said.

"Through this, we can benefit the UK economy and also give everyone a better chance of meeting their aspirations over the course of their retirement."

Maynard suggested that the Mansion House reforms and the pension reforms announced as part of the Autumn Statement will be key to this, acknowledging however, that there are challenges, identifying the "three biggies" as: value, trust and growth.

"Many employers are still choosing their pension schemes based on convenience and fees, but investment returns need to be factored into these decision as they are critical to long-term outcomes," he explained.

"We need to look at more opportunities to invest in productive finance, supporting the UK economy and boosting member benefits. In the DB market alone, £1.4trn of assets can be put to work for members and the economy.

"So our reforms confront these challenges and help improve retirement outcomes."

Maynard also reiterated the government's commitment to implementing the 2017 auto-enrolment reforms, confirming that the DWP intends to carry out the consultation on how to implement these changes "at the earliest opportunity".

However, he argued that, alongside further AE reforms, "we have to see a shift in the market towards an emphasis on value, focusing on overall value and return for members", warning that "for too long, short-termism and low costs have dominated decision-making".

In light of this, he said that the proposed value for money framework will help "increase compatibility, comparability, transparency and competition across all DC schemes".

Alongside the Mansion House reforms, Maynard said that he was looking to prioritise work on pension dashboards, stating: "I want to make sure that we get dashboards right."

**Written by Sophie Smith**

# Wait for DB Funding Code continues; regs to be laid in 2024

**The Department for Work and Pensions is expected to lay the draft DB funding regulations before parliament in the new year, ahead of the April 2024 implementation date**

The Pensions Regulator (TPR) has confirmed that the DB Funding Code regulations will be introduced in the new year, with TPR's DB Funding Code to be shared "on the appropriate timeline" ahead of its launch in 2024.

Asked about the expected timing for the code as part of the Work and Pension Committee's DB inquiry, TPR interim director of regulatory policy, analysis and advice, Louise Davey, confirmed the code remains on track for the April 2024 launch date.

She stated: "It is anticipated at the moment that the regulations will be introduced in the new year and will be in force by April 2024, and they'll be effective for schemes that have valuations from autumn 2024.

"Our code of practice will also come in on the appropriate timeline to be enforced for those dates."

The update comes hot on the heels of the government's response to the Work and Pensions Committee's inquiry into liability-driven investment (LDI), which also confirmed that it would be laying the draft DB funding regulations before parliament "in due course".

WPC previously urged the government to "halt" their existing plans for a new funding regime, after its inquiry into LDI revealed a number of industry concerns.

In particular, the committee identified two "fundamental concerns" in the new DB funding regime; that the approach is not sufficient to allow open schemes to thrive, and that it will result in greater 'herding' in investment decisions.

In its response, however, the Department for Work and Pensions (DWP) confirmed that it plans to lay the draft Occupational Pension Scheme (Funding and Investment Strategy and Amendment) Regulations 2023 before parliament in "due course".

It also confirmed that a full impact assessment will accompany the draft regulations, which will consider the interactions of the regulations with the wider macroeconomic environment.

These issues, according to the government response, will also be monitored closely by the Secretary of State for the DWP and through regular assessment of the data collected by the Office for National Statistics, the Pension Protection Fund (PPF) and The Pensions Regulator (TPR), and DWP will publish a report at least every five years.

The government response also provided broader updates on the work being done by policymakers in the DWP and HM Treasury, in partnership with TPR and the Financial Conduct Authority (FCA), to understand the 2022 LDI crisis and build future resilience.

In particular, the DWP said it has been working with TPR to understand the impact of the LDI episode and address concerns around a lack of data.

As part of this, it confirmed TPR is conducting further analysis on scheme assets, liabilities and funding changes over 2022, which will consider the key factors that contributed to scheme funding improving or deteriorating, including the role played by LDI strategies. In light of the limitations of data collected by TPR on LDI prior to the events of 2022, TPR, the FCA and the Bank of England's (BofE) will also be using an enhanced version of this data set to monitor the resilience of the sector.

This increased data collection is expected to ensure that TPR is better incorporating financial stability considerations in its decision making, as previously recommended by the BofE Financial Policy Committee.

In its response, the government said that it accepts the FPC's recommendation and wants TPR to be more connected within the financial stability ecosystem. Rather than extending TPR's remit, however, the government response suggested that enabling TPR to be a source of key information through data collection will be a "sensible means" of ensuring that TPR is incorporating financial stability considerations. Given this, it confirmed that TPR is looking to set up protocols with the BofE to ensure it is working cohesively with the wider financial regulatory system.

**Written by Sophie Smith**

# New requirements set to crack down on greenwashing

**The Financial Conduct Authority (FCA) has confirmed its new sustainability disclosure requirements for asset managers and FCA-regulated asset owners, amid an increased focus on climate issues due to COP28**

The Financial Conduct Authority (FCA) has confirmed its new sustainability disclosure requirements (SDRs).

As part of the new requirements, the FCA will introduce a new anti-greenwashing rule for all authorised firms to make sure sustainability-related claims are fair, clear and not misleading.

The FCA will also introduce product labels to help investors understand what their money is being used for, based on clear sustainability goals and criteria, as well as naming and marketing requirements so products cannot be described as having a positive impact on sustainability when they don't.

As part of this, the FCA revealed that it has now included a fourth label, Sustainability Mixed Goals, for funds that invest across different sustainability objectives and strategies aligned with other categories.

The anti-greenwashing rules will be the first to come into force in May 2024, followed by the labelling regime on 31 July 2024, and the naming and marketing rules, which will apply from 2 December 2024.

The new requirements were introduced following detailed engagement with a range of stakeholders, including industry, other regulators and consumer groups.

The package of measures, including the consumer-focused labelling regime, aims to protect consumers by helping them make more informed decisions when investing.

This comes after FCA research found that investors weren't confident that sustainability-related claims were genuine, with inconsistent terms, such as 'green' or 'sustainable', further exacerbating the issue.

FCA director of environmental, social and governance, Sacha Sadan, stated: "We're putting in place a simple, easy to understand regime so investors can judge whether funds meet their investment needs – this is a crucial step for consumer protection as sustainable investment grows in popularity.

News of the requirements has been welcomed by organisations in the pensions industry, with PensionBee chief engagement officer, Clare Reilly, suggesting that the new requirements are "key steps toward giving people more confidence that financial products making sustainability claims are actually backing up those claims with action".

She stated: "While it might take a little while for people to get used to the labels, over time, they should result in consumers being able to differentiate financial products that are sustainable in the same way it's possible to find fairtrade or organic food in the supermarket. As COP28 kicks off this week, there is renewed focus on the urgency of climate action and in particular, through the Make My Money Matter (MMMM) campaign, the undeniable role of pension providers, as asset owners, to act towards resolving it."

Indeed, the FCA's requirements were shared hot on the heels of a new awareness campaign from MMMM, which aims to raise awareness around the relationship between UK pension schemes and the fossil fuel industry.

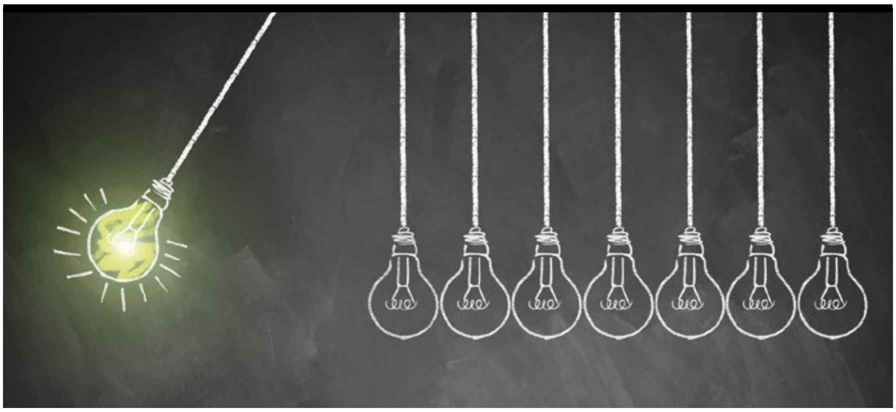
The lobby group revealed that while fossil fuels are becoming increasingly unpopular amongst savers, with just under a fifth (19 per cent) supportive of oil and gas investments, a "staggering" £88bn of UK pension money is invested in fossil fuel companies.

However, research from the Pensions and Lifetime Savings Association (PLSA) was more encouraging, as the organisation found that the proportion of pension schemes that have made a commitment to net-zero carbon emissions rose by 11 percentage points over the past 18 months to 68 per cent.

Of the schemes with a net-zero commitment in place, nine in 10 were targeting net-zero compliance by 2050.

Among those schemes, 14 per cent were aiming for 2035 and 18 per cent were working towards 2040 at the latest.

**Written by Sophie Smith and Jack Gray**



# 'Historic' day as Clara agrees UK's first superfund deal

**Industry experts have said that the news of the UK's first superfund transaction could act as a catalyst for "transformative change" in the pensions industry**

The trustees of the Sears Retail Pension Scheme have agreed to transfer around 9,600 members to Clara Pensions in the UK's first DB superfund transaction, after clearance for the transfer was received from The Pensions Regulator (TPR).

The transfer process began in late November and was completed in early December. As part of the deal, scheme members will benefit from an additional £30m of ring-fenced funding to support the scheme, which is expected to "demonstrably" improve member security and provide increased certainty on their journey to an insured buyout.

The deal marked the UK's first superfund transaction, following the news that Clara Pensions had become the first DB superfund to complete TPR's assessment process in 2021.

Commenting on the deal, the Sears Retail Pension Scheme trustee, stated: "We have been carefully managing the scheme with the aim of securing all members' benefits with an insurance company through a full buyout in the future. As part of this transaction, Clara will provide an additional £30m of funding, which will support the scheme's journey to a successful buyout and provide greater security for members."

Clara Pensions CEO, Simon True, also highlighted the news as a "landmark day" for Sears' members, "as they become the first members of Clara and will benefit from a day-one injection of new, ring-fenced capital of £30m to support their journey to an insurance buyout".

"Members will be able to take confidence in the improved financial security of their benefits and the commitment and expertise of Clara," he continued. "Clara is now firmly on the road to making defined benefit pensions safer and more secure for thousands of people."

News of the deal was also welcomed by the Department for Work and Pensions, as former Pensions Minister, Laura Trott, stated: "We welcome the transfer, the first of its kind in the emerging superfund market, the expansion of which forms part of our longer-term plan for pensions. I am confident the market will continue to grow, freeing up employers to focus on their core business, and assisting in the government's push for increased productive investment within the pensions sector."

Adding to this, Economic Secretary to the Treasury, Andrew Griffith, commented: "Superfunds are an important innovation to British pension provision. Economies of scale from superfunds can do wonders for pensions – making peoples' retirements more secure, whilst enabling a broader range of investments in productive finance.

"It is great to see Clara Pensions taking on its first 9,600 pension savers – injecting an additional £30m to an existing £590m scheme – and in the process becoming the UK's first superfund transaction."

TPR executive director of frontline regulation, Nicola Parish, also welcomed the news, stating: "We are delighted that we have been able to support the first ever pension scheme transferring into a DB superfund. Superfunds can offer increased security, improved governance and better risk management, which means that pension savers are more likely to get their promised benefit. We want to see fewer, larger, well-run pension schemes and are pleased to see the market innovate and consolidate in savers' interests."

Industry experts suggested that news of the deal could act as a catalyst for "transformative change" in the industry, with LCP estimating that there could be £5bn or more of further superfund transactions in the next few years.

"This transaction not only marks a significant milestone for Clara, but has the potential to be the catalyst for transformative change in the pensions industry," LCP senior consultant, Dev Gandhi, stated.

*[For more information about the future of the superfund industry, see our cover feature on page 49]*

**Written by Sophie Smith**

# Record demand in pension risk transfer market continues

**Record demand in the pension risk transfer market has brought with it a number of firsts in the UK bulk purchase annuity market**

The past month has brought a number of firsts and record deals in the bulk purchase annuity (BPA) market.

In particular, the trustee of the Boots Pension Scheme agreed a £4.8bn full buy-in with Legal & General (L&G), marking the UK's largest single transaction of its kind by premium size.

The deal secured the benefits of all 53,000 retirees and deferred members, meaning that it is also L&G's largest single transaction by number of members.

Cardano was the strategic adviser to Walgreens Boots Alliance and lead broker for the transaction, while Baker McKenzie provided legal advice. Aon was strategic adviser, lead investment adviser and broker representing the trustee, while Sackers provided legal advice. Slaughter and May and Simmons & Simmons provided legal advice to L&G.

The buy-in marks the conclusion of a de-risking process that the scheme first embarked on in 2001, with recent reports suggesting that Walgreens, the American owner of pharmacy chain Boots, was willing to pay £1bn to hand over responsibility of the Boots pension scheme, amid concerns that the guarantee Walgreens had given to the scheme could be stopping private equity firms from purchasing Boots.

In addition to this, the Co-operative Pension Scheme agreed a £4bn buy-in with Rothesay, securing the benefits for almost 50,000 members, including 17,655 pensioners and dependants, and 31,896 deferred members. The buy-in marked the final step in fully securing member benefits as part of a long-term plan to de-risk the scheme, following a number of previous buy-ins in 2020.

Alongside this, the Marsh & McLennan Companies UK Pension Fund completed the first-ever longevity swap that includes active members, covering around £2bn of liabilities across approximately 14,500 pensioner, deferred and active DB members. The longevity risk was insured through a 'captive' Guernsey insurance cell, Mercer ICC Limited, and simultaneously reinsured with Munich Re.

**Written by Sophie Smith and Jack Gray**

## NEWS IN BRIEF

The **Rotork Pension & Life Assurance Scheme** agreed an £80m buy-in deal with Aviva, covering the pension benefits for 406 current pensioners and dependants in the scheme.

**The Pensions Regulator** confirmed that £20m will be made available to the Wilko Pension Scheme from securities, with a further £4.5m expected to be made available from other recoveries.

The **Financial Reporting Council** announced that it had scrapped most of the original 18 proposals that were set out in its consultation on the UK Corporate Governance Code, following negative feedback from the industry.

Eight **Local Government Pension Scheme** (LGPS) funds have invested in Gresham House's British Sustainable Infrastructure Fund II.

**HM Treasury** launched a call for evidence on pension funds' exemption from the clearing obligation, to help inform the government's long-term approach.

**Zedra** agreed to acquire LJ Fiduciary and Alvarium Private Office from AITi Tiedemann Global for an undisclosed sum.

The **Bank of England** launched the latest phase of its system-wide exploratory scenario exercise, providing both bank and non-bank participants with a hypothetical stress scenario.

**Nest** launched a consultation on plans to make two technical amendments to its scheme rule, designed to respond to members' needs.

Cushon became the latest signatory to the **Mansion House Compact**, which was announced by Chancellor, Jeremy Hunt, in this summer's Mansion House speech.

The Work and Pensions Committee asked **Morrisons** for more details on its proposed changes to its pension scheme, after it announced plans to lower its employer pension contributions in response to the government plans to expand auto-enrolment.

# Appointments, moves and mandates

**Workplace experience and facility management firm ISS UK has appointed Smart Pension to provide an occupational pension scheme to 62,000 members.** The appointment represents £200m in assets under management moving to Smart Pension across 19,000 active and 43,000 deferred employees. ISS UK's employees will be moved from a single-employer trust-based scheme to the Smart Pension Master Trust, with the aim of benefitting from a more sustainable investment approach and real-time pension access. Members will also be able to use Smart Pension's Smart Retire offering. Commenting, ISS UK & Ireland head of pensions, Dave Marsh, said the firm was pleased to appoint Smart Pension to provide a workplace pension that invests its workers' pension savings sustainably and "provides great value for money, as well as tremendous service and support".


Matt Harrison

**Cardano has announced the appointment of Matt Harrison and Sinead Leahy as co-heads of Cardano Advisory, effective 1 January 2024.** Both managing directors, Harrison will continue to lead the trustee services practice, while Leahy will continue to lead the corporate advisory services practice. The joint appointment follows the news that Darren Redmayne has decided to step down from being CEO at the end of the year, after 16 years at Cardano Advisory. However, Redmayne will stay on as a board adviser to Cardano. "While it is time for me to step down as CEO, I look forward to my continued involvement with Cardano as a board adviser," Redmayne stated.


Emily Benson

**Brightwell has announced the appointment of Emily Benson as head of business development, investment and fiduciary management.** In the newly created role, Benson will be responsible for business development in the investment and fiduciary management space, with a mandate to expand the franchise to other pension schemes seeking a long-term partner to deliver sustainable funding and investment solutions. She joins the group from Royal London Asset Management, where she was head of segregated funds within the institutional client business. Prior to this, she also held a number of institutional client relationship and sales roles at BlackRock.


Helen Dean

**Standard Life has announced two appointments to its Standard Life Master Trust Company (SLMTC) Board.** Outgoing CEO of Nest, Helen Dean, is to take up the role of chair of the SLMTC, overseeing the interests of more than 300,000 master trust scheme members. Her appointment will take effect in May 2024, subject to regulatory approval, replacing current chair, Richard Butcher, who has been chair since 2015. Standard Life also appointed Gurmukh Hayre as a trustee director board member of SLMTC from 1 April 2024, pending regulatory approval, as Rene Poisson will be ending his tenure as independent trustee director, after nine years in the role.

**The Access Pool has appointed Pension & Investment Research Consultants (PIRC) as its external environmental, social and governance (ESG) and responsible investment (RI) adviser.** PIRC was appointed to implement the pools phase II responsible investment guidelines, following a National Local Government Pension Scheme (LGPS) Framework Procurement. As part of this, it will be advising the pool upon, and monitoring of, developments within ESG and RI reporting requirements and arrangements, as well as assisting with stewardship gap analysis. It will also review the Access Pool voting guidelines and make recommendations to enhance the voting impact in line with the RI guidelines. In addition to this, PIRC will look to understand the current and future ESG- and RI-related challenges faced by, and opportunities open to, institutional asset owners, with particular reference to reporting requirements. PIRC will use the Access RI guidelines as the starting point to deliver a universal reporting framework, which will incorporate the expectations Access places on asset managers into the framework. This includes outlining responsible investment principles, main risks, how ESG is incorporated into investment decisions, stewardship, voting and engagement activities, and reporting against Task Force on Climate-Related Financial Disclosures. The Access Pool includes 11 LGPS administeing authorities: Cambridgeshire County Council; East Sussex County Council; Essex County Council; Hampshire County Council; Hertfordshire County Council; Isle of Wight Council; Kent County Council; Norfolk County Council; West Northamptonshire Council; Suffolk County Council; and West Sussex County Council.


Jill Mackenzie

**The BT Group has appointed Jill Mackenzie as trustee chair of the BT Pension Scheme (BTPS).** Former chair, Otto Thoresen, announced his intent to step down from his position as trustee chair following the conclusion of the BTPS 2023 triennial valuation in May this year. Following this announcement, the BT Group confirmed that it had appointed Mackenzie as an independent employer-nominated trustee director with a view to her succeeding Thoresen as chair in due course. Since that announcement, Mackenzie has spent the past six months on the BTPS trustee board and shadowing Thoresen to ensure a smooth handover. The group also confirmed that following Mackenzie's appointment to the trustee chair role, Professor Andrew Clare has been appointed to the BTPS trustee board. Clare is professor of asset management at Bayes Business School (formerly Cass), and has published in both academic and practitioner journals on a wide range of economic and financial market issues. Commenting, Mackenzie said: "In these first months since my appointment, I have witnessed the dedication with which the trustees discharge their duties to the scheme and its members. Otto is handing over a robust governance framework and a collaborative and supportive boardroom culture, both of which stand us in good stead for the future." Thoresen added: "It has been a privilege to chair the BTPS Trustee Board and I am grateful to colleagues on the board, both past and present, for the excellent support they have provided both to me and the scheme during my time as chair. I wish the board and the scheme's members the best for the future."


Peter Smith

**TPT Retirement Solutions has promoted Peter Smith to head of investment at TPT Investment Management (TPTIM).** He brings more than 16 years of experience to the role, having initially joined TPT in 2008 from HSBC. TPTIM also named Inês Cunha Pereira as responsible investment manager. Pereira joins TPT from Man Group where she was a stewardship manager for over five years. In her new role, she will oversee the implementation of TPT's responsible investment (RI) policies, ensuring alignment with regulatory requirements and the integration of RI considerations into all areas of the portfolio management process.

**The Universities Superannuation Scheme (USS) has appointed Sandra Carlisle as the new head of responsible investment at USS Investment Management (USSIM).** Carlisle will join USSIM from 2 January 2024. She has worked for three decades in the financial services industry and brings more than 20 years of experience in sustainable and responsible investment, most recently at Jupiter Asset Management. She takes over from former head of responsible investment, David Russell, who left USS in June 2023. She will also sit on the USSIM Executive Committee and will report directly to USSIM CEO, Simon Pilcher. "I'm thrilled to be joining USS at such a pivotal time," Carlisle said. "I look forward to working with the entire team as we seek to further develop USS as a leader in this critically important area and seize the opportunities that will arise."

**Pension Insurance Corporation (PIC) has appointed Finbourne Technology to provide investment data management capabilities, to help drive its data strategy.** The appointment, which was made following an in-depth market review, will enable PIC to use Finbourne's financial data management platform, Lusid, and specialist financial data virtualisation engine, Luminesce. This is expected to allow PIC to consolidate private asset, environmental, social and governance (ESG), market, reference, pricing, analytics, ratings and trading data from multiple sources into a single view, streamlining operational processes. "By selecting Finbourne's data management solution, we are confident that we will drive our investment strategy forward, with an enhanced platform supporting our operations, now and in the future," PIC chief data officer, Angela Pearce, said.


Nadeem Ladha

**Hymans Robertson has expanded its risk transfer team with the appointment of Nadeem Ladha.** Ladha was appointed as a senior adviser on a short-term contract focusing on risk transfer projects involving special situations. Prior to joining the team, he was a senior professional independent trustee at a professional trustee firm, where he specialised in leading pension schemes through risk transfer transactions. He had also previously been at Hymans Robertson from 2005 to 2011. "I am really looking forward to working with the team on a number of risk transfer projects and helping to deliver great outcomes for our clients," Ladha commented.

## VIEW FROM TPR: A value for money framework for DC schemes

**We have welcomed both the Department for Work and Pensions' Master Trust Review, published as part of the Autumn Statement, and the Financial Conduct Authority's announcement that it will consult next spring on draft value for money (VFM) requirements for contract-based DC schemes.**

DWP's Master Trust Review provides details of the steps we will be taking towards a more influential and interventionist approach in relation to master trusts. We have committed to enhancing the supervision of investment governance, challenging master trusts on investment decisions, and focusing on value for members, ahead of a legislative VFM framework. We, together with the DWP and FCA, are committed to developing a holistic framework that can be applied consistently across the entire DC market. This requires a level playing field across both trust and contract-based pensions. That's why we continue to work with the FCA to develop their rules in anticipation of future legislation for trust-based schemes. We are therefore encouraging trust-based schemes to engage with the FCA's upcoming consultation to help ensure there are no barriers to implementing the framework in the trust-based environment. By jointly engaging the market and devising policy solutions, we will embed a legislative framework that will help ensure better value outcomes for all DC savers.

**TPR interim director of regulatory policy, analysis and advice, Louise Davey**

## VIEW FROM THE ABI: Pensions dashboards

**With every day that passes, we progress further towards the transformational launch of pensions dashboards. With that, the latest iteration of the Pensions Dashboards Programme's *Progress Update Report* highlights their importance.**

The emphasis on collaboration and further guidance for dashboard providers is encouraging. But for as many questions that have been answered, the same remain.

Although we would have liked to see the staging timetable published as part of this update, we welcome the opportunity to provide feedback on PDP's draft version in the coming weeks. We remain hopeful that this will be published as soon as possible and entirely support industry collaboration on this vital step towards dashboards becoming a reality.

User testing plans are also yet to be established, although the announcement of an industry-led user planning and testing group in early 2024 shows progress towards that. This will afford the opportunity to shape issues such as testing requirements and user involvement. We urge government to keep pushing on the delivery of this to ensure the timely delivery of the dashboards availability point.

After all, at the heart of it, we must remember that dashboards are for the saver, and it is in their best interest that they are delivered successfully.

**ABI policy adviser, long-term savings policy, Emily Mae Collins**

## VIEW FROM THE PPI: The looming rise of renting through retirement

**By 2041, up to 1.7 million, or 17 per cent, of pensioner households could be renting privately through later life, around three times as many as today. The increase is caused by falling levels of home ownership and social housing provision, which mean that more working-age households could still be renting privately when they reach retirement. But how will these households afford their rent, and what could changes mean for the future of the UK pension system?**

These are just some of the questions tackled in the PPI's latest *UK Pensions Framework* report, which looks at how changes to housing tenure could impact future retirement outcomes. It finds that most renters are not saving enough to maintain a moderate standard of living through later life, let alone cover their rent. On average, a couple aged 45-64 on median income would need to double their total assets or more if they are to rent even a one-bedroom flat outside London through later life, then cover living expenses with their state pension.

Findings highlight imminent challenges for the UK pension system. They show a pattern towards more individualised retirement experiences, and the increasingly outdated nature of assumptions around circumstances like home ownership. Importantly, it also shows how pensions policy depends on collaboration between a multitude of policy areas to be effective, and how retirement is the product of much more than what we save.

**PPI research associate, Anna Brain**

## VIEW FROM *Pensions Age*: Pot for strife

**The day of the Autumn Statement was a whirlwind for us pensions journalists.**

In one of the busiest days since I started at *Pensions Age*, the Chancellor made a swathe of announcements that would affect the pensions industry, but one stood out: Pot for life. While the finer details are yet to be revealed and the proposal has to go through the consultation process, it could be the biggest shake-up to UK pensions since pension freedoms. In many ways it's similar: Giving savers more autonomy over their pensions and choice in how they save is of the same school of thought. I can see the argument that this, alongside being a solution to the small pots problem, is a positive thing for financially savvy members. However, I think the positives are outweighed by the negatives. If 'pot for life' turns the workplace pensions landscape into a retail market, members will have to contend with increased risk. While safety measures will be introduced, scam and upselling activity will likely rise, and members will be more vulnerable to poor financial decisions. Auto-enrolment demonstrated the power of inertia, which is lost in the pot-for-life model, and employers will face an increased burden as they contend with paying into several different pension schemes. Additionally, the eventual launch of pensions dashboards will help address the small pots issue and give people a better picture of their retirement savings. Ultimately, it seems like a proposal that was not based on what is best for member outcomes.

**Written by Jack Gray**

## VIEW FROM PASA: Is everything we do, is it done for you. . .the pension saver?

**Do you also remember the song, 'Everything I do, I do it for you'? Forgive the cheesy link, but there's a lot going on in our industry at the moment. Perhaps more so than there's ever been – but is this all being delivered with a focus on delivering for 'you', the pension saver? Sometimes I think this may have been lost along the way.**

This hit home for me when I recently delivered some face-to-face pre-retirement presentations to a group of pension savers. Many had a relatively limited understanding of both their benefits, but also some of the language we take for granted.

Our focus is often on delivering outcomes required of us by legislation, our employers and clients. But it's important we ensure these are also helpful and understood by the people who really matter – pension savers.

Many of us are surrounded by colleagues who also live and breathe pensions on a day-to-day basis. It can be very easy to forget the daily language we use won't necessarily be understood by the very people we're trying to help.

Returning though to answer my initial question - the song was by Bryan Adams (and was No1 in 1991). I wonder, is everything you do really done for our pension savers? If it isn't, shouldn't it be?

**PASA board director, Dave Pharo**

PASA
assess | aspire | achieve

## VIEW FROM THE ACA: Autumn Statement reforms

**Responding to announcements in the Autumn Statement, we have expressed support for schemes being given encouragement to invest more in productive assets.**

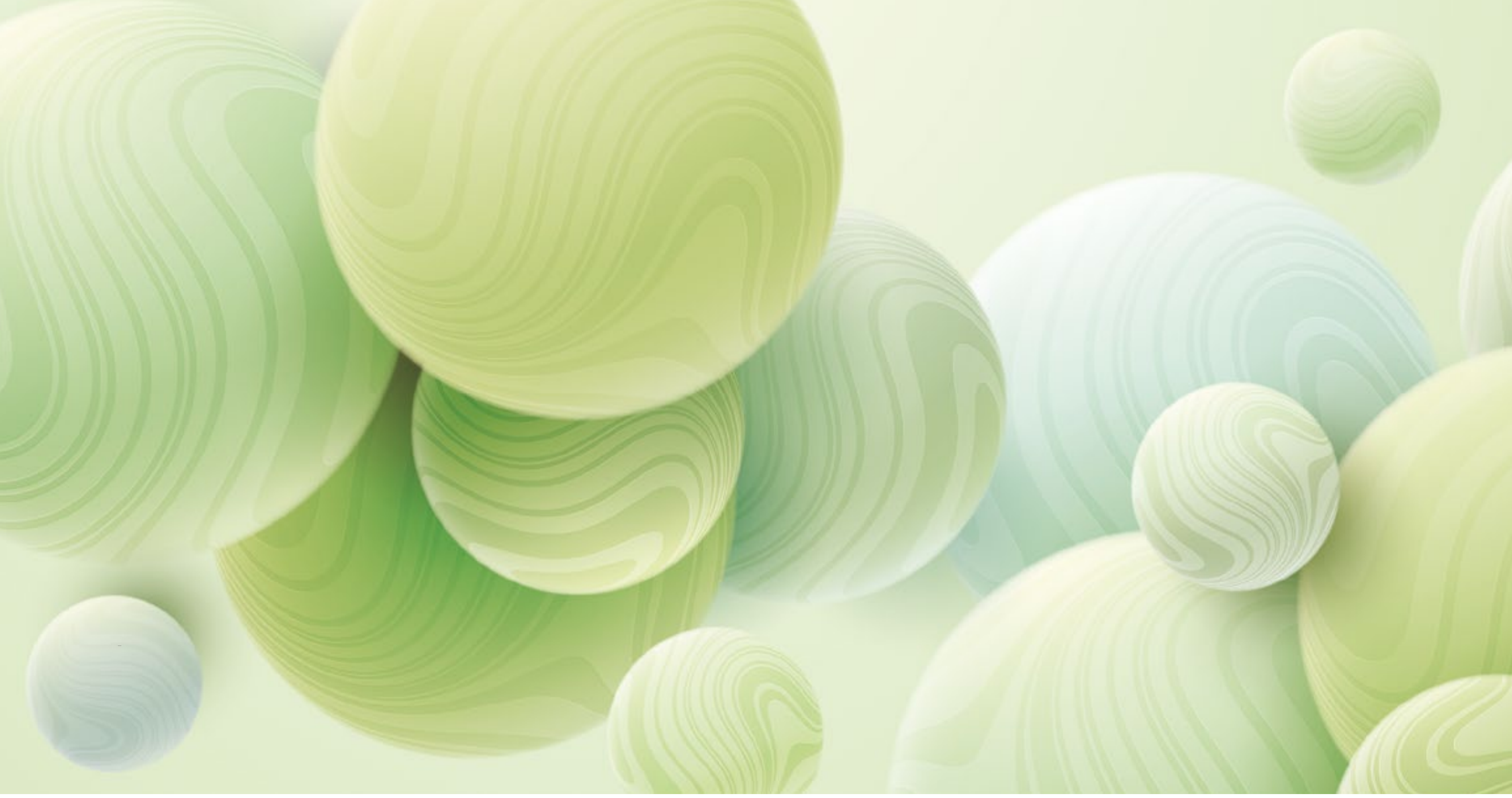
We look forward to seeing the consultative paper that is promised over winter and to working with the government as Mansion House pensions proposals continue to be fleshed out. In general, we support greater flexibility on the use of DB surplus, subject to appropriate member protections, and view that the reduction announced today in the rate of authorised surplus repayment charge is a sensible stopgap measure. However, it is unlikely in itself to drive changed investment behaviours.

The use of the PPF as a public consolidator of smaller schemes that are unattractive to commercial consolidators has some appeal, not least as commercial models have recently enjoyed some initial success. However, safeguards will need to be put in place to prevent market distortions and concentration risks and to ensure that the different endgame approaches each have space to flourish. The overall financial model of the PPF approach also remains unclear.

On the planned consultation on DC reforms aimed at giving members the ability to nominate a scheme of their choice for the employer to pay into, we are concerned that whilst this will have some consumer appeal, it will lead to a significant administrative and risk burden for employers, lower engagement levels from sponsors and potential fragmentation of the system with worse outcomes for low-income savers.

ACA
ASSOCIATION OF CONSULTING ACTUARIES

**ACA chair, Steven Taylor**



## View from the AMNT: Knowledge, learning and understanding

**Rishi Sunak promised to overhaul the A-Level system in his speech at the annual Conservative conference by rolling out a new Advanced British Standard qualification that will see pupils take more subjects to 18, including compulsory English and maths.**

When I was at secondary school, in the late sixties, the school curriculum consisted of compulsory metalwork and woodwork for boys and compulsory home economics (cookery) for girls. I was and remain utterly useless at any form of DIY and thus wasted mine and the teacher's time when I could have been learning academic subjects, to mine and their advantage.

Providing facts, information and skills does not in itself mean that such knowledge will necessarily be put to good use. As Albert Einstein said: "Any fool can know, the point is to understand." I would add that obtaining understanding is to have insight and good judgement.

We all acknowledge the importance of knowledge when undertaking our roles as trustees and the need to learn to obtain that knowledge but we must be careful in proscribing forms of learning and assuming that passing an exam results in understanding. Having a personal stake in the decision outcome is just as important for people will never understand something until it happens to them.

**AMNT member, Stephen Fallowell**

AMNT Association of Member Nominated Trustees

## View from the PLSA: Pros and cons in pensions-heavy Autumn Statement

**We were pleased to see the Chancellor confirm in the Autumn Statement that he would increase the state pension in line with the triple lock, that the British Business Bank would set up a Growth Fund suitable for pension fund investment, and that the tax rate on release of a pension surplus would be reduced.**

We also welcomed DC decumulation plans to place a duty on pension schemes and providers to provide suitable products to savers as they come up to retirement. While we do not think a cast iron case has been made for the creation of a public sector consolidator – we think private sector solutions like DB master trusts and DB superfunds would be better – we were also pleased that the government is proposing a consultation to look at the issue.

However, we are very concerned at the proposal that the UK should move to a more individualised form of pension provision, the 'lifetime provider' model. Workplace pensions form the vast majority of private pension provision in the UK and they currently provide low-cost pensions with the benefit of expert governance. A 'lifetime provider' model runs the risk of undermining the important link between employers and workplace pensions and would surely result in higher costs and worse outcomes for some savers. The evidence from Australia suggests that a 'lifetime provider' model would result in money being wasted on marketing as schemes compete with each other trying to attract savers.

**PLSA director of policy and advocacy, Nigel Peaple**

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

## View from the PMI: The lifetime provider puzzle

**In his Autumn Statement, Chancellor Jeremy Hunt proposed the introduction of a 'lifetime provider.' This would allow an individual to designate an alternative to the employer's chosen pensions arrangement as the recipient of automatic enrolment (AE) contributions. It is a proposal that has rapidly provoked much industry comment.**

To many, the timing of such a suggestion may seem odd. The advent of pensions dashboards in 2026 is an alternative method of controlling small pots, and it is puzzling that the government should have launched a new policy with the same stated objective. Furthermore, the system would require a dedicated clearing house system to match existing pension schemes to new employers. The proposed policy would also require employers to make contributions to as many different pensions arrangements as their workforce requires.

It also has the potential to trap unwitting employees in outdated or poor value schemes when a new employer might offer a superior alternative.

As the scheme would be voluntary, it seems likely that only a small number of savers would be motivated to make use of it. Finally, it should be remembered that this policy could only operate within the universe of private sector defined contribution (DC) schemes.

The idea of a lifetime provider is an interesting concept. However, with a General Election expected in the new year, it is entirely possible that it will not have the opportunity to progress beyond being a hotly debated idea.

**PMI director of policy and external affairs, Tim Middleton**

# TPO clarification on transfer regulations

**Matthew Swynnerton discusses the recent Pensions Ombudsman determination tackling the confusion with transfer regulations**

Pension scams are a serious problem, both for victims and for the wider industry. Recent reports estimate that financial fraudsters in the UK have just a one in 3,000 chance of being convicted. It is understandable therefore that legislators introduced the Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 (the transfer regulations).

However, under the transfer regulations, if any overseas investments are included in the receiving scheme or if any offer of an incentive for making the transfer is made, trustees are required to raise amber and red flags, respectively. This is despite the fact that many well-diversified pension funds include overseas investments and that incentives are commonly used as a legitimate way to encourage members to transfer their pension scheme.

Nonetheless, under the transfer regulations, these triggers can halt the transfer or refer the member to MoneyHelper for advice. Where an innocent transfer is flagged and the member is referred for a safeguarding appointment they feel they do not need, the member may feel frustrated, especially when they suffer a perceived loss if their transfer value drops in the time it takes to seek the advice.

This was the scenario which led to a recent pensions ombudsman (PO) determination, which goes some way to tackling the key points of confusion for those grappling with the transfer regulations. Mr W complained firstly that the trustee did not correctly interpret the transfer regulations, and secondly that his transfer request was unnecessarily delayed as the trustee required him to seek a MoneyHelper safeguarding appointment following an amber flag (the overseas investments flag). As a result, Mr W felt he should be financially compensated for the fall in his transfer value, as well as for resulting stress and inconvenience.

Rather fittingly, the PO noted that the approach of the pensions industry on how to implement the transfer regulations has been fragmented from the outset, with little consistency in practice, and different approaches on the level of risk tolerated by trustees. The PO held that the complaint should not be upheld against the trustee because it did not act unreasonably in determining that an amber flag was present in Mr W's transfer request and referring him to MoneyHelper for a safeguarding appointment. The PO noted that the trustee's literal interpretation of the Transfer Regulations was not unreasonable, especially since the trustee took legal advice.

The determination supports a more cautious approach by trustees when it comes to the presence of overseas investments. However, the language used could be interpreted as the PO saying implicitly that the TPR guidance on overseas investments cannot override a strict reading of the regulations.

In the absence of any other PO commentary, it is harder to adopt the alternative view that non-opaque overseas investments can be ignored, at least until either the transfer regulations are changed or there is a determination in relation to a statutory transfer complaint where there were overseas investments and no referral to MoneyHelper was made.

The PO's careful language in concluding that the trustee made decisions that were "not unreasonable" potentially leaves the door open for him to conclude in a future complaint in that scenario that a decision to transfer without guidance could also be "not unreasonable", if the decision were based on proper procedure having been followed, including taking legal advice.

Many trustees are concerned when advising on a strict interpretation of the transfer regulations that the risk of a delay-related complaint is higher than the risk of a claims management company-orchestrated scam complaint. What is now clear is that the PO would not uphold a delay complaint where proper procedure has been followed and the member has been referred for guidance to MoneyHelper, so this case can set at ease the minds of trustees following the letter of the transfer regulations to some extent.

Whilst it does not provide the clarity required, which can perhaps only come from the DWP and tweaks to the transfer regulations, this PO determination does provide some crucial guidance for trustees and administrators when faced with the overseas investments amber flag.

**Written by DLA Piper partner, Matthew Swynnerton**

In association with DLA PIPER

# Diary: December 2023 and beyond

### Pensions Age Awards 2024
21 February 2024
Grosvenor House Hotel, London
The 11th Pensions Age Awards aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The awards are open to any UK pension scheme or provider firm that serves pension schemes in the UK. The deadline for entries has closed, but bookings for the prestigious gala dinner are now open.
pensionsage.com/awards

### PLSA Investment Conference 2024
27-29 February 2024
Edinburgh EICC
The PLSA Investment Conference returns with a new slot in the calendar, as the first PLSA conference of the year. It will aim to bring the full investment chain together to discuss big challenges and sector-specific issues, as well as sharing best practice. Confirmed topics include the urgent need to invest in biodiversity, why diversity is important in decision making, how pension funds are combating climate change, and more.
plsa.co.uk/events/conferences

### Sustainability Investment Summit
20 March 2024
Waldorf Hilton Hotel, London
This one-day conference offers pension funds, insurance companies, charities and corporates, the opportunity to both learn and network alongside their peers at a critical point for the investment industry. The event is open to all those concerned with sustainable investment, providing delegates with the up-to-date knowledge and guidance needed to understand all aspects of the sustainable investment market ranging from negative screening to impact investment.
sisummit.net

### European Pensions Awards
4 July 2024
London Marriott Hotel
Now in their 17th year, the European Pensions Awards were originally launched to give recognition to, and honour, the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds over the past year, and continues to do so. The awards are free to enter and open to any pension fund or firm that serves European pension funds.
europeanpensions.net/awards/

Visit www.pensionsage.com for more diary listings

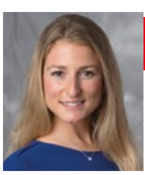
## Don't forget...

### Pot for life consultation

24 January 2024

The DWP's call for evidence, *Looking to the future: Greater member security and rebalancing risk,* closes on 24 January 2024.

**www.gov.uk/government/consultations**



## VIEW FROM THE SPP: Private credit with asset-based lending

**Bank retrenchment and the emergence of private lending has been a dominant theme for much of the post-global financial crisis environment, providing the potential for attractive diversification, enhanced income, and reduced volatility. We believe the private credit market is set for its next phase of growth with speciality finance, as investors need to diversify their private credit allocations beyond middle market direct lending.**

Speciality finance, also known as asset-based finance, is lending that occurs outside traditional banking and commercial real estate channels, that is secured by financial or hard assets. It provides critical funding across global economies, including consumer-related debt such as residential mortgages, credit cards, student, home improvement, and solar loans, to non-consumer assets, such as equipment-based lending and aircraft leasing. In addition, technology advancements have created niche speciality finance asset classes, including sectors linked to royalty streams on intellectual property.

In the US, we estimate the speciality finance market is approximately $20 trillion; more than four times the size of the US and European leveraged finance and private corporate direct lending markets. We believe this is a persistent secular change that will fuel industry growth for decades to come, and offers attractive characteristics for private investors including resilience, predictable cashflows and meaningful upside return potential.

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making pensions work

**SPP Investment Committee member, Victoria Caro**

# A week in the life of: Andy Cheseldine, Professional Trustee, Capital Cranfield Pension Trustees


After three decades of consulting on employee benefits, I joined Capital Cranfield Trustees just over six years ago. Having built up a nice, symmetrical mix of clients – three DB, three standalone DC and three master trusts – we have now met the primary objective of my appointments on many of these. The three DC schemes have all moved off to master trust providers, while two of the DB schemes have bought in on the way to full buyout within the next year. One of the master trusts has also closed, so I am now left with two open master trusts, one ongoing DB scheme (together with the buyout work on the other two) and a relatively new role as chair of a governance advisory arrangement for a group personal pension.

I also enjoy several pro bono roles: in addition to one of the DB schemes in buyout, I chair the Pension Quality Mark Standards Committee, sit on PASA's DC working group, the Asset Security in DC Group and I chaired the joint industry and regulator Small Pots Coordination Group (the latter now to be superseded by a delivery group).

However, the past seven days (I've cheated by calling Friday to Thursday "a week" for the purposes of this article) has been unusually busy.

**Friday**
Mostly a planning day, making sure I have all the necessary papers for next week's meetings. I also deal with some death claims and internal dispute resolution procedure queries, but nothing too difficult to draw to a conclusion.

**Monday**
A Capital Cranfield Trustees' briefing day – good sessions on technology/AI, Mansion House and developments in the pensions administration market. Also a good chance to catch up with colleagues and hear what issues are climbing up their agendas.

**Tuesday**
As chair of trustees at Smart, I don't usually sit on any of the sub-committee boards as we try to spread the governance responsibilities across all of the trustees. This investment sub-committee is, however, of particular importance given our drive to diversify away from over reliance on public markets. We had a number of good discussions on potentially higher return funds and how we can avoid inappropriate forms and levels of charges while meeting Mansion House commitments.

**Wednesday**
A full trustee meeting for The Lewis Workplace Pensions Trust (a master trust) in Poole, run as a hybrid with good use made of Teams for provider presentations. Investment performance remains exceptionally good both in the long-term portfolio and close to retirement, so we can (rightly) focus on what can/will go wrong and how we should mitigate the effects of problems on members.

**Thursday**
Another busy day. The morning is spent in a risk and governance sub-committee monitoring our approach to risk. There are so many new government proposals that we need to monitor (they nearly all have some impact on our risks) that, when added to existing focus on investment, administration and communication risks (all which are also overlayed by cyber concerns), we spend quite a lot of time trying to decide on what the priorities are. The bad news is that the answer usually comes out as "all of them".

Later in the day comes a less stressful role: Chairing *Pensions Age*'s roundtable on DC and master trusts. That has a really good bunch of attendees, all happy to give their points of view and challenge any (usually my) assumptions. We covered a wide range of subject matters, including:

- The Autumn Statement (lifetime provider pots mostly got a thumbs down; private markets investments received a more positive response).
- What the government can do (apart from the options raised in the Autumn Statement) to help people save more and achieve a better standard of living in retirement.
- How we can help savers at and into retirement and what the role of master trusts is here.
- The Pensions Regulator's blog on proposals for DC schemes to become 'full-service providers' and how ready DC schemes are for this.
- The Pension Ombudsman's recently published first determination on an amber flag relating to overseas investments under the Conditions for Transfers Regulations.
- What more can be done to ensure we consider diversity, equity and inclusion in pensions.

Never a quiet week in pensions.

# Working to make a difference

**Sackers managing partner, Helen Ball, chats with *Pensions Age* about her top pension moments, latest Netflix pick, and the importance of life outside of work**

**What's your employment history (including jobs outside of pensions)?**
My first job, when I was 13, was delivering the Sunday newspapers on my bicycle. I then worked in an old-fashioned sweet shop with jars where you weighed out sweets into a paper bag, which was good fun. I've also worked as a shelf stacker in a supermarket. None of these relate to being a solicitor at all, so I had no idea what I was letting myself in for when I chose to do a law degree!

**What's your favourite memory of working in the pensions sector?**
The best memories are when your work really makes a difference to people. I vividly remember a time when I had to stand up to an aggressive employer in a meeting – he was trying to get away with moving all the assets out of a business, which would have left its DB pension scheme members completely exposed. I refused to be cowed, he got angry but he eventually backed down. The trustees ended up with a sizeable guarantee out of the company, which felt like a job well done.

**If you did not work in pensions, what sector do you think you would be in instead?**
Definitely something creative – my cousin studied costume design and has worked for the RSC, on film sets and at the Royal Opera House. I wish I'd been brave enough to do something similar.

**What was your dream job as a child?**
Sadly, a lawyer! I liked the idea that lawyers could fix things and help people with their problems. I guess I still do as that is one of the most interesting parts of the job – working out how to solve puzzles for people.

**What do you like to do in your spare time?**
I have lots of hobbies – I'm a busy gardener and this year I also started learning the flute. The trouble is that there's never enough time to practice so my progress isn't as quick as I would have liked. Life is too short to make it all about the work. Work's important and can also be good fun if you don't let it take over your whole life, but life is also too short for it to be all about work. I try and keep that in perspective as much as possible.

**If you had to choose one favourite book, which would you recommend people read?**
I love books that explain psychology and why people think and behave in different ways. *Surrounded by Idiots* by Thomas Erikson really opened my eyes to the different kinds of people you can meet and helped to make sense of why some explanations you give will land better than others. In other words, you need to adapt your communication style so it is suitable for the person that you are dealing with. It's been helpful in shaping the way that I deliver advice to clients at Sackers – particularly when you are dealing with groups of people that may each be responding to a situation from a different perspective.

**And what film/boxset should people see?**
The last series I binge watched on Netflix was called *The Diplomat* – I watched it all in a weekend, which is very rare for me.

**Is there any particular music/band that you enjoy?**
I love pop music and have a soft spot for anything from the 90s or early 2000s, so I usually have Magic radio on in the kitchen at home. I am also a big fan of musicals and film soundtracks – I love a bit of drama.


**Who would be your dream dinner party guests?**
Kind and clever people who make me smile – so Claudia Winkleman for her fabulous wit, Dawn French and Jason Manford for their brilliant humour and Bradley Walsh because he knows how to make people feel good about themselves.

**Is there an inspirational quote/saying you particularly like?**
"You can do anything but not everything". Something I need to remind myself of fairly regularly!

**Written by Sophie Smith**

# Administration: A vital part of the new world

**Margaret Snowdon explains how the Mansion House Summit signals need for joined up solutions, with administration playing a key role in this connection**

I was pleased to be invited to the Mansion House Summit on 25 October. Not only because there was a lot of energy and commitment in the room to improving outcomes for pension savers, but because the importance of operations, processes and data was stressed. PASA was therefore around the table as were consumer groups and not just asset managers, as may have been expected. Hats off to EY for arranging a broad scope for the summit.

The idea of investment in productive assets is not new, but the recent government and regulator support for it is novel. We have spent years being told that scheme managers should prioritise security over growth and short-term decisions over longer term objectives and we have paid a price for this. Our ambitions have been narrow and our focus has been on cost reduction, especially on essential services like administration and customer service. Decline, de-risking and endgame are not very positive terms and we need to refocus.

The Mansion House Compact is where 10 leading companies have signed up to invest at least 5 per cent in unlisted equities, particularly relating to fintech, life sciences, biotech and clean tech by 2030. This is a significant shift and has injected some real excitement and enthusiasm. Being backed by Treasury and the Corporation of London helps of course. The target for such investment ambitions is DC, but it won't stop there. DB is as long term as DC; we just keep trying to tell ourselves that our horizon is buyout in five years and while that provides certainty and security, it is not the only game in town. The idea of superfunds was to extend the life of DB, but an abundance of caution has limited the prospects and limited investment to low risk and more liquid assets.

The Mansion House Summit made it clear that to succeed, investing in riskier assets in expectation of higher return needs much more transparency and understanding than we currently enjoy. Members and policyholders need to be part of the solution and we need to be able to explain why we think investing in real things in this country is good for pension scheme members. We need to explain value for money in a consistent and meaningful way (and it's not about cost, but outcomes and trust). We need clear investment products, clear and consistent information and reporting, and clarity on the real outcomes achieved. Administrators will be vital to this as will excellent communicators, guiders and technology. All with the member/policyholder at front of mind.

So, if administrators are a vital part of this new world, administrators of all stripes will need to step up to the plate. Administration providers innovate despite the seemingly endless call for lower cost services. Expectations to always get everything right, to have top notch data, to provide infallible information and keep in touch with the end customers and satisfy regulators. It's a big job, but it has to be done. That means it has to be paid for. I am sure this will be a challenge because it means trustees, employers and providers must encourage innovation, especially in technology for efficiency and in communications for better engagement as well as in transparency for improved trust.

That brings us round to money, or the lack of it. Schemes and providers must invest in administration and operations – our pensions infrastructure. If we are enthused about investing in infrastructure in the UK – pensions administration and services should be a worthy target for productive capital to deliver what we need in future. This is an opportunity we should not miss.

I look forward to continuing work on delivering robust solutions to achieve the Mansion House aims – it can be a win/win – good for members, good for industry and good for society.

**Written by PASA president, Margaret Snowdon**

# 2023 – the year of the consultation

**The *Pensions Age* year in review often claims that the past year has been one of the busiest yet for the industry and 2023 is no different, as the industry was hit with wave after wave of consultations and measures. However, a number of initiatives have faced significant delays, with several updates still awaited as the industry prepares for the new year**


**January –**

- Then-Pensions Minister, Laura Trott, announced a raft of new DC measures in an effort to create "fairer, more predictable, and better-run pensions"
- The government launched a consultation on 'major' changes to the NHS Pension Scheme
- Focus on liability-driven investment (LDI) issues continued following the autumn 2022 volatility, as both the Work and Pensions Committee (WPC) and the Treasury Committee heard evidence from industry experts

**February –**

- The Pensions Regulator (TPR) announced plans for an ESG non-compliance initiative
- LDI inquiries continued, with the Industry and Regulators Committee also holding evidence sessions

**March –**

- The Department for Work and Pensions announced plans for a 'reset' on the Pensions Dashboards Programme (PDP)
- The DWP announced its support for a Private Member's Bill on plans to expand auto-enrolment (AE)
- Chancellor, Jeremy Hunt, confirmed plans to abolish the lifetime allowance (LTA) as part of his Spring Budget 2023
- TPR launched a new regulatory initiative on value-for-member assessments
- The WPC switched focus away from LDI, as it announced plans for a new inquiry into the broader DB landscape

**April -**

- TPR's 2023/24 Corporate Plan revealed a delay in the launch of the new DB Funding Code, from October 2023 until April 2024
- TPR confirmed that it had assessed and authorised the UK's first collective defined contribution (CDC) pension scheme, the Royal Mail Collective Pension Plan
- Capita confirmed that it had experienced a cyber incident and that there was evidence of "limited data exfiltration from the small proportion of affected service estate which might include some customer, supplier or colleague data
- TPR provided updated LDI guidance, alongside updated LDI guidance from the Financial Conduct Authority (FCA)

**May -**

- TPR updated its guidance on dealing with employer stress or distress to reflect the "ongoing but different" challenges facing the economy
- The DWP launched a call for evidence on the alternative quality requirement for DB and hybrid pension schemes that are used for AE
- An industry coalition of over 20 pension schemes and providers launched to tackle UK pension inequalities, the Pensions Equity Group

**June -**

- The government shared an update on the PDP reset
- The WPC urged TPR and DWP to 'halt' their existing plans for a new DB funding regime
- The DWP published its review of the 2021 pension transfer regulations, confirming plans to work with TPR and the industry on potential changes to improve the pension transfer experience
- The DWP published its first official report on the gender pensions gap, estimating that the gap was at 35 per cent for private pension savers

**July -**

- Chancellor Jeremy Hunt's first Mansion House speech revealed plans to "unlock" up to £75bn of additional investment from DC and Local Government Pension Schemes

**August -**

- TPR provided updated DB superfunds guidance and DC illiquid investments guidance

**September –**

- The Private Member's Bill to extend AE cleared parliament and was granted Royal Assent
- The Pension Protection Fund (PPF) launched a consultation on plans to halve the levy for 2024/25 to £100m
- The Pension SuperFund confirmed that it had been mothballed after three unsuccessful attempts to complete the assessment process

**October –**

- The DWP launched a consultation on potential plans to increase the general levy on occupational and personal pension schemes, in an effort to mitigate the ongoing deficit in levy funding

**November –**

- Chancellor, Jeremy Hunt, provided further updates on a number of pension reforms and initiatives as part of his Autumn Statement 2023
- MP for Blackpool North and Cleveleys, Paul Maynard, was appointed as the new Pensions Minister as part of Prime Minister, Rishi Sunak's, ministerial reshuffle
- Clara Pensions agreed the first UK superfund deal with Sears pension scheme

**Winter 2023/24 -**


- The government is set to launch a consultation to explore how the PPF could act as a DB consolidator and consider how rules around DB surpluses could be relaxed
- Further updates on a number of initiatives are hoped to appear, including a consultation on AE changes, and updates on the notifiable events regime


**The DB Funding Code wait continues**

Despite a strong start to the year with a consultation on TPR's draft code of practice, progress since has been much slower, as TPR's 2023/24 Corporate Plan revealed a delay in the launch of the new code, from October 2023 until April 2024.

Both DWP and TPR also faced calls to delay the code, following concerns that the proposed approach is not sufficient to allow open schemes to thrive and could run counter to the Mansion House reforms.

The regulator and government have since hit back at these concerns, arguing that the revised code will still allow DB schemes to invest in a diverse range of assets, with specific consideration for open schemes.

Yet, whilst both the former Pensions Minister, Laura Trott, and TPR had previously slated further updates for autumn 2023, it has since been revealed that the supporting regulations would not be introduced to parliament until 2024, while TPR's code of practice will be shared "on the appropriate timeline".

**Supporting the NHS**

Efforts to address the impact of pensions taxation on NHS doctors continued this year, as the government announced a number of measures to address staffing difficulties and encourage retired doctors back. This included 'major' changes to the NHS scheme itself, as well as broader plans to axe the Lifetime Allowance (LTA), and increase the annual allowance from £40,000 to £60,000.

Whilst a well-intended announcement, the news prompted backlash from the Labour Party, which threatened to reinstate the LTA should it be elected at the next General Election.

Industry experts also raised concerns that the changes could inadvertently threaten to 'backtrack' on the ability to inherit pension pots tax free.

However, the Autumn Statement brought reassurance that the changes will not require income tax to be payable on inherited pensions where the person dies before age 75, with the abolishment of the LTA confirmed in the November Finance Bill.

**Rising prices hit pensions**

The cost-of-living crisis was a key concern over the past year, as many were forced to think more carefully about where their pay is going, and whether they could afford regular pension contributions amid rising prices.

Those in retirement were also hit by an increase in costs, as rising food and fuel prices saw the Pensions and


Lifetime Savings Association's minimum living standard increase by 19 per cent, prompting concern that some savers could look to their pension to save money.

These concerns were exacerbated after data from HMRC showed that the government repaid a total of £61.3m to people who overpaid tax when they flexibly accessed their pensions in Q3 2023, up from £33m in Q3 2022, which industry experts highlighted as evidence of the pressure the cost-of-living crisis is playing on everyday finances.

More recent figures from the government have since provided some reassurance, however, revealing that AE had held up well amid the Covid-19 pandemic and cost-of-living crisis, with just 0.8 per cent of workplace pension savers actively stopping contributions in 2022/23.

**Looking back on LDI**

The past year saw a continued focus on liability-driven investment (LDI) following the autumn 2022 gilt market volatility, with inquiries and evidence sessions held by a number of parliamentary committees.

The regulators and Bank of England also took steps to address concerns following the volatility, issuing new guidance designed to build greater resilience for the future. This included confirmation that TPR expects trustees to only invest in leveraged LDI arrangements which have put in place an appropriately sized buffer, and that this must include an operational buffer specific to the LDI arrangement to manage day-to-day changes, in addition to the 250 basis points minimum to provide resilience in times of market stress.

The government has since accepted a number of the recommendations made around LDI *[read more on page 16]*, with particular plans to improve the amount of data held on LDI in DB pension schemes.

However, despite the changes made, LDI has remained a key theme within the WPC's inquiry on DB, with the committee pushing both TPR and PPF to quantify scheme losses experienced as a result of the LDI issues, particularly in relation to the impact on the Wilko pension scheme.

**Highs and lows for superfunds**

2023 finally brought an update on DB superfunds, as Clara Pensions announced that it had agreed the UK's first superfund deal with the trustees of the Sears Retail Pension.

The DWP also finally shared a response to its 2018 consultation on superfunds, confirming plans for a permanent superfund regime. However, Clara Pensions remains the only authorised superfund, after The Pension SuperFund (PSF) confirmed that it had been mothballed after three unsuccessful attempts to complete the assessment process. However, *Pensions Age* understands that the idea for the PSF has not been scrapped for good, and that it is waiting for TPR to provide an update on further guidance to make the proposition investable.

**Push for AE reform continues**

2023 saw encouraging progress around the 2017 AE reforms, with a Private Member's Bill to extend AE to lower earners and younger workers receiving Royal Assent in September.

Yet despite hopes that a consultation on the implementation of the changes could be seen in autumn, this has yet to appear.

However, employers have already begun to take note, as Morrisons became the first employer to announce changes to its pension offering in light of the increased cost under the proposed changes.

And the government is already facing pressure to begin work on the next lot of AE reforms in the meantime, with various industry organisations calling on the government to look to increase minimum AE contributions.

**Triple lock conundrum**

As is the case every year, the state pension triple lock has remained a hot topic of debate, with research from the Institute for Fiscal Studies (IFS) revealing that maintaining the triple lock could increase spending by anywhere between a further £5bn and £45bn per year by 2050.

However, industry experts suggested that a break in the triple lock would be unlikely in 2023 given the political weight that the mechanism holds, and the potential for a looming General Election.

Indeed, the Chancellor's Autumn Statement confirmed that the government would stand by the promise in full, with pensioners set to receive an 8.5 per cent increase from April 2024.

Yet future promises are less clear, as whilst the Liberal Democrats recently confirmed in their party manifesto that they would opt to maintain the triple lock, Labour and the Conservatives are yet to follow suit.

**A push to productive finance**

Pension scheme investments have been a key theme in 2023, across both DB and DC. Yet whilst previous years have seen growing focus on the environmental, social and governance impact pension money had, the past year has instead focused on the need to support the UK economy.

Indeed, Chancellor, Jeremy Hunt, announced a number of measures over the past year designed to 'unlock' pension scheme money to encourage greater investment in the UK, including measures in his Autumn Statement and Mansion House reforms *[read more on page 10]*.

The pensions industry has shown some support for the measures, with backing for the Mansion House compact growing as the year goes on. The compact aims to encourage increasing the proportion of UK pension assets invested in unlisted equities through a voluntary pledge by DC schemes to allocate 5 per cent of their assets to unlisted assets by 2030.

However, industry experts have emphasised the need to ensure that member outcomes remain the first and foremost priority.

**Dashboards delayed**

Work on pension dashboards took a hit in 2023, as whilst industry support for the project has remained strong, resourcing and tech issues prompted the government to announce a dashboards 'reset' in March 2023.

The DWP has since confirmed that amended regulations will include a connection deadline of 31 October 2026, with the remainder of the staging timeline to be set out in guidance, which PDP is expected to engage with the industry on imminently.

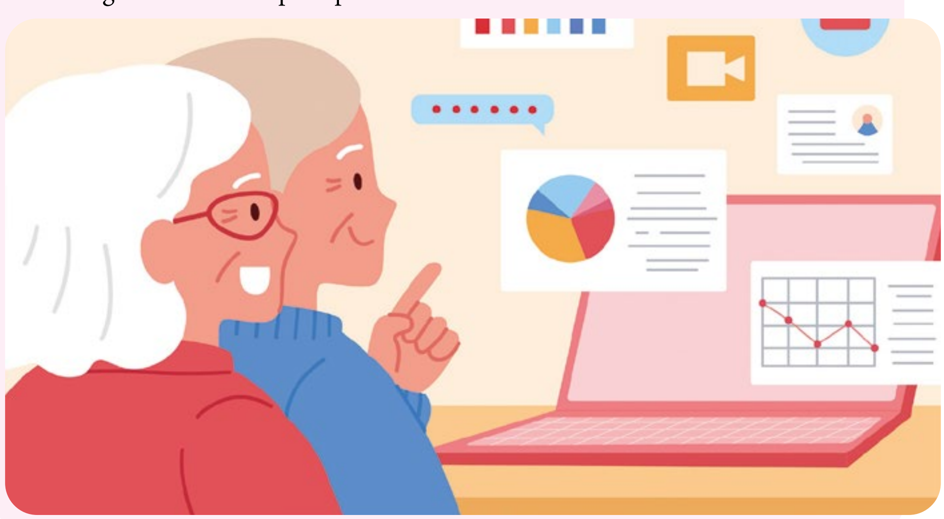
The DWP and PDP have both repeatedly stressed, however, that the 31 October 2026 connection deadline is not the Dashboards Available Point (DAP), and that the DAP "could be earlier" depending on industry efforts.

In line with this, the DWP also confirmed that TPR will be ready to enforce the proposed staging guidance for pensions dashboards, with those schemes that choose to hold off on preparations to face scrutiny over the reasoning for this.

Despite the delays, industry efforts have continued, as 2023 saw the first public demonstration of how the dashboards could work in practice.

And further work is underway, as the PDP confirmed that it will be looking to engage with the industry on dashboards connection guidance in "autumn 2023", with engagement on the dashboards standards also set to take place over winter 2023/24.

**Written by Sophie Smith**



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**DC members prepared to pay for ESG pension power:** *Despite the tightest squeeze on household budgets in decades, most defined contribution (DC) pension savers would pay more to see their funds supporting environmental, social and governance (ESG) investments – once they know pensions can be used in this way* **p38**

**ESG and illiquid assets – coming together within DC?:** *Lynn Strongin Dodds explores how the government's recent efforts to increase illiquid asset investment within DC schemes fits in with ESG priorities rising up investors' agendas* **p40**

# ESG focus:
## Changing attitudes

**Legal & General Investment Management (LGIM) head of DC, Rita Butler-Jones**

LGIM

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# DC members prepared to pay for ESG pension power

**Despite the tightest squeeze on household budgets in decades,[1] most defined contribution (DC) pension savers would pay more to see their funds supporting environmental, social and governance (ESG) investments – once they know pensions can be used in this way**

In our latest investigation into the ESG views of our DC pension members,[2] we expected to find that the cost-of-living crisis was making savers more cautious with their cash. Yet, we found that most would pay more for investments which could make them less vulnerable to long-term financial risks.

For instance, of the 3,634 DC pension members in accumulation that we interviewed in the UK, 65% said the rise in petrol, gas and oil prices had made them more interested in replacing oil and coal with sustainable energy sources such as wind or solar farms. Meanwhile, three-quarters (74%) said rising prices had made them think more about sustainable food production.

Most DC pension members also seem to appreciate the link between burning fossil fuels and global warming so that almost nine in 10 (87%) want their pensions to significantly reduce exposure to fossil fuels.

Awareness of net zero continues to grow (85% of our respondents said they'd heard of it), and once they knew what it meant for pensions to have net-zero targets, 70% of our DC members said they'd support them – as long as the targets didn't affect the financial performance of their fund.

Similarly, despite a conclusive 72% of savers supporting investments in infrastructure projects to increase renewable energy sources such as wind farms or solar parks, well over half (56%) would only back paying higher fees if there was no long-term impact on their pension pots.

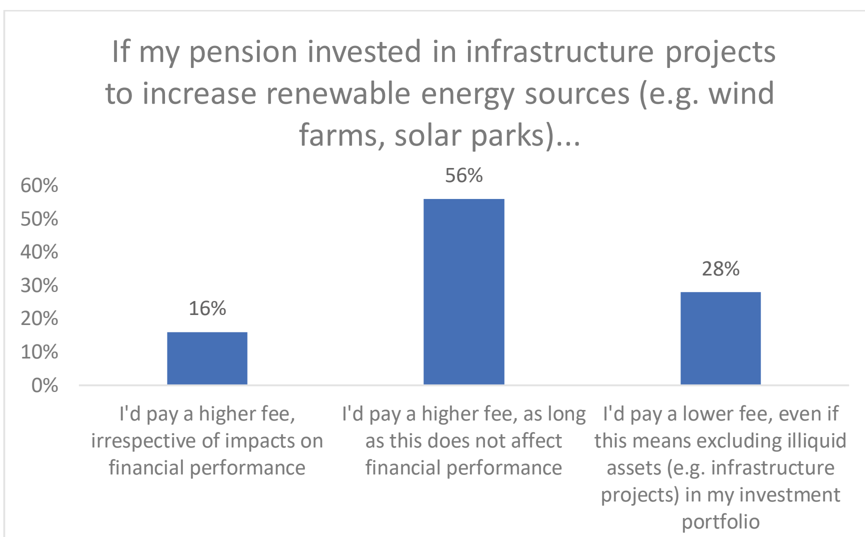
It's understandable that given the cost-of-living crisis, there remains some nervousness among members around taking any step that might have unintended consequences for the long-term performance of their pension pots. However, we found that knowledge is power when it comes to understanding how pension investments may offer a way of influencing some events – and mitigating risks – that members might previously have considered beyond their control.

So, while it's by no means universal, we believe there is slightly more confidence in the potential of ESG investing. For instance, 55% of members say they think funds with net-zero targets will do better than those without, while 57% think pension funds that invest in green finance will perform better financially than funds which don't.

As one of our youngest members put it: *"I think in the long term it will work out as financially better (to invest in sustainable infrastructure projects) …Whereas, you know, we will run out of fossil fuels eventually. And while they might be more profitable in this moment, they'll just be gone eventually, and they won't be profitable 'cause they just don't exist."*
**Generation Z (aged 22), Male**

**Raising awareness raises engagement**

It seems that the global economic and political shocks of recent years could be feeding into pension members' calculations around balancing the need




*Source: Legal & General Investment Management survey, June 2023, showing views of 3,634 defined contribution workplace pension members in the accumulation phase in the UK.*

to build the best possible retirement income with looking after the world in which they'll grow old.

Once members understand how their funds link to wider environmental and societal issues through the power of shares, most of our members became more interested in their pensions: 84% said they'd have wanted to be more involved in their pensions if they'd known it was being used to drive positive ESG changes.

This isn't just good in terms of member engagement, it's good for the companies in which pension providers invest and for the providers themselves.

For instance, when we showed our members case studies of how we at LGIM have worked with companies to encourage them to do better on issues such as reducing carbon emissions or paying the real living wage to their employees, eight in 10 (81%) said they'd have been more likely to engage with their pension if they'd known it was being used in this way. And 60% said they felt more positive about the companies that were working to improve their ESG behaviours.

DC members generally appreciate simply being kept in the know, with 65% saying they'd feel more positive about their pension provider if they were kept informed about how the provider was using the investor rights that come with managing pension funds.

Our respondents appear to have mostly understood, or are beginning to understand, that there's a connection between the need to manage environmental and societal risks in case these have a knock-on effect on the long-term stability of the UK economy, and ultimately, on their retirement savings.

Our research clearly demonstrates that there's an opportunity for policymakers, regulators, providers, employers and educators to work together on filling the knowledge gap around pension investments, so scheme members understand that there's much more to a pension fund than providing a retirement income. It also gives them a stake in helping to shape the world they live in.

**Written by Legal & General Investment Management (LGIM) head of DC, Rita Butler-Jones**

In association with LGIM

[1] Office for National Statistics: www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/june2023: "Our Indicative modelled consumer price inflation estimates suggest that the October 2022 rate was the highest in over 40 years…"
[2] We performed quantitative research using a questionnaire for 4,678 defined contribution workplace pension savers in June 2023. Our respondents were split across generations and genders and across the UK and Ireland. This article refers to 3,634 defined contribution workplace pension members in the accumulation phase in the UK.

**Legal & General Investment Management Key Risk Warnings**

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# ESG and illiquid assets – coming together within DC?

**Summary**
• The UK government is encouraging DC schemes to increase their exposure to illiquid asset classes.
• These investments are a natural fit with ESG, especially in sectors such as renewables, healthcare, social housing and infrastructure that tackles climate change.
• Younger DC members are willing to pay higher costs for these assets although the trustees are less keen.
• It is early days and schemes are just beginning to look at incorporating ESG criteria into illiquid assets but there needs to be a greater understanding of the opportunities and risks as well as better available data.

**Lynn Strongin Dodds explores how the government's recent efforts to increase illiquid asset investment within DC schemes fit in with ESG priorities rising up investors' agendas**

Illiquid assets are often not featured in UK DC schemes, but the government wants them to play a bigger role. There has been a slew of initiatives that dovetail nicely with sustainable investments. However, it will take time before robust environmental, social and governance (ESG) frameworks will be developed for the DC market.

**Increasing illiquids in DC initiatives**

The first step is to encourage DC schemes across the board to embrace the recent Mansion House reforms that were recently announced. The Mansion House Compact in particular is seen as an important move, although few expect it to significantly move the needle. This is because the aim is to get DC schemes to invest just up to 5 per cent of their default funds into unlisted equities by 2030. However, it boasts an impressive roster of signatories including Aviva, Scottish Widows, L&G, Aegon, Phoenix, Nest, Smart Pension, M&G & Mercer, and others are likely to follow.

The compact follows on from the launch two years ago of the Long-Term Asset Fund (LTAF), an open-ended authorised structure with a much wider remit. Private equity is on the list but so is venture capital, real estate, private debt and infrastructure. Unlike most existing retail vehicles, they do not offer daily dealing, but fund managers have to align their redemption terms with the liquidity of their underlying assets.

Schroders head of UK defined contribution, Tim Horne, points out that in the past, the perceived need for daily liquidity and the requirement to meet permitted links rules had been major obstacles for DC funds looking at private assets. He said that these issues were typically overcome by allocating to a diversified growth fund, which blended illiquid assets with more traditional liquid assets, such as equities and bonds.

**Incorporating ESG**

The LTAFs reduce these risks and enable DC schemes to look at investments that sit within the ESG sphere. "Whilst LTAFs are not required to allocate to sustainable investments, the very nature of investing for the longer term means there is a natural fit with the likes of renewable energy infrastructure, natural capital, waste prevention, sustainable forestry and regenerative agriculture," says Horne. "This supports DC funds in being able to clearly showcase the ESG benefits of their investment."

One of the most popular ESG investments in DB world is infrastructure, which covers water, energy, roads, airports, railways, ports, satellites and communications systems, as well as hospitals and social housing. They not only provide stable income in volatile times but also act as a hedge against inflation and are seen as a good use of capital.

To date, most of the projects have been tied to a climate change theme.

This can be seen in the Investment Association's 2021-2022 survey, which was published in September. It noted that renewable energy projects comprised a significant proportion of investment in UK infrastructure projects, which mainly consist of offshore and onshore wind farms.

**A bumpy road ahead**

While no one refutes the advantages of private markets and ESG investments, market participants expect the road ahead will be bumpy, and take time to get all the participants on board, especially with higher inflation and interest rates. As a result, the Productive Finance Working Group (PFWG) is urging schemes to evaluate illiquid investments in terms of value rather than cost and lengthen their traditional one-to-three-year investment time horizon.

This will not be easy. As Legal & General Investment Management (LGIM) head of DC investments, Jesal Mistry, points out, there is currently a conundrum between the views of DC fiduciaries and members. "What we have seen is that younger members are very interested in investments, such as renewables, social housing and hospitals, which have a positive impact on society," he says. "However, for the fiduciary there is some element of shifting their focus away from short-term, low-cost investments to those that can create value for money."

The dichotomy is reflected in two recently published studies. In LGIM's survey, ESG considerations are a priority for DC savers despite the rising cost of living. Around 65 per cent of its survey respondents said that higher inflation focused their minds even more on companies that could bolster the UK's long term economic resilience while a "clear majority" would be willing to pay higher fees to invest in private market assets such as renewable energy infrastructure and affordable housing.

By contrast, WTW's latest defined contribution pensions and savings report revealed the majority of those managing pension schemes were reluctant to accept higher fees in return for a greater emphasis on ESG investments or access to diversified asset classes. One of the main reasons is that they did not want to relinquish the savings achieved over the past decade. The report noted that the average charges for DC pension schemes in the UK dropped by 20 per cent, from 41 basis points (bps) in 2014, to 33 bps today.

"In the current interest rate environment, it can be more difficult to convince fiduciaries of the benefits of investing in private markets and the rewards that can be achieved with taking a longer view," says Mistry. "However, it was only five years ago that we were having to convince our clients that taking account of ESG matters within their funds was really important. Now there is almost no new investment strategy that does not have an ESG tilt. Therefore, whilst it might take some time, investment in private markets should not be entirely dismissed."

Education is key, according to WTW head of alternative solutions, Katie Sims. "I think illiquid assets lend themselves quite well to incorporating ESG but there is a question as to whether there is a return premium," she says. "For example, there are certain sectors such as solar and wind in the renewable space where there is a lot of capital and demand. The returns will not be as great as in other investments that are not as well established."

**Improving understanding**

In general, Sims believes there needs to be a better understanding of the opportunities and risks in mitigating the impact of climate change or fulfilling social policy. She also highlights the need for better data to better assess companies with an ESG lens. "There also needs to be an idea of what illiquid assets DC schemes want along the journey," she adds. "For example, they may invest in higher risk assets early on and then have a multi asset portfolio as the individual nears retirement."

Abrdn head of private market solutions, Nalaka De Silva, also believes the right governance frameworks need to be in place such as strong management teams, cashflows and positioning of the company. "When you build a portfolio, it is important to think carefully about the features that will make a sector successful," he adds. "For example, people need social infrastructure such as transportation and utilities, but you need to assess whether it operates responsibility and what are the risks."

Mercer UK, Europe and IMETA head of sustainable investment, Brian Henderson, echoes these sentiments. "Younger members want to invest in companies that can develop solutions for the future, and they are more willing to take a risk," he says. "However, as with all companies, you have to understand what makes it tick, what are the policies, processes and individuals in place that will enable them to deliver those future sustainable solutions."

Against this backdrop it is no surprise that master trusts are and will continue to lead the way incorporating ESG considerations within a default investment strategy. They benefit from size, scale and economies of scale to develop robust structures to evaluate ESG criteria in illiquid assets. "There is a lot of talk about consolidation among master trusts with government consultations to facilitate this," says Janus Henderson director, Dave Whitehair. "Once they reach a certain size, they will be able to have the resources to build out the governance needed to assess illiquid assets at meaningful levels, including ESG considerations."

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

In association with LGIM

**Summary**
- Although the TCFD itself provides a good framework, compliance with the UK DWP's TCFD regulation has been a steep learning curve for many funds and the response to date has been mixed.
- There is some concern that responses to the regulations risk becoming a box-ticking exercise, focusing attention on establishing processes, collecting data and producing reports, rather than on effective risk management.
- Ahead of the DWP, several observers call for a more streamlined approach that places more emphasis on addressing climate change, and other ESG risks, and supporting the transition to net zero, rather than focusing solely on the reporting process as an end in itself.

# TCFD implementation - the story so far

**Abigail Williams explores how TCFD regulations have bedded in within the pensions sector**

Since the introduction of the Department for Work and Pensions (DWP) regulations in 2021, stakeholders across the pensions sector have been getting to grips with the Taskforce on Climate-Related Disclosures (TCFD) regime.

So, how well has the pensions sector responded to, and implemented, the TCFD recommendations since their publication? And, ahead of the DWP review, which aspects would observers like to see changed?

**Steep learning curve**

According to the Transition Pathway Initiative chair, David Russell, the TCFD itself provides a good framework for investors and companies to follow in terms of establishing the internal processes to manage the transition to a low carbon future. Even so, he stresses that the UK DWP's TCFD regulation is "very detailed and onerous", so compliance with it has been a steep learning curve for many funds, even those that had previously published TCFD reports, and the resources required to comply with the regulations are "much higher than DWP predicted and are significant, both financial and in terms of personnel time".

"However, many funds have now been through the cycle twice and by and large have done well. I believe only one pension fund has been fined for non-compliance and that was for late online publication of their TCFD report rather than content," he says.

Meanwhile, Hymans Robertson climate change consultant, Amy Sutherland, notes that, overall, the sector has responded well and, despite it sometimes being a 'slog' in terms of time and resources required, all have made the time to meet the requirements.

"Implementation has gone well overall, but there have been a number of sticking points, for instance, emissions data and questions on the realism of climate scenario analysis. Building these parts of the disclosures into scheme's broader strategy has been done, but there is still trepidation around being able to place a degree of reliance on these areas for decision making purposes," she says.

"Additionally, whilst a significant amount of work has been undertaken, one of the points that The Pensions Regulator has highlighted – and something that I believe is still the case – is cascading this information to scheme members in an accessible and digestible way that generates engagement," she adds.

**Important catalyst**

Taken as a whole, Lane Clark & Peacock partner, Claire Jones, believes the TCFD regime has been an important catalyst for large UK pension schemes to place greater emphasis on climate change, but stresses that there is more to be done in terms of improving their climate risk management and hence delivering better outcomes for members.

In her view, the main benefit so far has been increased knowledge and understanding, among both trustees and advisers, particularly in the areas of climate-related risks, scenario analysis, and metrics.

"Schemes have new governance arrangements in place and have incorporated climate change into some of their scheme processes. However, the regulations and guidance have focused attention on establishing processes, collecting data and producing reports, rather than effective risk management," she says.

"There is some concern that trustees have made relatively few changes in how money is being invested. Part of the reason for that may be the extensive and detailed nature of the guidance, which has led to a box-ticking, compliance mindset," she adds.

For DB schemes, Jones notes that the period since the TCFD regulations came into force has coincided with rising interest rates, rising inflation and the gilts crisis, which has reduced trustees' bandwidth to consider climate change. She also says that many in-scope schemes are mature DB schemes that are looking to buy out the benefits with an insurer in the short- to medium-term, which limits their exposure to climate change and the actions they can take.

**"The aim should be to address climate change, and other ESG risks, and support the transition to net zero, rather than a focus on reporting it itself"**

"If DWP does decide to extend the requirements to smaller schemes, this should not be done purely based on size, but instead focus on schemes with greater climate risk exposure. For example, those where members are still accruing benefits," she says.

**Risk models**

Elsewhere, We Mean Business director – net zero finance, Jane Thostrup Jagd, says performance of the climate change governance and reporting regulations in UK to date has been mixed. On the plus side, she notes that reporting now 'rigorously' covers the four elements of the TCFD – including governance strategy, risk management, and metrics and targets – whereas it was previously up to the individual pension company if they wanted to sign TCFD and report accordingly.

"Previously, the reports typically only covered some elements, and often only to a boilerplate stage. In particular, quantification and monetisation have always been the least developed part, both for pension companies but also for all other companies that have claimed to provide TCFD information," she says.

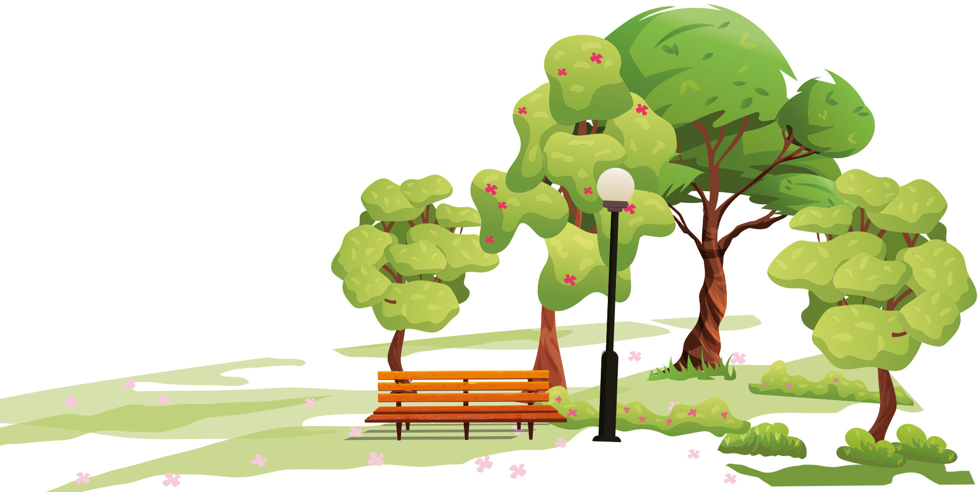
On the downside, Jagd believes a key problem for the users is that reporting is "very much historical", for example focusing on historical greenhouse gas (GHG) reporting, but "TCFD is about the future, scenario work and resilience-testing of the company's finance".

"Historical GHG reporting does not necessarily directly mean anything for the pension savers ability to evaluate the portfolio's climate risk and how well the pension company manages these risks. It is also difficult to compare with the pension company's peers. How does my pension company perform compare to others?" she says.

For the Carbon Tracker Initiative founder and director, Mark Campanale, one of the key elements relating to pension fund reporting against the TCFD guidelines is climate risk scenario stress testing, whether pension schemes believe that their ability to pay benefits in the future is constrained by the impact of climate change.

"We received expressions of concern, privately, from some regulators who were worried that the TCFD-related disclosures they were seeing from pension funds were unusually confident that there would be no major problems in paying the benefits. The damage functions they were using appeared to underestimate both transition risks and physical risks," he says.

"On further inspection, this boiled down to the use of what we believe to be faulty climate risk models. They were using investment consultant's derived risk models that were typically using faulty assumptions – often based on the flawed



integrated assessment models that had classical economists such as Nordhaus's assumptions at their core," he adds.

**Forward looking**

One thing Jones would like to see moving forward is a simplification of DWP's statutory guidance by streamlining the 54-page statutory guidance to make it shorter, less detailed and more principles-based.

"The aim should be to reduce the length of the reports produced and discourage a box-ticking, compliance mindset," she says.

Jones also calls for a greater emphasis on risk management, moving beyond establishing processes, to effective management of the climate-related risks and opportunities that trustees have identified. This is as well as having less burdensome and more decision-useful metrics requirements, moving to a principles-based approach that allows trustees to focus on the most important mandates and the most relevant metrics for those mandates, rather than requiring four quite-specific metrics for all assets.

"Metrics is an area of the current regulations that is particularly burdensome and the effort required to comply is disproportionate to the benefits for members, particularly given the current challenges around data availability, quality and reporting systems," she says.

"In addition, the guidance around scenario analysis should be updated in light of recent concerns about the shortcomings of quantitative modelling, and I'd like DWP to encourage greater consideration of funding and covenant aspects by DB schemes," she adds.

Now that most pension companies have got the hang of TCFD and know what the regulation requires, Jagd argues that maybe the next thing to consider is the users of the information.

"Consider for instance more forward-looking content, consider useful formats, consider ability to use the information to compare and make investment and portfolio decisions. That was the purpose," she says.

Ultimately, although large funds have largely got the systems in place to comply with the TCFD regulations, Russell argues that smaller funds simply lack the resources to deliver the current regulation, resulting in a licence for service providers to print members' money.

In this light, he believes DWP should consider simplifying the regulations if they are to apply to smaller funds. More focus on how assets are transitioning rather than backwards-looking carbon footprints would also be helpful.

"There is also a significant reporting burden on UK pension funds … which takes time and resource away from actually addressing climate change and other ESG issues. The DWP should work with other organisations that require ESG-related reporting from pension funds – the FRC on the stewardship code, the PRI for its reporting and assessment framework – and review how this TCFD reporting fits into other pension fund reporting to reduce overload," he says.

"And it's worth remembering that the aim should be to address climate change, and other ESG risks, and support the transition to net zero, rather than a focus on reporting it itself, something that seems to have been lost in the drive for increased pension funds transparency," he adds.

**Written by Abigail Willians, a freelance journalist**

# What now for DB funding?

**With improved funding levels, DB schemes are in a healthy position. But ahead of the funding code and Mansion House reforms being implemented, uncertainty remains**

**Summary**
- DB funding levels are on track to be in a stronger position at the end of 2023 than at the start of the year.
- Allocations to illiquid assets is an obstacle to many schemes seeking a buyout.
- The upcoming DB Funding Code may require reform before it has even been introduced.

It has been an eventful year for DB schemes' funding levels. Rising gilt yields resulted in falling liabilities so the funding positions of many schemes have improved. In November, Hymans Robertson found that UK schemes had reached a positive turning point with the amount in surplus increasing "significantly". From the previous year, the amount of DB schemes in surplus had risen from 27 per cent to 39 per cent.

"The significant increase in government bond yields over the last year has slashed the total value of DB liabilities," says Hymans Robertson partner and head of DB actuarial consulting, Laura McLaren. "This has improved funding levels, compounded by strong returns from growth assets, sponsor contributions and weakening longevity. Many schemes are now better funded than they have ever been."

**Funding levels dictate options**

Despite healthy funding levels, proceeding with buyouts may not be straightforward for some DB schemes. This is in large part due to liquidity complications, defined as a "liquidity kink" by Alpha Real. Rectifying this, and selling illiquid assets, is now more challenging, according to Broadstone head of trustee services, Chris Rice.

"A few years ago in the low-yield environment, schemes were happy to enter into less liquid assets to obtain yield," says Rice. "This is less likely to be required and illiquid assets make de-risking and buyout more complicated."

Depending on the assets held in a DB scheme's portfolio, this may require some investment allocations to be reconfigured, according to McLaren. She points out some trustees, in their endgame planning, may have more liquidity management to do than they would like.

"Cashflow management is increasingly important once contributions stop," says McLaren. "Schemes with LDI have needed to reposition their portfolios to have enough liquidity to support reduced leverage and more prudent management frameworks."

Schemes' healthier funding state has caused a surge in buyout activity. LCP data shows that in the first six months of 2023, £21.1 billion of assets were transferred to insurers, already reaching nearly half of the previous full year record of £43.8 billion set in 2019. Although positive, this is creating its own challenges, according to Van Lanschot Kempen head of client advice UK, Arif Saad.

"One of the biggest challenges many well-funded schemes face is the lack of capacity in the buyout market," says Saad, who explains the industry is therefore looking at other options following the Chancellor's recent announcement to reduce the surplus tax from 35 per cent to 25 per cent.

"The opportunity to 'run-on' pension schemes beyond buyout funding now looks more attractive than it has in the past, for schemes that wouldn't pass the gateway test for consolidation," adds Saad. "This alternative option becomes *[attractive]* when the buyout market is selective about what deals it chooses to write."

Schemes may have better options, but the volatility of funding levels, and vulnerability to gilt yield movements, may still prompt a conservative approach. AJ Bell head of retirement policy, Tom Selby, points out that even a small movement in gilt yields can "move the dial" on the accounting liabilities of DB schemes by billions.

As such, he says some schemes may be wary of losing their comfortable funding positions: "The volatile nature of DB liability estimates means a deficit can quickly become a surplus, and vice versa, depending on what happens to gilt yields.

"Given this is entirely out of any pension schemes' influence, for most schemes the priority will likely be ensuring assets are sufficient to pay liabilities. Many will also inevitably be targeting insurance deals to get the risk associated with DB schemes off their books."

Meanwhile, the DB schemes that have not benefitted from funding improvements will still be reliant on employer cash contributions, which may put these sponsors in a difficult position.

"Where schemes are still some way off from being able to afford to transact with an insurer, the continued ability of the sponsoring employers to support the scheme will be key – the current higher interest rate and high inflation environment will be challenging for some sponsors," explains Barnett Waddingham principal and senior consulting actuary, Mark Tinsley.

"Trustees should therefore keep a close eye on funding and covenant risks, considering alternatives to cash contributions when there are short-term pressures."

**The DB Funding Code**

On 1 April 2024, The Pensions Regulator's draft DB Funding Code is set to come into force. It had been designed to outline how schemes should de-risk and allocate investments towards low-dependency funding. However, given it has been several years since the code was first proposed, many are now questioning its relevance – especially in its current guise.

"Given the substantial improvement in funding positions, many requirements of the new DB Funding Code seem superfluous," says Tinsley. "Given that these underfunded schemes are greatly diminished in number, it is essential that the additional costs of complying are minimised for well-funded and well-run schemes."

Given funding levels are healthier, there are concerns that the code, as currently drafted, could bring about unintended consequences. The code is designed to encourage positive behaviours at schemes in relation to funding, something that McLaren says has already happened organically in many schemes.

"As it stands, the funding code might bring a diminishing minority of schemes into line with good practice, but the additional prescription risks could constrain strategies across the board," says McLaren. "It is questionable whether the new code actually drives much additional long-term value for well-funded, de-risked schemes.

"It would be disappointing if the code disrupts well-planned scheme-specific approaches because it's not flexible enough, or if it adds an unnecessary layer of compliance and cost."

As well as fears over additional bureaucracy, many in the industry want the code to reflect recent changes in government policy – in particular the 2023 Autumn Statement and Chancellor's Mansion House speech.

In the latter, Chancellor, Jeremy Hunt, set out plans to encourage pension scheme investment in 'productive finance', which supports business and the wider economy. This prioritisation has created greater confusion when considered in the context of the funding code – especially as productive assets can sometimes be illiquid, adding to some schemes' pre-existing liquidity concerns.

"The Chancellor's Mansion House reforms, encouraging pension schemes to invest in productive assets and bolster the UK, are in contradiction to the previous direction of travel of the DB Funding Code," says Saad. "We expect to see greater alignment in 2024, particularly with the opportunity to 'run-on' pension schemes beyond full funding towards a later buyout."

Additionally, Hunt used his Autumn Statement to set out plans for the Pension Protection Fund to be used as an investment vehicle for smaller DB schemes. This, also, has created confusion and Isio director, Iain McLellan, has labelled it "unnecessary".

"We already have a number of innovative consolidation approaches developed by the industry that function well and are delivering the benefits of consolidation – improving the quality of governance, investment efficiency and member experience," McLellan adds. "We should be supporting these as an industry rather than waiting for a national scheme to emerge."

While the DB Funding Code has not yet been introduced, it is clear many are already calling for its redrafting. Not only have funding levels changed since the code's inception, but industry experts are concerned about the prospect of regulatory confusion.

"It will be interesting to see how the emphasis from Mansion House and the Autumn Statement on running-on get reflected when the funding code is finally launched," says Aon senior partner, Lynda Whitney. "The funding code draft was trying to squeeze open, ongoing schemes into broadly the same processes as closed mature schemes, and I suspect they may do some more work on this area."

**Written by Jon Yarker, a freelance journalist**

# Drops in the ocean

**DB superfunds are finally making a splash, with the first transfer into one having taken place in November. But what will the role of these funds be in the wider de-risking market?**

**Summary**
- Clara Pensions has just completed the first transfer in the UK to a DB superfund.
- However, the Pension SuperFund has been 'mothballed', citing an opacity around regulations.
- Superfunds have a role to play in the DB de-risking market but it may still be of minor interest.

It took some time, but November saw the UK's first transfer of a defined benefit (DB) scheme into a DB superfund.

The transfer in question resulted in 9,600 members of the Sears Retail Pension Scheme having their retirement savings shift to Clara Pensions. The scheme, at the time, had assets of £590 million. To aid its completion, Clara agreed to provide an additional £30 million in funding *[see page 18 for more information]*

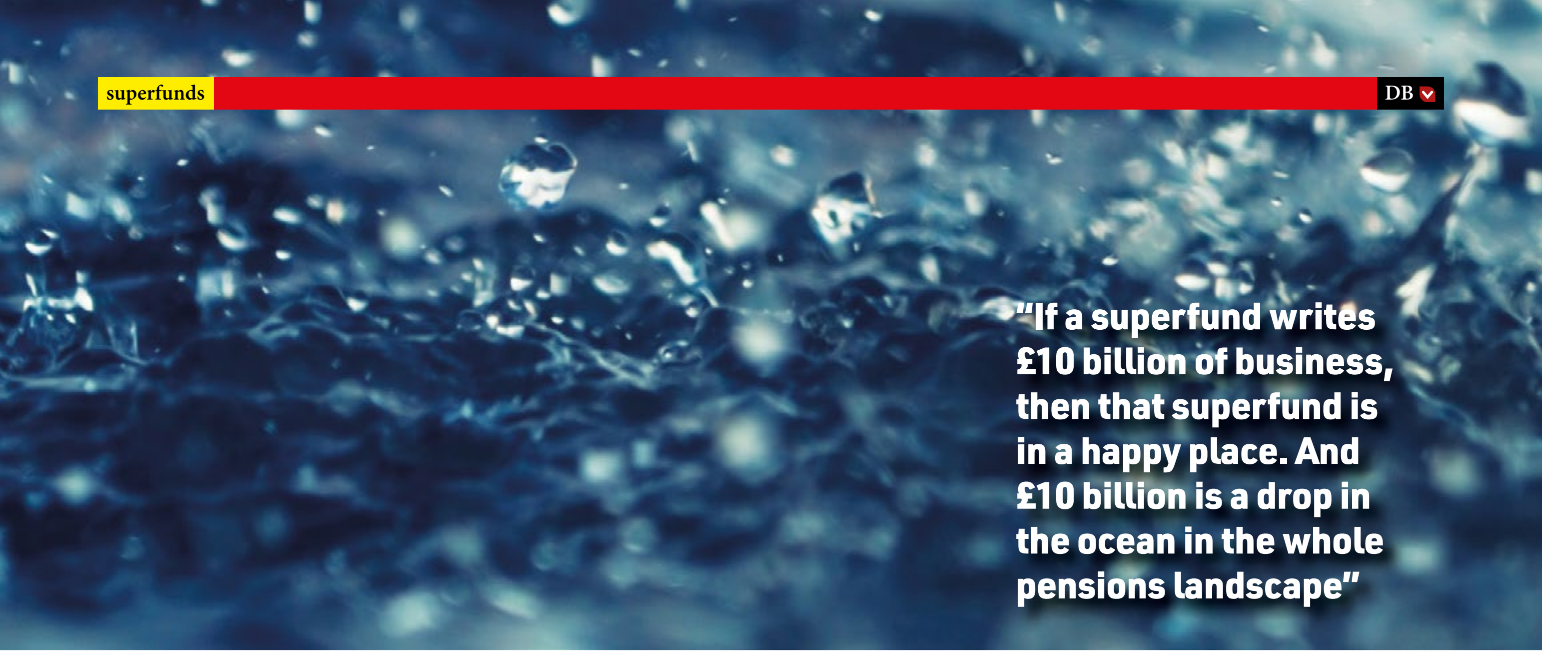
This first DB superfund deal came six years after its launch and two years after Clara had completed The Pensions Regulator's (TPR) assessment process and received permission to onboard schemes.

Such a move might herald a bright and broader future for de-risking DB schemes looking for options. A recent survey conducted by WTW said that 90 per cent of respondents felt a superfund could be a viable option for schemes in the right circumstances.

But there is no escape that uptake has been slow, and there is now only one pension superfund in operation. Another superfund that launched at a similar time as Clara, the Pension SuperFund (PSF), has yet to receive regulator permission to onboard schemes and has been 'mothballed' for now, citing issues with some of TPR's positions.

Still, there are some that take the view that any development is a welcome one. And that the first such transaction being so large bodes well.

"It's helpful that the first transaction was significant," says Hymans Robertson head of alternative risk transfer solutions, Iain Pearce. "The £590 million is smaller than Clara would like it to be, but it



**"If a superfund writes £10 billion of business, then that superfund is in a happy place. And £10 billion is a drop in the ocean in the whole pensions landscape"**

demonstrates a decent seed asset pool to cover ongoing running costs. A couple of transactions of that size will put them over the £1 billion mark. If the transaction had been for £10 million, that would have been subscale. The size of this transaction is evidence that the superfund is resilient and stable in its current shape."

Likewise, there was little concern over the glacial speed at which the transaction had taken place, with the lag between Clara receiving permission and transferring over the assets from Sears.

WTW senior director, Suzanne Vaughan, who worked on the transaction, says that such a long period is not unusual, particularly when it is a new development.

"This is the first time that this type of thing has been done in the market," she explains, "and there's always an element of caution when there's something new. When these things happen, advisers and trustees want to make sure that it's the right thing to do."

Vaughan referred to the LDI crisis of 2022 and the impact it had on improving many DB schemes' funding levels. "That's the other big part," she said. "If we look back to before the Liz Truss Budget, there would've been a pipeline for Clara of similar schemes, all of which could have been the first to transfer. But that vanished overnight."

For its part, Clara says that this first transaction is early days. Its CEO, Simon True, tells *Pensions Age* that there is a 'healthy pipeline' of interested schemes, which had increased following the Sears' transfer. This, he says, has led to Clara progressing on its next moves.

**Potential impact**

The question remains as to what impact the advent of superfunds will have on the de-risking landscape. The criteria for a scheme, says TPR, to qualify for such a transfer is infamously narrow: It must not be able to afford a buyout, that this position will remain for the foreseeable future, and any transfer must improve the likelihood of members receiving full benefits. These characteristics mean that few DB schemes may even qualify.

There have been three routes down that a DB scheme approaching its end game could go: A buyout with an insurance company, self-sufficiency, or approaching the Pension Protection Fund (PPF). DB superfunds now offer a fourth option.

Barnett Waddingham partner, Richard Gibson, says that there were many schemes in the UK that could be consolidated.

He says: "If a superfund writes £10 billion of business, then that superfund is in a happy place. And £10 billion is a drop in the ocean in the whole pensions landscape. It's a happy medium between a set of assets that's big enough to operate on the scale needed but still possible to be put together."

Barnett Waddingham, Gibson says, has done research on this. Fifteen per cent of the FTSE 350, the company calculated, were in the window for consolidation.

"There are a lot of assets out there," he explains, "that are suitable for this. But it's entirely plausible for a superfund to have £10 billion of assets. And they'd be very happy with that."

Vaughan takes a slightly different view. "It won't get to the scale of insurers conducting buyouts," she says, "but it is incredibly valuable to the wider de-risking landscape. For the schemes who find themselves not able to go to buyout and who don't have the covenant support to afford them the time to get there, this gives them the mechanism to enhance security and benefits for members."

Clouds on the horizon may also provide some kind of boon for this nascent part of the sector. State Street Global Advisor head of LDI, Jeremy Rideau, points to darkening economic clouds. Figures from the Office for National Statistics released in November showed that Britain's GDP neither grew nor shrunk between July and September. The same week saw the Flash UK PMI composite output index rise to 50.1, just above the mark indicating stagflation.

"When you start looking 12-18 months ahead, we're expecting a slowdown in the UK economy. When

that happens, we may see some scheme sponsors feeling the pinch or even going under. The scheme now has a different solution that is not buyout or going to the PPF. They've got another option for someone to take on that risk," Rideau states.

True, meanwhile, states that there were a number of places Clara could next turn to.

He says: "We are seeing interest from DB schemes with varying circumstances and requirements, from well-funded schemes with a weak corporate sponsor, to PPF+ cases, to schemes which have a sponsor involved in corporate activity such as M&A or restructuring.

"Trustees are increasingly viewing consolidation as an option, and while Clara won't be right for every scheme, it is encouraging that trustees and sponsors are considering ways to improve the security of their members' benefits."

**Friction**

There is still some friction in the market though, as evidenced by the PSF being 'mothballed' in September. At the time, its co-founder, Ed Truell, placed blame around the lack of guidance over profit extraction.

TPR was non-committal over the comments, saying in September: "We're now considering how best to go forward on profit extraction, but our primary focus has to be ensuring that savers' interests are protected."

A lack of clarity rarely bodes well. And TPR seems no closer to producing guidance. Vaughn sees this as unfortunate.

"I've got sympathy with the PSF over it being mothballed in the way it has," she says. "It's going to be challenging for other superfunds to enter the market until we see further clarification on issues such as profit extraction."

**A surge?**

With news that a permanent regime for superfunds is on the horizon, the future could bring a slight surge of superfunds entering the market. Gibson claims that there are several parties already interested in entering the space but have been held back by the current uncertainty and other hurdles.

"The one major thing," he says, "that TPR needs to tackle, if there are to be new entrants and better innovation, are the provisions around returning capital to investors. It has said that it will return to the topic but they are limiting the solutions put forward until they do."

Whether new entrants to the market will be beaten to the punch is yet to be seen, as Chancellor of the Exchequer, Jeremy Hunt, announced that the government would explore how the PPF itself could act as a consolidator of DB schemes, also confirming that the current administration would look to "open the PPF as an investment vehicle for smaller DB schemes".

However, True is sceptical at the idea of the PPF taking on the role of a DB consolidator.

"We don't believe there is a need for a public consolidator at this moment," he says, "with commercial consolidation already an option and beginning to provide secure, more affordable alternatives to buyout for members."

He adds: "We will need to see the details of the consultation on the government's proposals, but if the government does decide to proceed, we believe the PPF should only have a role to play for very small schemes that won't be able to reach either a buyout or a transaction with a commercial consolidator."

Gibson says that there would be many sceptical at the idea of the PPF taking on this role, but he remains hopeful. The PPF, he says "is doing a great job and is already the biggest consolidator in the country. They've got great streamlined processes and administration. If it's done and managed in the right way, acting as a DB consolidator could work."

It may still early days, but there are still some drops that can be heard falling. But is this going to be a light rain or are we about to see a storm of activity?

**Written by Pete Carvill, a freelance journalist**

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CHAIR

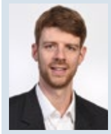
**Chair: Rory Murphy, Trustee Chair, Merchant Navy Officers Pension Fund (MNOPF)**

Rory is a highly experienced chair of trustees for both single and multi-employer pension schemes. He also advises companies on HR and pension strategy, including relationships with trade unions, staff councils and subsidiaries within the larger group. More recent clients include Heineken, Outokumpu and Hi55. Rory is a well-known voice championing the improvement in quality standards and performance of pension trustees and the funds they represent; and is a frequent contributor of expert comment in the press.

PANEL

**Julie Alexander, Director of Fiduciary Clients, Railpen**

Julie oversees the delivery of investment, funding and covenant services and advice to Railpen's clients. Prior to this, Julie spent two years as Railpen's head of client investment solutions, helping the team sustainably invest and protect c£30bn of pension scheme assets on behalf of 350,000 railway industry workers. Throughout her career, Julie has gained considerable experience in financial services, building up a deep specialism in pensions investments. She also worked for Kempen Capital, Willis Towers Watson, Coal Pension Trustees Services and Barclays Capital.



**Thomas Laskey, Head of Portfolio Strategy, USS**

Thomas is head of portfolio strategy, involved in asset allocation and investment strategy, at the Universities Superannuation Scheme (USS). He joined USS in 2019 to take on the role of co-head of investment strategy. Prior to joining USS in 2019, he was an investment strategist at Aberdeen Standard Investments (now Abrdn), and has prior experience with the Bank of England. Thomas is a frequent contributor to the pensions and investment press and regularly takes part in industry events.

**James Lewis, UK CIO, Mercer**

James is a partner and UK CIO at Mercer. He is responsible for the leadership and oversight of investment solutions and investment strategy for propositions in the UK market. Previously, James was head of investment strategy for investment solutions and has experience in a range of investment areas including portfolio construction, asset allocation, ALM, journey planning and strategy implementation. He sits on various leadership groups, works across multiple investment client segments and is a member of the Asset Allocation Committee.

**William Medlicott, Professional Trustee, Capital Cranfield**

William joined Capital Cranfield in 2017. A chartered accountant, he has broad commercial experience gained in agrochemicals, property and media. He has been a trustee since 2005. He currently chairs the investment sub-committee for a multi-billion pound scheme. His broader experience includes settling scheme valuations and recovery plans, agreeing asset backed contributions and implementing and operating a longevity hedge. He brings an open-minded style to solving problems.

**Michael O'Rourke, Institutional Investor Relationships, World Gold Council**

Michael joined the World Gold Council in 2023, and sits within the institutional investor relationships team. Michael works with investors across the EMEA region to develop their understanding of gold as an asset class and the benefits of including a strategic allocation within their portfolio. Michael's background is in investment consulting, having previously worked at Aon for six years advising UK DB pension schemes. He is a CFA charter holder.

**Jeremy De Pessemier, CFA, Asset Allocation Strategist, World Gold Council**

Jeremy works in the global research team at the World Gold Council in the role of asset allocation strategist. He has over 15 years' experience in global multi-asset investment strategies and solutions. Prior to joining the World Gold Council, Jeremy worked as senior investment strategist at State Street Global Advisors. Before that he was part of the portfolio construction team at Bank of Ireland Asset Management. Jeremy often speaks at industry events and is a frequent contributor to the pensions and investment press.

**Callum Stewart, Head of Investment Proposition Distribution, Standard Life**

Callum recently joined Standard Life with over 15 years of consulting and actuarial experience. He is a qualified actuary and has had a positive influence in the industry in terms of embracing opportunities such as sustainable and illiquid investments. He is perhaps best known for pioneering the '10-10-10' rule for illiquid investments. Callum is responsible for articulating the firm's investment approach and working with clients and other stakeholders to help inform how the firm can continue to deliver the needs of customers.

**Matt Tickle, Chief Investment Officer, Barnett Waddingham**

Matt is investment consultant to defined benefit (DB) and trust based defined contribution (DC) schemes. He advises both trustees and employers on investment strategy, pension economics, manager selection and implementation under a variety of governance models. Matt runs the economics team at Barnett Waddingham, responsible for research into capital markets and market outlook literature. He also has a wealth of experience in strategy setting, manager selection, liability hedging, long-term investment de-risking and DC work.

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**Elaine Torry, Partner and Co-Head of DB Investment, Hymans Robertson**
Elaine is a partner and senior client facing consultant, and has been with the firm since 2007. She is co-head of trustee DB (investment) which means she is at the heart of the firm's emerging investment insights and advice. She is responsible for delivering investment advice to both private and public sector clients, ranging from the strategic considerations associated with setting the long-term objective to the practicalities of implementing an investment strategy that will achieve that objective in line with the trustees' investment beliefs.

# Meeting asset allocation needs in today's world

**Our panel of experts reflects on current and emerging asset allocation trends in DB and DC schemes; why there is an ever-growing need to seek out uncorrelated assets; how asset allocation strategies can assist with the at-retirement piece, and more**

**Chair:** To set the scene, I have been looking back at where MNOPF has invested in the past and, in the 1990s, we invested in gold; we owned part of Epsom Racecourse; and we had art; plus I believe we're one of the only investors in Apple ever to have lost money as we sold a bit too early – that's a good indication that you don't really understand the nature of the decisions you make until history has had its say on it!

So moving on to the discussion, what trends are you seeing in terms of investment allocations? Are you seeing anything that's noticeably different or is it more of the same? Are pension schemes too timid to do anything new? What flavour are you getting?

**Investment trends**

**De Pessemier:** It's been a challenging environment over the past 12-18 months

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for those traditional portfolios made of equities and bonds. Last year, equities at times were down more than 25 per cent. Alongside this, fixed-income investors will remember the past 18 months as one of the most trying, with bond yields rising dramatically translating into some of the worst total returns in decades. That positive correlation between bonds and equities has therefore brought to the fore the need for uncorrelated assets.

If we take a step back, a lot of the problems investors face today are because of inflation. Inflation diminishes the appeal of high-quality bonds, such as UK gilts, as a diversifier within portfolios. So there's now that need to try to structure a better portfolio. It's important for investors to use this opportunity to take a look at their strategic asset allocation and ensure they have the right amount of truly uncorrelated assets in their portfolio, to build that diversification because it could be a challenging time going forward.

It would be good to get the views across the room of the problems that you're all facing, and how you're thinking about resolving those issues.

**Stewart:** My focus is DC, and it's no secret that DC schemes are not punching their weight in terms of their assets. The DC industry in the UK is worth approximately £0.5 trillion, and could well reach £1.3-1.4 trillion by the end of the decade, subject to investment returns, and with that kind of scale, the ability to do more with the investment strategy is certainly there.

However, the environment we operate in today means that we cannot put forward pure investment views that could contribute to much better outcomes for people in retirement. The reason for that is the industry is very much controlled by the cost aspects through the way that pension providers are selected.

The government and regulators are keen to change that. We of course want to see change, because we think it can improve outcomes. But what it means is investment strategies look predominately liquid and listed, and that's a problem because, in 2022, we saw correlations between equities and bonds in traditional markets tend to 1, which means the diversification you thought you had didn't materialise at a time when members really needed it.

So we'd love to do more. We'd love to invest more heavily in alternative assets, particularly in the private markets, but certainly more in the alternatives space, and in some of the lower correlation opportunities as well. But we're in this period where it's challenging.

**Laskey:** We are also subject to some of those pressures. Some of the overall fees for our DC platform are subsidised by employers up to a certain level, so we have some caps. But the position that we're in, with the DB scheme being in order of magnitude bigger than the DC offering at the moment – that's gradually shifting, of course, but will remain the case for a while – means that we can set ourselves up such that we can have a very large team of private market investment professionals, we can do direct deals as well as through funds, which means that overall we can offer private investments for much lower costs generally than going to market and finding funds.

So, we have around 20 per cent of private assets within our default DC Growth Fund, which puts us further ahead than most other DC offerings, and that certainly offers up interesting opportunities.

We have found it slightly more challenging to offer some of the punchier private investments in that space. We've got a lot of infrastructure in there and some of the less fruity private credit assets. Maybe there's a wider discussion here around the value of infrastructure and real assets in funds.

**Medlicott:** To put a DB slant onto that, liquidity has been one of the big themes for DB schemes. Go back 18 months or so to the mini-Budget and the issues that ensued, and after the event people said trustees don't understand liability-driven investment (LDI). Actually they probably understood LDI very well, and most of my schemes, and I believe most of my colleagues' schemes, continue to confirm LDI as a valid strategy. But that has several consequences. One is that it has changed asset allocations for a

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good number of schemes, and you have to devote more capital to supporting that strategy. It's also caused you to look at the liquidity of other assets in the scheme to make sure that you can take the pain should you need to do so.

So in that context, a number of my schemes became involuntary holders of larger amounts of illiquidity than they were necessarily expecting. There are definite limits to that, and I suspect that would apply in the individual space as well.

**Stewart:** Just to come in there, for DC we're talking about collectives and the bigger risk is we've got too much liquidity – we're literally swimming in liquidity. The contributions are coming in every month overwhelmingly. It's challenging putting the contributions to work fast enough. That's the problem. It's not the case that an individual member has their own set aside pool; it's not that they're investing in a pool, a collective, in terms of the vehicles we have. So it's very different. Actually, we can do so much more with it. I would love to do more. We will do more!

### The at-retirement piece

**Tickle:** On the DC side of things, we mentioned earlier that the focus in the industry to date has been on costs, as well as asset gathering. But now providers have attracted those assets, how can we best make those work? One of the big things we're looking at with DC is that there's been a lot of focus on the growth part of strategies, and still rightly so, but our big thing, and the thing that makes more of a difference to members' outcomes, is paying more attention to that at-retirement/through retirement piece. Because that just doesn't work at the moment. We're leaving so much value out there – it's almost being forgotten about; we think we've done our job, we've got members to 65, 66, and then we leave them to it, but members can lose so much value that way.

So we're doing a lot of work trying to massively improve that at and through retirement piece. The regulators in general have also finally woken up and realised that getting this right is actually even more impactful than, for example, the private asset piece. The private asset piece absolutely can improve value for members. But this has an order of magnitude even bigger. I'm fundamentally agreeing that focusing on value for members rather than cost is the key change. But there's more than one facet to that.

**Lewis:** Just going back to the DB LDI side; what's quite interesting, though, is when you start looking at the assets that are going to be used for collateral in your LDI portfolio, so to provide that liquidity, how correlated are they with the gilts? Of course, what we saw in 2022 was growth markets were under pressure, gilt markets were under pressure as well. So I think that has led trustees to think even harder about what those collateral waterfalls look like, how the assets within are likely to be reacting in those stressed and crisis type situations.

**De Pessemier:** Has there been a meaningful shift in terms of how people think because of the 2022 experience? Has that brought something to a head in terms of whether we need to be designing portfolios in a different way?

**Stewart:** For DC it has in terms of a focus on the to and through retirement piece. The diversification that you thought was in place in terms of your strategy didn't provide the downside protection you hoped for.

In terms of the growth focus, I'd be worried if there was a radical change because, while 2022 was hugely significant, it's one year out of decades in terms of growth focus and time horizon is really important there.

**Chair:** Do trustees understand what they are being asked to do? How much of this is dictated by advisers?

**Stewart:** Trustees would love to do more, but they are reliant on what comes to them, so it does require a partnership. A lot of advisers are great and would also love to do more. To be honest, we feel a responsibility to provide solutions to the market. An adviser can't put forward a solution if it doesn't exist. They can try and partner, but if there's no appetite to fulfil that demand from the provider space, it becomes very difficult for them to actually move the dial on value. So we

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feel that responsibility.

Then on the members, well over 95 per cent of DC savers in the UK are in default funds. We'd love to change that engagement level. But that's where we are. The results coming from studies, research, almost universally confirm that DC members expect us to be looking after their investment interests for them. So we need to feel that responsibility and drive for a better outcome for them.

**Chair:** In DC, we're still very much in an accumulation phase and people are not really thinking about what the end result looks like. We have actually produced an animated film aimed at pre-school children to get them to understand the importance of saving as a life skill, on the basis that our pension issue of people not saving enough is a 50-year problem, not a five-month or five-year problem. I can't understand why other funds aren't getting involved in doing things like that.

We need to push the boundaries a bit. We've been in uncharted territory in the past five years, and I believe advisers also have a role to play in asking trustees what they want.

**Tickle:** I think what the gilts crisis did do last year was force the whole industry to come together to solve a problem. The Bank of England was there, The Pensions Regulator, the Financial Conduct Authority – there was collaboration across different areas to solve a DB problem.

That's starting to then eke into the DC side of things. For example, on the retirement piece, we've got lots of ideas, but they're useless without somebody actually going to do it. So we need to talk more widely, and that's why we're talking about it, because we think there's value beyond what we can do, and we need others to come along with that. We're seeing that around sustainability, for example – we're seeing better cross-industry working to try and solve some of these challenges.

## Education

**Lewis:** I agree the education piece is essential too – for example, when the DWP put out their note that they were looking at outcomes if you allowed private investment, for example, in DC schemes, it was all very positive, it was going to make a difference, it was going to push up the pot size. But what they'd done was to look at the average amount going into a DC scheme, and then look at projections for the relative increase in retirement pensions. The pension amounts, even with the improvements, are simply too low as the contributions are fundamentally too low going into these DC schemes.

That said, yes we need to work the investments harder, we need to work on the strategies that are out there, the solutions and platforms. But fundamentally, it's essential that people understand that you need to put a significant amount in to have a meaningful pot of money by the time you come to retire.

Pension freedoms have been helpful there – you no longer have to drawdown and that's given greater flexibility, it's extended the time horizons. Maybe with the Mansion House reforms, we'll see CDC coming in some more as well.

But if I think about my children, I'm going to be telling them to make sure that they're saving for their retirement early and significantly, otherwise we're going to see generations going through their working life with only DC provision really struggling when they come to retire.

**Chair:** Education is key. A lot of people don't understand compound interest, for example, so how are they going to understand other issues? There is also a language issue – as a pension industry, we use the term 'default fund'. Most other people understand default to mean they haven't paid their mortgage, and yet we're telling them to put their pension money into a default fund. So there's a language issue and an education issue.

**Alexander:** The press has a job to do here in terms of self-policing the rhetoric around some of these issues. So with DC and the charge cap, for example, if you ask someone on the street if they would like a cheaper or a more expensive pension, they'll say cheaper but, of course, 75 basis points for passive equity is not really good value, and we have to make sure there's appropriate context.

With the gilts crisis, there were some

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fabulous headlines about billions being wiped off the value of pension schemes, then at the very bottom of the article, it would say the funding level remained unchanged.

In reality, the gilts crisis for lots of well-advised clients, and certainly Railpen, didn't have a negative impact *[on the ability to pay pensions]*. In fact, for Railpen, it was very positive. We saw huge improvements in funding levels and were able to buy bonds at historically low prices; we actually didn't have LDI prior to the crisis. Now it's something that we're looking at for some sections.

That's where some of the education piece is important and we do have to be cognisant of some of the rhetoric in the media.

**Stewart:** Sustainability is another example of where we are over-complicating things as an industry – just look at the SDR regulations. How do we answer the problem of too much jargon that's not understandable to the average person? Let's create new jargon that's even less understandable!

That's really unhelpful. I'd personally get rid of all the jargon. I don't even like the term ESG anymore, I don't use it. I've been through our pensions materials and got rid of it completely, because it gets misinterpreted and misused. Let's just talk about the real stuff that we're doing.

**Chair:** In a language that people can understand. Also, we need to think about who the audience is when we are talking about pensions. Is it the press/the public, the trustees, or the members of the fund? They're completely different audiences that need different ways of delivering the message. I'm not sure that in pensions we always get that right.

**Alexander:** We had our investment conference recently and one of our attendees was impassioned about the use of the word 'credit'. He said, it's debt. Why say credit?

**Chair:** Sometimes we're banging our heads against a brick wall with the members as well, because it's not in society's head to think about something in 30 or 40 years' time. Also, I'm not sure they understand that if you put in a pound, what your employer will then put in and then what the tax benefits will be – if you think about it, it's the best investment you could get! Why isn't that simple message getting across to people at schools and in colleges?

I often think we need a three-lane highway. We've got the issue of people coming up to retirement in the next five years; we've got people 20 years away who could still make a change; and then there are those maybe 50 years away, i.e. the kids who are starting primary school. As an industry, we can do an awful lot more to help that. But it means we've all got to loosen the ties that bind a little bit, not be looking over our shoulders too much at our competitors. This is a big problem for all of us.

**De Pessemier:** To pick up on an earlier comment about the need put a certain amount in to have a meaningful pot of money by the time you come to retire. This makes sense but it is also essential to protect your portfolio as you approach retirement.

That's very much what we've been talking to investors about, in terms of the need to move away from this traditional de-risking strategy, which is centred on moving from growth assets into bonds as you approach retirement and thinking bonds alone are going to do the job. Relying solely on government bonds can lead to bad outcomes for DC savers as we saw over the past 18 months or so.

That's how we position gold – we think that it has a role to play in that decumulation and retirement phase as basically a diversifier – you need to hold something else than just gilts.

**Alexander:** To my earlier point, I would maybe disagree in terms of the DB side of things about that not being an effective strategy. Funding levels for lots of well-advised schemes with good liquidity remained unchanged during the gilts crisis.

In the Railways Pension Scheme, we have a very diverse client base. On the plus side, we're able to leverage our scale, which is great. So we've got a third of our assets in open pension schemes; we've got closed book pension schemes, moving towards buyout; and we've got AVC and DC assets. It means that our DC investors can get access to fabulous diverse illiquid assets due

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to our DB scale, which is great, but the supplemental challenge is making those strategies bespoke enough for that diverse client base whilst also getting the scale.

It's difficult to be confident that we've got the right strategy in place for DC members' individual needs because of the lack of engagement, and because, actually, members don't know what they are going to do with their money in retirement; they don't know if they are going to buy an annuity. They might pay off their mortgage. So that's the challenge and in that context, I agree you might want to particularly look at something other than gilts.

**Tickle:** I agree. We've got to think through what downside risk means and in DB pension funds, it's not seeing my asset balance sheet going down. It never was. But last year highlighted actually the downside risk scenarios of illiquidity, which seems odd for a scheme that's paying pensions for 70-odd years. But that brought it forward. So you build your portfolio around that aspect of it.

So to the earlier point, so what if my value has fallen? As long as I'm confident the cashflow is coming through and I've got visibility on my cashflows – which every DB scheme has with a little bit of noise around the edges – I'll shrug my shoulders and say, well, as long as I met those liquidity calls, which the vast majority did, then it's ok. Last year was painful and a challenge, but at the end of the year, it was a better funded position, a better problem for those schemes with a shortfall because, whilst the size of scheme is smaller, the employer in general was the same size. So the size of the problem relative to the employer covenant has gone down.

So there is so much greater security for members being able to get their benefits in full from the DB side of things.

**Lewis:** Listening to the discussion around DB, you're thinking about the liabilities, and the liabilities are typically priced off gilts. That's the challenge for every single investor type to understand what you're really trying to do. The key thing is – coming back to that investor education – helping people understand the risks that they're running in pursuit of return. Yes, you can introduce diversification or protection into a portfolio. An explicit version of that might be that you put equity downside protection into the portfolio. You will pay for that though and there is an insurance like premium to be paid to give that level of protection. So you need to get the balance right.

For DC, it's more mixed. You're going to have some members that perhaps want to draw down quickly, some want to draw down over a slower period of time. It used to be a very annuity-based market, it isn't anymore.

On the DC side, it can be very focused around cost. To be competitive means delivering at an appropriate price point but that may mean certain assets are not viable in the portfolio.

That's where you do start looking at alternative assets and seeing what may be feasible. Hedge funds did pretty well in 2022, but they're a lot more expensive than buying a gold ETF, for example, which can be accessed at a much more reasonable cost.

So it's about understanding your investors, communicating clearly with them what the risks are, and then understanding how much protection or diversification they really want, or whether they are prepared to ride things out.

## Engagement

**Stewart:** In DC, given the low levels of engagement, members are expecting us to manage their investment strategies for them. I don't think engaging with members on what that strategy looks like from a technical standpoint is where we need to go. There are some key inputs however we can make that will drive better outcomes – for example, looking at when is it they expect to start to be drawing down on their savings, and in what way?

At the moment, DC strategies are usually aligned to a particular point in time when that drawdown is going to start. But what if an individual starts to draw down on their savings sooner than that? It means they're in a situation that probably has too much risk. For example, across our membership, collectively, around 27 per cent of individuals approaching retirement take their 25 per

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cent tax-free lump sum at age 55, because they can. Then 50 per cent have done that by age 60.

So when we're thinking about glidepaths targeting state pension age, which is typical, they're in too high a risk situation in a lot of strategies. That's why we've got a 15-year glidepath – 15 years may seem cautious but, actually, when you look at how members are using their savings, it's appropriate for most. The way to improve their outcome, first of all, is to get engagement working well.

I would completely agree as well, we need some help in terms of regulatory support because, as a provider, we can't say the obvious things to members.

We've got to give pages of disclaimers before we share information with just a normal member, which could be a friend, family member, whatever. We can't have the real-life conversations with real people because the regulatory framework is not fully supportive.

We're at a stage now where the opportunity is there to improve on that, and we use digital capabilities where people engage with that to leverage this. There's a real risk also that we go down a CDC route which would be, in my opinion, a great way to overcomplicate something which is actually really simple. We just need to have real conversations with people about real life choices.

There's a huge amount we can do in investment portfolios on the back of that. So the cost to value emphasis is going to help. CDC potentially has a role way down the line, but we can move the dial massively before that. So I don't expect that to be a mainstream answer any time soon.

**Tickle:** But it's about engaging the members on the right thing. It's not about engaging members on the details of what they want their investment

strategy to look like, because they will not have the expertise themselves to engage. It's about getting them to tell you what their desired outcome looks like, what they want, and then you can build a strategy that maximises that outcome. So it's about trying to get the right engagement.

**Torry:** It's important to highlight also that we can debate until the cows come home what the investment strategy can do. But fundamentally, people are not saving enough money. They're not putting enough money into their DC schemes to make enough of a difference. If members were putting in double what they are currently (even though that probably still isn't enough), then you could start to do more clever things.

But first of all people need to recognise – and it comes back to the education point that was raised earlier – that they are fundamentally not putting enough money away, and also what the exponential financial gains would be if they do.

There is also an argument for saying that they do understand all this, but given the times we're living in, they can't afford to save more. So there are several things going on here.

**Medlicott:** I can remember as a 30 year old, an insurance salesman saying to me I needed to invest x amount a month, and I thought he was mad – I had a mortgage to pay, two young children and so on. So actually, we might even disengage people by setting the bar too high, rather than saying, if you start like this, you will begin to see the benefit, and you can develop on that.

So that's something to bear in mind – there's always a risk that you turn savers off if you set the standard impossibly high.

**Torry:** Yes, I'm not saying you need to save large amounts when you are 20, but there has to be a recognition that your assets are not going to do enough if they are too low.

If you think back to a world where DB was prominent, members didn't get a choice of what was going in – it was coming off their salary whether they liked it or not. It wasn't a choice.

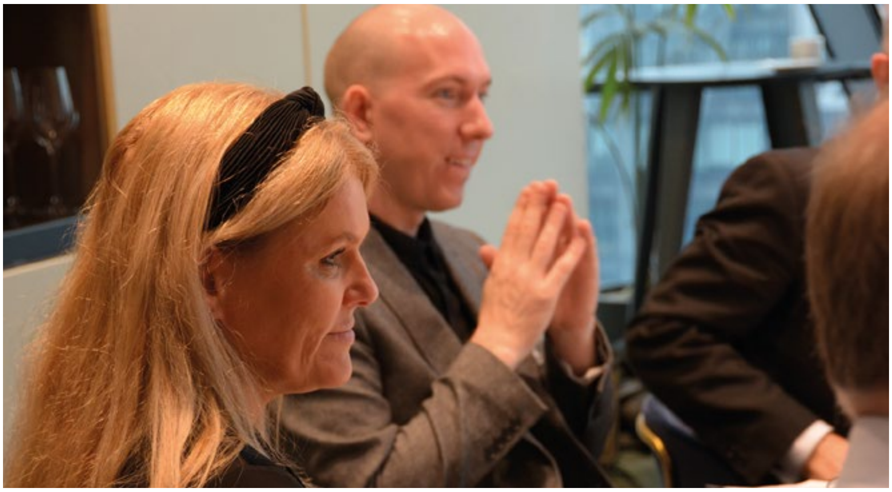
Whereas now, we've swung from no choice to all the choice in the world, and people don't know what to do with the choice.

**Chair:** So they end up doing nothing. That's human nature in a way.

The pensions industry on one level is

In association with

# WGC roundtable



insular – it deals with itself and people's savings. But some of these things we're talking about now are societal pressures. Certainly people I know who've taken their lump sum have done it to help their children. Their investment now is in their children. That's quite legitimate. They're not doing it because of all this nonsense in the press about buying Lamborghinis. They're doing it because their children can't afford a deposit on a house.

So it's understanding why people are doing things, and it's not always just about a money issue – pensions is about people. It's a people business; it's not a money business. But it seems to have become a money business in people's minds.

**Alexander:** To the earlier point about advisers self-regulating, I'm a little bit wary of over-engineering some of the solutions because the needs of members are so diverse. We have to give members a little bit of credit for their decisions – what might on the face of it not look like the best strategy when you see your members take 100 per cent cash, or invest 100 per cent in emerging equities, or whatever it might be, there could be valid reasons behind those decisions. That's the danger of over engineered robo-advice.

I do think however there are things we could do around risk analysis of members. If we could say, for example, we know this cohort of members has a DB pension, that's quite interesting, that might influence how we invest. But there is a risk of over-engineering. We used to think that members who were taking fixed annuities were short-sighted – why would they not be taking inflation-linked annuities? But actually, consumption needs might lend themselves perfectly to a fixed annuity in the early days; that might be a very logical decision. Who knows? So, we've got to be a bit careful about standardising for DC. It is a challenge.

**Achieving effective diversification**

**Chair:** Let's look at diversification. Why do we need to diversify?

**Lewis:** On the DC side, it comes down to the question of what you are trying to do. Deliver a certain cash amount at a point in time so, for example, members can take their 25 per cent? Or is it to deliver for the long term, in which case you can probably accept a little bit more volatility in exchange for better expected long-term outcomes.

So you need to think very carefully about diversification, and understand what you're trying to protect against. Are you trying to protect against a rare downside event, where typically you see markets recover anyway? Or are you trying to protect more generally, and just reduce the volatility of investment outcomes?

**Chair:** What are these rare events? A global pandemic? Russia invading Ukraine? Issues in the Middle East? We're having a one in a 100-year event every year it seems.

**Lewis:** You're right, and we talk to clients about this often. You look at your financial modelling, and it will tell you it's a rare event and it's popped up three times in the last 10 years, or whatever it might be. So you need to apply that common sense lens. You should be using those modelling applications to compare the relative strengths of different strategies rather than rely too much on those absolute numbers.

**Chair:** Your point about what are we diversifying for, what's our aim, is interesting, because I wonder if we ask pension trustees the question, 'what is your aim?;' and then ask members the same question, the answers would probably be different. But how different? Because, if people understand that they can get 25 per cent of anything tax-free, their instinct is to take it because people don't like paying tax. It's a challenge to trustees – how do you understand what the member wants, not what we think they should have?

**Medlicott:** From a DB perspective, the member wants to know that they're going to receive the pension that they have been promised and that they see updated in their defined benefit statements. In many cases, there are good reasons why people want to take the tax-free alternative, but in essence that's a subset of the promise.

And I would say, on most of the boards I'm on, our main preoccupation is to make sure we can pay those pensions as they fall due in full. So, to that extent, there's a pretty good alignment of what we're trying to do and I think what the member expects.

They probably don't appreciate it when you when look across and compare it to a DC plan. In fact, I think if you were to ask people what's the difference between DB and DC, most wouldn't know.

**Alexander:** Even with a guarantee, that doesn't make us agnostic to the journey. Most of the trustees I work with would prefer to get from A to B with less risk rather than more risk, if it was at little or no cost.

**The role of gold**

**De Pessemier:** Talking about diversification, I would highlight the role gold can play within that structure of building a more effective, less volatile portfolio, on the DB side or the DC.

On the DB side, it's a little bit more complicated in that assets like gold may not have a role to play in every DB scheme, particularly those that are very mature, or close to buyout and so on. I see gold really as having the role of a store of value or safe haven, so it's very useful when you already hold quite a lot of growth assets, a lot of equities in your portfolio, to be able to have that counterbalance.

So for those schemes that need to plug a hole, that have a funding position that's not as good, that need to make a bit of ground, that have to basically hold equity in order to be able to achieve that return, gold can be one of those assets that sits alongside to try and dampen that volatility. It can also be used as a solution for example alongside low vol equities. So it has an important part to play in an investment toolkit.

**Stewart:** I would highlight here that some of the best performing diversified growth funds/diversified multi-asset funds have historically maintained conviction in gold. So there is something there in terms of diversification benefits, for sure.

**Lewis:** We see it as being client specific, because it depends on what constraints you've got. So, for example, we do access gold in our DC portfolio where we are quite cost constrained, because we can access it at a very low price, and it gives us an alternative asset, which basically does have some of those diversification benefits.

If we then pop over and look at defined benefit, or other institutional investors, because they're able to tolerate a little bit more in the way of management charges for better outcomes, they do tend to access things like other diversifying assets – hedge funds, that kind of thing. It's horses for courses, and it depends what you are trying to achieve given the constraints you face.

**De Pessemier:** So it sounds like for you it's within that hedge fund/alternative assets bucket.

**Alexander:** That's how the Railways Pension Scheme uses gold as well. We have CTA type strategies. We tend to have access through mining stocks – that would be the exposure to gold that you would see tactically. For the Railways Pension Scheme, you'll tend to see that on the return-seeking side of the portfolio, as opposed to as an alternative to gilts. I agree it's horses for courses, and it can be used quite tactically too, coming in and out of portfolios, depending on what's going on.

**Stewart:** I agree, we wouldn't expect to see a consistent allocation forever, it would be something that would ebb and flow, based on more of a tactical/dynamic view of the markets.

**Laskey:** Similar for us. We have a small broad allocation to commodities, and gold would be something we would consider more for tactical purposes.

**De Pessemier:** When I think about gold's characteristics: Gold's return credentials, its diversification benefits, its relationship to inflation. Taken all together, DC investors can benefit from including gold in their portfolio.

Gold can help in structuring a more capital efficient portfolio – it can help manage the risks faced by DC investors: Investment risk, longevity risk and inflation risk. In other words, improving member outcomes.

**Summary**

- Real estate investment has long been a mainstay in pensions investment, but in this highly cyclical sector, the landscape is constantly changing.
- Pre-pandemic changes to consumer behaviour, with increased online shopping and reduced footfall in retail properties, intensified during and after the height of the health crisis.
- Changes in working practice and increases in remote working mean office blocks – once a popular and secure asset – sit empty, while data centres, storage and logistics and distribution have looked stronger.
- Moves by large pension names such as PIC and Legal & General and others into social housing and other sustainable sectors could signal a shift into a different subsector of property.

# Property investment – new decisions

**Sandra Haurant explores changing trends within DB schemes' real estate investments**

The Pensions Insurance Corporation (PIC) made headlines in November when it announced a partnership with London Square and Square Roots, leading to its first-ever investment in social housing. PIC's investment director Allen Twyning said of the project: "Not only does this create secure, low-risk cashflows with which we can pay the pensions of our policyholders pensions, but it creates huge social value in Kingston-upon-Thames."

Co-investment of this kind is one way into the real estate sector for pensions, but many schemes also invest in bricks and mortar through pooled investments such as unit trusts and Real Estate Investment Trusts (REITs), allowing access to diversification in different parts of the property sector through collective investments.

But what specifically is it that pensions seek when investing in property? "It depends on a pension scheme's funding level," Cardano senior investment manager, Julita Perelgritz, says. "Real estate as an asset class has a lot of granularity and can play a role in both portfolios targeting growth or income."

For DB schemes in the process of de-risking, for example, Perelgritz says: "The focus has been, and is likely to continue to be, on income generating features of real estate investment strategies. This is particularly relevant in the context of cashflow-driven investing undertaken by many DB schemes, where real estate offers cashflows and security."

**A good balance**

According to JTC Jersey-based director, fund services, Will Turner, in a balanced fund, one would expect to see: "Stable assets with a strong and lower risk income stream, such as an office building in a city centre location, let to a single tenant on a long lease with a low risk of financial failure. This would provide a steady income stream but would be expected to return a lower level of capital growth."

At the other end of the scale, Turner says, he would expect: "Opportunistic assets with limited income but significant value add possibilities – such as a development project with little to no existing income but in a high value location for a change of use." Turner offers the example of "a dilapidated office building on a business park close to major infrastructure in which there is high demand for distribution or logistics property". If it were pre-let to an operator who was at "low-risk of financial failure" and who designed the whole development to its own specifications, a project of this kind could, says Turner, hold the potential for "significant increase in capital value".

**Current state of play**

While high-profile projects such as PIC's partnership in the social housing development show there is appetite for certain kinds of real estate, high interest rates, seismic shifts in consumer behaviours, as well as a fundamental change in the way people work, have all had a significant impact on the sector.

"We are definitely seeing a subdued level of investment into real estate across the board, and this is having a knock-on effect on transaction volumes at the moment, as a result of high interest rates and inflation," says Turner. "High inflation is eroding the level of returns that investors may receive, which is further eroded by high interest rates significantly increasing the cost of any debt. On the flip side, high interest rates have significantly increased returns for lower risk investments such as government bonds and bank deposits, which further reduces the attractiveness of real estate."

What's more, the highly cyclical nature of real estate makes it inherently sensitive to certain pressures, according to Perelgritz. "Broadly, the weaker economic backdrop has made investors more cautious about taking substantial cyclical risks," she says.

Add to this aftershocks from the 2022's gilts crisis, and it's clear that real estate – an essentially illiquid asset class – can look off-putting from certain angles, and particularly, perhaps, from the point of view of DB schemes.

**Shifting sub-sectors**

Broader societal changes have a real impact on these very concrete assets, says Perelgritz. "There have been structural shifts in the real estate sectors that are still playing out, further weighing on investor appetite for the asset class," she says.

This, in turn, plays out in the investment activities of pension schemes. "In my experience, there has been a trend for a number of years away from investing in traditional retail assets, particularly large shopping centres with a high number of tenants in non-core locations," Turner says. "This is on the back of changing consumer shopping habits, in which online shopping is increasing and shopping in bricks and mortar stores is reducing."

And while there are assets that buck the trend, such as "high-profile destination retail outlets or those that incorporate an element of leisure as well as retail", there's no doubt the retail property landscape, already undergoing changes pre-pandemic, has been further altered recently.

On the flipside, Turner says: "Logistics and distribution property has seen a trend of significantly increasing investment in recent years – which was again hugely accelerated during the pandemic." Even with a post-pandemic price correction, he adds, the longer-term trajectory for the sector has been upwards. Other areas that saw post-pandemic growth, including storage and data centres, have since corrected, according to Perelgritz. "However," she adds, "there are still solid fundamentals."

**"There have been structural shifts in the real estate sectors that are still playing out, further weighing on investor appetite for the asset class"**

With obligatory home working during the pandemic, and the realisation that work can be done differently, the role of the traditional office has also been thrown into question. "The office sector is undergoing existential crisis, similar to retail a few years back," says Perelgritz. "It's particularly relevant in the US where the 'return to the office' has not happened in any breadth."

Turner agrees: "With many employers now operating a hybrid or flexible working model, this means that many do not require the same amount of office space that they did pre-pandemic." On the other hand, companies are facing pressure to create attractive spaces where people actually want to come to work, and many have been making serious adjustments to their workspaces. As a result, Turner says: "Highly desirable locations with Grade A office space (such as newly constructed high quality office space in the City of London) is continuing to attract investment."

**The future for property**

Changes of use and economic pressures, then, have shaken certain parts of the real estate sector. And on a regulatory note, there have been other stresses; Reuters reported in October 2023 that DB schemes were selling office blocks and private equity stakes at "hefty discounts to the value marked on their books" due to regulatory concerns over valuations.

Nonetheless, the nature of cyclical asset class means that after a storm such as this, the future could be brighter. Perelgritz says she has seen the emergence of alternative sustainable sectors within traditional real estate portfolios, including social housing, build-to-rent, assisted living and education.

PIC's London Square project is just one example of the wider pensions sector building foundations in affordable housing. The firm says it aims to invest £500 million over the coming years to "help alleviate the housing shortage in Greater London, whilst providing cashflows to back the pensions of PIC's policyholders". And last year, Legal & General Retirement Institutional announced plans to invest "a further £2 billion of retirement funds into affordable housing over the next five years" in a move it said would help to create more than 10,000 new homes across the country, as part of "Legal & General's purpose of inclusive capitalism".

Perhaps these areas of the market – particularly those which can meet the demands of the country's housing crisis – could open doors to new, solid, bricks and mortar opportunities.

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

Morten Nilsson

# A brighter future

**Francesca Fabrizi sits down with Brightwell CEO, Morten Nilsson, to look at where the DB pensions market is going, the opportunities and challenges that lie ahead, and how he believes Brightwell can fill a gap in the market**

**In April this year, you announced the new trading name for BT Pension Scheme Management (BTPSM) – Brightwell. Why was Brightwell launched?**
Yes it is a new trading name but this is so much more than just a name change. Historically, BTPSM had solely existed to serve the BT Pension Scheme (BTPS); and with the launch of Brightwell, we have opened our capabilities across investment, administration and advisory to other, like-minded DB schemes. The first of these was the DB section of the EE Pension Scheme which, in April, appointed Brightwell as its fiduciary manager.

Although BTPS is one of the largest corporate pension schemes in the UK, it's closed to new members and to future accrual and is very mature. The weighted average age in the scheme is 70 and, by 2035, virtually all of the members will be retired.

The scheme has been considering its endgame and the decision was taken not to pursue an insurance-led buyout but to run off.

In recent years, we've made significant investments in systems, people and processes in every area of our business. We've insourced a number of key functions, including establishing an award-winning administration team based in Chesterfield.

We have in-house liability-driven investment (LDI) capabilities and have built significant expertise in areas such as longevity risk, sustainable investment and technology.

We're proud of what we've achieved but, looking to the future, we could see that securing the talent and expertise we need to run off the scheme securely was going to become increasingly challenging. Right now, we have a highly skilled and capable team but, over time, we were concerned that retaining this talent could be tough.

The work will inevitably become more transactional in nature and less challenging as the scheme shrinks. In addition, maintaining the high levels of service we currently provide in a cost-effective way was going to become much harder. So we began to think about how we could address this issue.

Talking to peers in the industry, it was clear that other pension schemes were grappling with the same challenges we were. By launching Brightwell, we can harness the power of collaboration, giving other schemes the ability to leverage our expertise, innovation and market-leading technology and, in doing so, give our colleagues a more inspiring future and benefit further from economies of scale.

We aren't pooling assets or sharing risk, and schemes we partner with can work with us in the way that best suits them. In doing so, they can retain and preserve their own identity which we know, for many, is of paramount importance.

With Brightwell, we believe we can improve quality, value for money and member outcomes both for BTPS and for the schemes we partner with.

**It sounds like a win-win, but how is it going so far? What are the challenges you see?**
There used to be an unquestioned push towards buyout but that is changing, and increasingly schemes are considering other options in more detail and giving careful thought to the cost and benefits of buyout.

For those schemes that do want to run on for a period of time, they can see real benefits to the Brightwell model and we're having some interesting discussions. Schemes really appreciate that what we offer is different to anything else in the market and we're truly focused on improving scheme outcomes.

Managing a DB pension scheme is far from easy and it's getting more and more complex. The economic outlook is challenging, the portfolio risks posed by climate change need careful management and members expect high-quality online services, which demand increased investment.

Regulatory pressures and external scrutiny are growing, and the reporting burden is growing every year.

Even for large, well-resourced schemes, keeping on top of everything is challenging. We can see an opportunity to leverage all the expertise we have helping other DB schemes get the management, the member services and the support they deserve – member focused, end-to-end and fully aligned to long-term end-goals and objectives.

In my opinion, while the pensions sector is, on the surface, well served, advisers and suppliers often don't look at the schemes they are working with end-to-end. As a result, the approach they take and advice they give can end up being fragmented and often costly. Where Brightwell is different is that we approach the challenges schemes are facing with the mindset of a pension scheme. We develop bespoke solutions rather than sell products and we work in deep partnership as an in-house manager but on a contractual basis.

I think there's a real problem with value leakage in the pensions sector, it's inefficient and often misaligned. There's lots of advisers and suppliers but nothing's really joined-up and there are many conflicts of interest. I think for too long the pension market has accepted having under-resourced in-house teams and relying on costly sub-standard services from external providers. I'm keen to see this change and I think Brightwell can be a part of the solution for certain schemes.

On the funding and fiduciary side, there is a real need to ensure the endgame is well considered and fully agreed and supported by the sponsor, that all the risks are well managed, including longevity risk, and that the investment strategy is well implemented, as we have done for BTPS.

On the administration side there's quite a bit of disillusionment with the third-party administrators so the solution we offer combines the strength from the Procentia administration platform with Brightwell's pension management know-how and highly skilled contact and admin centre team in Chesterfield.

The Procentia system gives members instant access to personalised pension information and the ability to self-serve for all key tasks, such as retirement quotes and changes to personal details.

Since we introduced it for BTPS in 2021, we've seen significant increases on member satisfaction with our online services.

**What impact it has on the work you do for BTPS?**

Although we've changed our name, the service we provide to BTPS remains completely unchanged.

From the outset, we've been very clear that expanding what we do to other schemes will in no way negatively impact the service we provide to BTPS. This is about preserving the high levels of service for the future and building additional resilience into the model.

We're being very deliberate about the schemes we choose to partner with. There has to be shared values and clear synergies. We want to partner with like-minded schemes, who want to deliver for all their stakeholders and are committed to achieving their objectives in a long-term sustainable way.

As a new entrant it is unusual to say this, but we have declined more opportunities than we have decided to pursue. This is because we are not chasing volume – we are looking for true partnerships.

**How would you say the DB sector is evolving?**

The DB sector is hugely fragmented and there's widespread consensus that a small number of better run schemes would be beneficial. For both DB and DC schemes, consolidation is seen as the way to reduce costs, improve governance and achieve better investment and member outcomes. There is no doubt scale is critical in pensions.

Consolidation is also increasingly being seen as a means of serving the interests of the wider UK economy; delivering economies of scale and facilitating opportunities to make meaningful investments in 'productive finance', such as large infrastructure projects and innovative technology firms. It was, of course, notable that DC and DB pension market consolidation formed the centrepiece of the Chancellor's Mansion House speech, where he outlined measures for schemes to deliver maximum benefits of scale and achieve better investment returns.

One of the big questions is whether there are enough options open to DB schemes that want to consolidate. At one end of the market are DB master trusts and superfunds and, given the funding position of many schemes, buyouts seem an obvious solution for some but aren't right for everyone and concerns around capacity remain. This is the gap we think Brightwell can help fill.

**As 2023 draws to a close, what are your priorities for the year ahead?**

We continue to focus on enhancing the services we provide both in member services where we're continuing to invest in our online and telephony services. We'll shortly be launching fully online retirements for BTPS,which is a really exciting development.

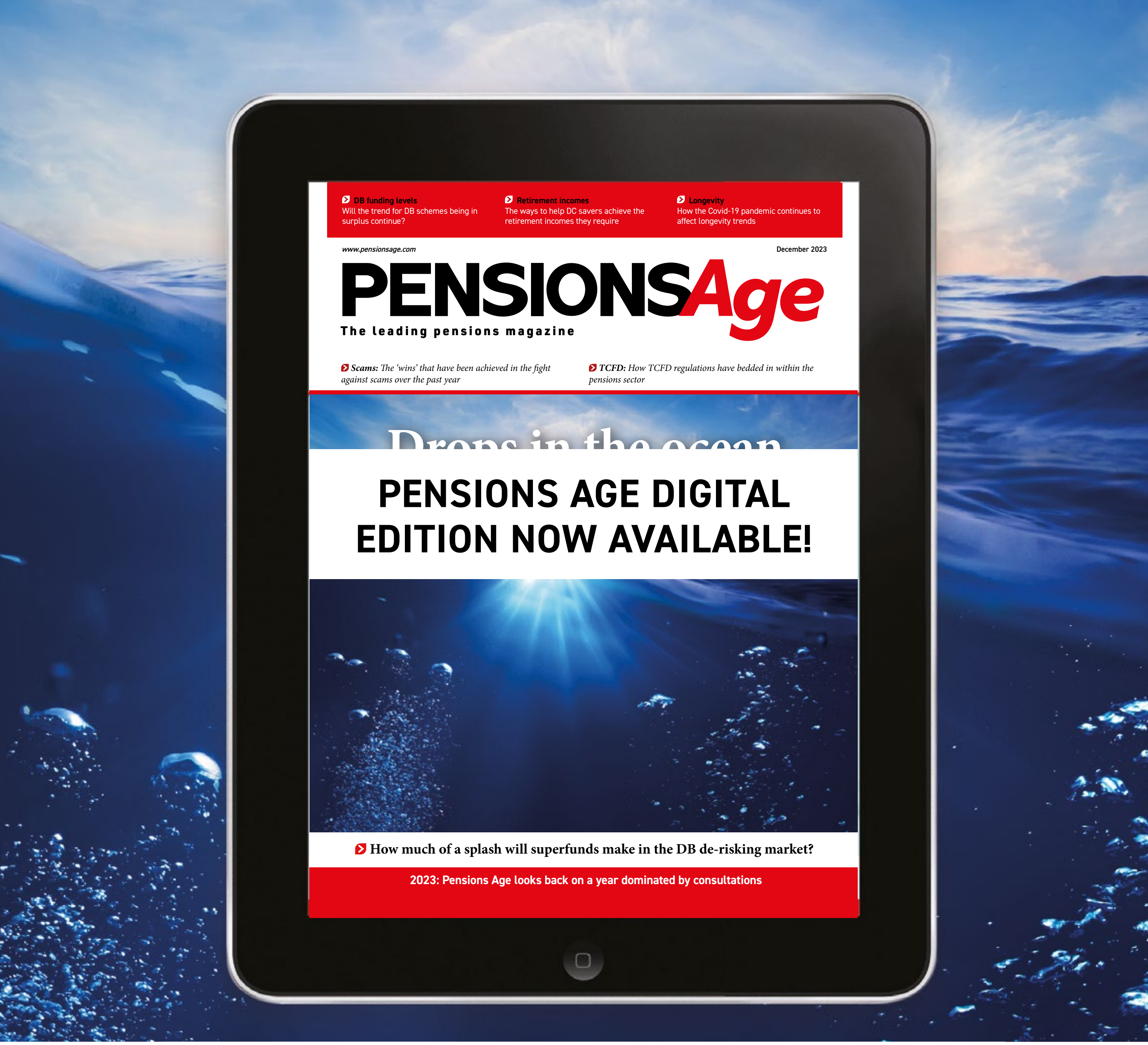
Last summer we launched the Brightwell Pensions Academy, which is a way to develop a pipeline of administration talent.

We recruit people of any age and background, with little or no pensions knowledge, but who have strong potential, a great attitude and a willingness to learn and take them on a year-long structured training programme. At the end of the programme, they graduate as qualified pensions administrators. The academy has been a great success and we'll continue to invest in it.

We have just finalised the triennial valuation on behalf of the BTPS trustees and recently completed a £5 billion longevity swap for BTPS, which we will be managing alongside a previous swap. In the investment team, we're continuing to invest in new technology to better help manage and model our liabilities and continue to evolve our approach to sustainable investment.

The Brightwell model has been well received. The DB market is moving quite fast and I think we're coming into the market with the right solution at the right time.

**Written by Francesca Fabrizi**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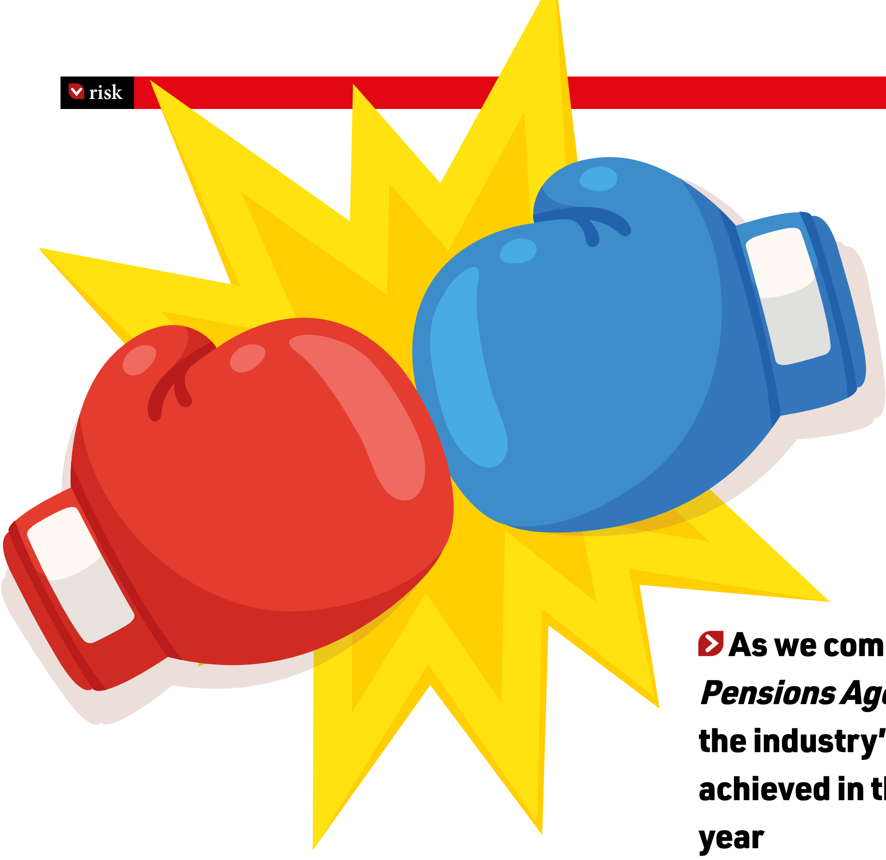


# Winning the fight?

**As we come to the end of our year-long *Pensions Age* focus into pensions scams, we ask the industry's views on the 'wins' that have been achieved in the fight against scams over the past year**

The fight against scams has been going on for well over a decade and in that time we've had many ups and downs. The ups…

- The Pensions Regulator's (TPR) Scorpion campaign in February 2013 (Valentines Day to be precise), which alerted individuals and schemes to the risk of scams and provided a leaflet that schemes could send to members.
- HMRC reverted to a vetted system of registering pension schemes to stop scam arrangements being set up.
- The Pension Scams Industry Group's Code on how to combat scams published in March 2015. It became the standard to follow. It has since been updated four times and remains the go-to guide.
- Pension freedoms accidentally killed off pension liberation scams.
- The ScamSmart campaign by FCA and TPR increased awareness of scams.
- The Work and Pensions Committee published its report on its inquiry into scams and shone some light on the harms done by scams making several recommendations.
- The 2021 transfer regulations gave legal power to schemes to stop scam transfers.
- Many pension scams have been prevented.

The last year has seen a real growth in recognition that there is a problem with scams. *Pensions Age* devoted the year to regular features on pension scams and I have written more articles, spoken at more seminars and had more meetings on scams than in any previous year. This is a very good thing. Awareness create dialogue, which breeds change.

Key wins in the past 12 months and that which give hope are:

1. The government created an anti-fraud strategy and appointed an Anti-Fraud Champion long overdue and very welcome, as the annual cost of fraud to the UK economy is huge.
2. TPR increased its focus on scams intelligence and is working closer with law enforcement and other partners to address scams earlier.
3. The Fraud Compensation Fund is actively looking to see whether fraud contributed to the losses from scam schemes, which could lead to those losses being made up.
4. The All-Party Parliamentary Group on Investment Fraud produced its initial report highlighting the human cost of pension and investment scams, the dismal treatment of victims by authorities and the alarming lack of enforcement action against scammers. It is calling for a public inquiry into the tax treatment of scams victims and sets out some excellent approaches adopted in other countries. It is the result of experts working together on a pro-bono basis to call out issues and offer workable solutions. This is what PSIG has been about and I was pleased to be part of the Advisory Board of the APPG. I have spoken in parliament on the topic and have written a briefing for MPs on the topic of pension liberation, as well as a lengthy paper for the government's Anti-Fraud Champion. It is great to see the support from MPs of all colours and public campaigning on some of the issues will begin early next year.

I am especially pleased to see that PSIG's hard work over the past seven years is bearing fruit and my New Year wish is for light at the end of a dark tunnel.

**PSIG chair, Margaret Snowdon**


Although pension scams continue to pose a real concern, there have been countless positive legal developments in the ongoing fight against pension scammers in 2023. The following four key changes demonstrate the multi-faceted concerted effort that has been and must be made to protect pension savers from scammers.

Firstly, the Pension Scams Industry Group (PSIG) published its Practitioner Guide in March. The guide details the key due diligence steps when assessing a pension transfer and reflects the position following The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021 (Regulations). Alongside the guide there is a short summary document explaining the regulations, the risks, the options and the steps that practitioners should take in order to be able to comply with them. Some of the key areas covered by the guide are 'clean lists', overseas investments, statutory and discretionary transfers and the red and amber flag system. I was delighted to have been involved in drafting parts of the guide, and to contribute to an asset that will both help my colleagues in the pensions industry and, most importantly, protect the hard-earned benefits of scheme members from scammers.

Secondly, in June, the Money & Pensions Service published a comprehensive evidence review to help address methodological challenges in the estimation of the scale of scams and a lack of evidence on what can be done to reduce susceptibility. Headline findings included that scammers are subtle, seamless and adapt their techniques; the types of scams and tactics are very similar to investment scams; evidence on the true scale of pension scams is limited due to under-reporting and a lack of systematic data collection; the financial and emotional cost of pension scams is high; and affected members experience feelings of self-blame and are more likely to need financial support and social care. This data is critical in helping understand how best to regulate against scams, and the report also included some actionable and evidence-based interventions and strategies that stakeholders can adopt to lower the risk of scams and offer better support to those affected.

Thirdly, also in June, the DWP undertook a review of the regulations. Key findings included that 94 per cent of transfers completed under condition 1 or condition 2 (with no flags present); 5 per cent of transfers were contractual or discretionary; 1 per cent of transfers had a red or amber flag present; 96 per cent of amber flag cases proceed; and waiting times for a MoneyHelper appointment has on average increased from two to six weeks. DWP will conduct further work with the pensions industry and The Pensions Regulator to consider if changes could be implemented to the regulations to improve the pension transfer experience, without undermining the policy intent.

Finally, October saw a determination from the Pensions Ombudsman (CAS-93568-H0D0) which provided some clarity in relation to the interpretation of the regulations. The complaint involved a member requesting a transfer who was required to seek advice from MoneyHelper under the regulations, and as a result experienced a delay, during which his transfer value decreased. The fact that the determination was not upheld and that the trustees were not criticised for their strict interpretation of the overseas investments amber flag in the regulations can provide some reassurance to trustees adopting this approach.

The determination provides some helpful guidance for trustees faced with the overseas investments flag, however possibly only true clarity will come from the DWP amending the regulations – a development we hope to see in 2024!

**DLA Piper and PSIG legal adviser, Matthew Swynnerton**


There has been a very notable change in the practice of financial advisers this year. We have seen a significant reduction in the level of cold calling, as well as a large reduction in advisers recommending schemes in countries where members

are not resident. Although the latter was usually done to allow a member to release slightly higher levels of pension commencement lump sums, it is clearly something the regulator wanted to see reduced.

We have also seen some providers change some of the products they offer, such as those containing unlisted shares. While unlisted shares may be suitable for a very small group of sophisticated investors, the enhanced checks now required are likely to have reduced the number of advisers recommending them. Instead advisers are favouring 'green listed schemes' that are easier to transfer into.

Finally, we have seen occasions when members cancel their request to transfer as a result of the conversation and questions we ask them during the due diligence process, particularly when the transfer has come about from unsolicited contact. When a member realises that this practice is illegal, they often decide that the firm in question is probably one they should not be comfortable entrusting their retirement income to.

**WTW pension fraud prevention officer, Nick Cox**

The pensions industry has made great efforts to help protect members of pension schemes against scams. Firstly, by the good practice of day-to-day administration to ensure that where something doesn't look right, to ask probing questions to the members about their transfer, and then following the introduction of The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021, they have to ability to challenge the transfer more forcefully.

We can see from the table below a reduction in the number of reported scams, however the value has increased from 2020. As an administrator myself, I feel more positive when I look at the reduction in number, and the processes in place now for non-standard transfers, the message being sent out should be that these types of scams aren't as easy as they once were.

I am optimistic about the future with pension scams and as long as the industry continues to follow good practice and get the message out to all that the process is more stringent. This will mean that members will be better protected even if they don't appreciate it.

**PMI president, Robert Wakefield**

*Freedom of Information request by the PMI, which provided the table below:*

| Year | Reports of Pension Scams | Financial Loss | Average loss per case |
|---|---|---|---|
| 2020 | 668 | £8,335,192 | £12,478 |
| 2021 | 507 | £10,088,355 | £19,898 |
| 2022 | 420 | £7,996,626 | £19,040 |
| Total | 1,595 | £26,420,172 | £16,564 |

Broadstone's analysis of the FCA's *Financial Lives Survey* revealed that the proportion of UK adults receiving unsolicited approaches about their pension savings has plummeted by 14 per cent since 2017. In absolute terms this equates to a 6.5 million drop in the number of adults reporting a fraudulent approach between 2017 and 2022.

This appears likely to be the result of significant interventions such as the government ban on pensions cold calling established in 2019 and regulations introduced in 2021 that gave pension trustees and scheme managers new powers to stop suspicious pension transfers ending up in the hands of a fraudster.

More recently, the enshrining of the Online Safety Bill into law this year looks set to add another line of defence. It ensures that companies and websites are not only legally obliged to remove fraudulent or illegal content but they must put in place measures to ensure it doesn't appear at all, protecting pension savers from intern scams.

**Broadstone head of policy, David Brooks**

**Summary**
• Studies have shown that significant numbers of people do not know how much they are saving into their pension, while almost half of all workers may be unsure as to whether or not they are saving enough.
• ISAs, LISAs and home equity can all form part of a holistic retirement income package.
• Tech and asset frameworks can help savers build a picture of what income they need when they stop working – and how to get it.

# A helping hand

**More needs to be done to help DC savers work out what retirement incomes they should be aiming for – and how to achieve them**

In the life insurer's *2023 Retirement Report*, which was released in June this year, Scottish Widows estimated that one in three Brits are saving too little to match the Pensions and Lifetime Savings Association's (PLSA) minimum retirement living standards.

A couple of months later, Royal London published some stark findings of its own. Out of a sample of 6,000 workers, it found that one in five people did not know how much they were saving into their pension, and that over half of those with a workplace pension were unsure if they were saving enough to live comfortably in retirement.

"That's a significant number of people who are potentially in the dark about whether their pension savings are going to give them the amount they'd like when they stop work," says Royal London pensions expert, Clare Moffat.

These discoveries, which are by no means isolated, underscore the magnitude of the UK's growing pension savings gap. In many ways, this crisis is tied to the displacement of private sector defined benefit plans. This rejection of employer paternalism for employee self-determination was rubber-stamped as a failed experiment with the introduction of auto-enrolment, and it continues to plague defined contribution pension saving. Left to their own devices, many employees are struggling to make the best decisions when it comes to pensions.

### How much?

One of the reasons that workers are not saving enough is because it can hard to determine what to aim for.

As Hargreaves Lansdown head of retirement analysis, Helen Morrissey, says, everyone's view of their retirement is different, making any kind of a one-size-fits-all approach redundant from the offset. "For some people a good retirement will include overseas holidays and theatre trips, whereas others will be shooting for something more modest," she says.

Morrissey's view is a commonly held one. And it is why the PLSA's Retirement Living Standards are viewed by some as a blunt instrument that does not provide the "full story", says Barnett Waddingham partner, Paul Leandro.

For Fidelity International head of workplace investing distribution, Dan Smith, the PLSA benchmarks are a helpful as a starting point. "However," he says, "it's worth remembering these categories are subjective, and what constitutes 'comfortable' will differ from person to person".

"Therefore, savers might want to use these as a guide to build upon, thinking about the other factors that might determine how much they need; desired lifestyle and pattern of expenditure, inflation, longevity, ability to cover unexpected expenses or potential long-term care costs," he adds.

Morrissey says people need to carefully think about what they would like their retirement to look like in advance and use tools such as pension calculators to gauge if they are on track to meet those goals. "By thinking about it in advance and checking in periodically, you can amend your goals if need be or opt to contribute more if needed," she says.

Despite subjectivity determining pot accumulation, some providers have crunched some numbers and produced figures that average savers can aim for. Scottish Widows, for example, says workers should save at least 15 per cent of their salary into their pension to meet – and perhaps exceed – the PLSA's minimum income standard, which currently stands at £12,800 a year for a single person, and £19,900 for a couple.

"Saving 15 per cent is of course a significant ask at a time when many people may be struggling to make ends meet in the here and now," says Scottish Widows head of pension policy, Pete Glancy. "But what many people don't realise is that this figure includes contributions from the employer as well as the scheme member, so they don't have to do it all themselves."

### Responsibility

As well as offering targets to set their sights on, providers and advisers are also attempting to fill the gap left by former

DB sponsors, by encouraging savers to take more responsibility for their pensions.

Barnett Waddingham has done this by adopting the psychologist Abraham Maslow's "hierarchy of needs" – physiological requirements, safety, belonging, esteem, and self-actualisation – and putting them into a retirement finances context.

By using this method, an individual can picture their retirement income building blocks, says Leandro. "It provides a much more personalised system," he claims. "If we talk about spending requirements, rather than just amounts of income, that helps people better visualise what level of assets they'll require."

At its most basic form, a retirement income framework based on Maslow's hierarchy of needs can be constructed with the aid of some American terminology, says Leandro. 'Go go' is the retirement stage where people are healthy and mobile, so likely to spend more. 'Slow go' is the period when the pace of life begins to significantly decrease and 'no go' is when long-term care costs may come into play.

**Assets, not just a pension**

This final stage, which increasing numbers of retirees are reaching, illustrates the need for a more holistic view of retirement income streams. The cost of a spot in a care home, for example, may necessitate an insurance policy, or additional saving and income streams.

The latter, says Leandro, could be provided through home equity release products. "The notion of downsizing in retirement is not really a thing," he explains. "People don't want to move away from their community. So rather than downsizing, people could look to draw an income from their home asset."

He suggests a situation where the state pension and an annuity could cover the basics of life for many, while "aspirational spend" could be financed through drawdown if there is a large enough pension pot – or home equity. "To reach those more aspirational levels of Maslow's hierarchy, an income from a home could be a way to get there," he says.

ISAs, arguably, are also a more obvious, but perhaps underappreciated retirement savings tool. As Morrissey outlines, an ISA or a LISA can bring added peace of mind in a retirement saving context, while also ensuring there is some surplus cash to call on for more short-term needs, if required.

"LISAs can be particularly useful for groups such as the self-employed who don't benefit from an employer contribution," she says. "The 25 per cent bonus works in a similar way to basic rate tax relief on a pension."

**"As an industry, we're not very good at helping somebody understand what a contribution going into a pension pot translates to in terms of retirement income"**

Higher-rate taxpayers however, would currently be better off opting for a pension, which is why Hargreaves Lansdown would like to see the government reduce the early exit penalty on a LISA from 25 per cent to 20 per cent, as well as allowing people to open and contribute to them up until the age of 55. "We think this could significantly boost the retirement planning of self-employed people who may be wary of locking their money up in a pension for the long term," explains Morrissey.

**Tech to the rescue**

Bringing various retirement saving streams together is a crucial piece of the puzzle. At present, there remains a lack of awareness when it comes to accumulation, says Glancy.

This can be alleviated, however, by coupling app-based solutions with improved financial literacy. Apps, she says, are useful tools for helping savers understand whether they have enough in their pots and, crucially, what options they have to help them reach their future retirement goals.

Leandro agrees. "Generally speaking, as an industry, we're not very good at helping somebody understand what a contribution going into a pension pot translates to in terms of retirement income. And we need a better way of showing that."

This requires a better digital experience, he says, that individuals – and couples – can use in real time.

He points to the open banking apps that various pension providers now have as an ancillary benefit to being a member of their pension plan, where they can see all of their bank accounts, assets, mortgages, and loans in one place. In addition, they can use such systems to budget their finances.

"It's not a leap to see how that could then translate into the at-retirement space," argues Leadnro. "You've got systems that know individuals personally, know their assets, know how they're spending. It will be able to show them a personalised visualisation of what their retirement spending could look like. And whether they have enough to support that required income.

Such a tool could also be interactive, suggests Leandro, allowing savers to predict the impact of various choices to a certain degree. It could also allow for smoother and easier ways to transact. "At the moment, purchasing an annuity is a very protracted process and it creates a barrier," he says. "*[These tools]* could ease decision-making and *[improve transaction times]*."

If use of such tools becomes widespread, then at least DC savers will have a fighting chance to save enough for their old age.

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

# Longevity trends


**The impact of the pandemic on longevity trends in the UK has had implications for DB schemes in particular. But to what extent will longevity continue to be an important factor in shaping trustees' strategies over the next few years and how important are longevity trends to the running of DC schemes?**

**Summary**

- The Covid-19 pandemic created a significant spike in mortality rates; and Covid has continued to be a major contributor to excess deaths in 2022 and 2023.
- DB scheme liabilities, pricing of bulk annuity transactions and annuity pricing have all been affected by changes in longevity.
- Nonetheless, longevity is an important consideration in shaping DB scheme strategies. Also for those managing DC schemes, even though the members bear the longevity risk.
- The way longevity has been affected by the events of recent years is still a matter of debate and future trends are difficult to predict.

Newspaper headlines in 2020 and 2021 declared that the Covid-19 pandemic had led to falls in life expectancy for the first time in decades. That was true: In England and Wales period life expectancy – how long a child might expect to live based on current death rates – fell from 81.7 years in 2019 to 80.7 in 2020. But attention-grabbing headlines hide a more complex picture of longevity in the UK, and what it might mean for anyone setting strategies for pension schemes.

Even before the pandemic, long term upward trends in mortality rates had been disrupted during the first two decades of the 21st century. The first saw strong mortality improvements of 2.5-3 per cent in the UK, pushing average life expectancy up by about two years during the decade, thanks in large part to improvements in the treatment of cardiovascular diseases.

Mortality improvements then slowed to just under 1 per cent per year between 2011 and 2019. Some suggested the UK government's austerity measures contributed to this change, although similar trends were also seen in other countries.

Data from the end of that decade suggested that positive trends were about to return, but then 2020 and 2021 saw big spikes in mortality rates in the UK as the pandemic struck: In 2020 they were 14 per cent higher and in 2021 9 per cent higher than those seen in 2019, according to data analysed by the Continuous Mortality Investigation (CMI). There were 75,600 excess deaths (more registered deaths from all causes than expected) in 2020, 56,500 in 2021, 39,400 in 2022 and 33,200 in the first three quarters of 2023.

"The question is, to what extent are we seeing a new 'normal' pattern?" asks Aon associate partner, Matthew Fletcher, who is also chair of the CMI SAPS Committee, which produces standard pension scheme mortality tables for UK actuaries.

"I think the general consensus is that mortality is higher and life expectancy somewhat shorter than we would have expected, pre-pandemic."

### The pandemic's impact on the NHS

It's not clear how long these trends will persist. One contributory factor is the impact the pandemic had on the NHS. There were 4.5 million people on elective waiting lists for treatment at the start of 2020, but by the second half of 2022 that number had risen above seven million. NHS figures also suggest there were approximately 40,000 fewer cancer diagnoses made during the pandemic than would have been expected and about 500,000 fewer blood pressure medicine prescriptions were issued to previously undiagnosed patients. Meanwhile, both ambulance response times and average wait times in A&E are longer than in 2019.

"The after-effects of the pandemic, such as healthcare backlogs and longer waits for emergency care, are likely to have contributed to mortality rates remaining high," says Legal & General head of longevity risk, Darryl Brundle. "We also saw a return of illnesses such as influenza towards the end of 2022, which can be a significant factor in winter deaths in the elderly."

Longevity specialist Club Vita head of pensions strategy, Mark Sharkey, says its data on DB pensioners suggests they have been "more resilient than individuals in the general population" during the pandemic. But he also stresses the variation between each different schemes' memberships. Economic inequality is a particularly important factor: Average life expectancy now differs by almost

30 years (68 to 96) between the most deprived and wealthiest postcodes in the UK.

It is also the case that any effects longevity has had on scheme liabilities have been less influential than the economic and financial events of the past two years.

"In a different time and place these significant changes in life expectancy would be more significant in the conversation about pension scheme management," says WTW director, Stephen Caine. "At the next valuations some schemes might find themselves in surplus, thanks to changes in life expectancy. A scheme might jump forward by 3-4 per cent in its buyout calculation. But those things are being outweighed by jumps in yields."

### Reasons for optimism and pessimism

What might happen next? "There's no sign that this is going to reverse in the next year or two, but you wouldn't expect these trends to last forever," says Barnett Waddingham partner, Will Rice. "Eventually I think we will get back to a long-term trend that's more positive in terms of life expectancy improvements."

LCP actuary and head of longevity and demographic insights, Stuart McDonald, suggests that the speed at which general life expectancy and the longevity of people in pension schemes return to that trend will depend in large part on the future health of the country's healthcare system.

He highlights the importance of preventative healthcare on future longevity trends, noting that government policy and medical advances could improve health outcomes, through policies on preventing younger people smoking legally, or improved treatments for obesity and addiction problems, as well as for diseases and conditions including cancers and dementia.

We may also benefit further from the development of MRNA vaccines during the pandemic, leading to improved vaccination against other diseases. AI and other new technologies could help accelerate and improve the accuracy of cancer diagnoses. McDonald suggests that other government policies, such as climate change mitigation measures that lead to improved air quality, might have positive impacts.

Climate change itself might have some positive effects on longevity in the near term: A warmer UK climate means fewer people will die in harsh winters, outweighing any increase in deaths due to extreme summer heat. However, other consequences, such as disruption to food or energy supplies, economic collapse or war would all have severe adverse effects. Finally, McDonald adds, at some point we will probably experience another pandemic.

**"The general consensus is that mortality is higher and life expectancy somewhat shorter than we would have expected, pre-pandemic"**

### DC schemes

Although DC schemes are not affected by longevity trends in the same way as DB schemes, this is still an issue their trustees must consider. Longevity risks fall upon individual DC scheme members, rather than the scheme, but trustees have a duty to ensure members make good decisions during both accumulation and decumulation phases.

McDonald stresses the importance of DC schemes ensuring members understand the basic message that life expectancy and longevity in general are likely to keep improving. "It's important that the long-term trend of increasing life expectancy isn't missed," he says.

In the future that message may need to be complemented with others about the increasingly complex shapes that the latter period of some peoples' working lives are likely to assume. These are among the broader issues linked to an ageing population with which the International Longevity Centre (ILC) thinktank is concerned. Its chief executive, David Sinclair, highlights another issue that shows how important calculations about longevity should be to individual DC scheme members: The million people currently aged between 50 and 65 who want to work but cannot do so, either because of their own health or because they have caring responsibilities.

This means, says Sinclair, that two of the most important messages DC scheme trustees need to give members are: "'You're likely to need to save more'; and 'you need to think about how you can keep yourself healthier for longer.'"

The bottom line is that understanding longevity is very important for members of both DB and DC schemes.

"Regardless of trends that play out in future, it will not be a one-size-fits-all story for pension schemes," says Sharkey. "They will not just need to understand trends affecting general life expectancy, but to have a good understanding of the mix of individuals in the scheme."

McDonald stresses the need for schemes to move beyond just using traditional actuarial techniques based on identifying patterns in historic data and adjusting strategy accordingly. "You need a multidisciplinary approach and expert advice," he says.

While it is true that longevity is just one of many factors that might influence scheme strategy, one characteristic of longevity risk should be remembered, says Rice. "It is always there – there's danger in not paying attention to it," he warns. "Because yields have gone up and liabilities have gone down, liabilities are less sensitive to longevity than they used to be. But longevity is still a risk, and one that trustees can't hedge easily."

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

# The right skills

**With research finding that there is a 'narrowing talent pool' of pension scheme managers, requiring them to be 'all things to all people', *Pensions Age* asks: Just what skills should a modern pension scheme manager have?**

The role of a pensions manager is vast. A pensions manager is a multi-faceted professional. They need to be an effective leader acting with the utmost ethical integrity. The skills they need range from financial acumen to ensure the pension assets thrive and grow, to legal expertise to navigate the complex web of regulations and compliance, with excellent problem-solving, relationship and leadership skills. Not to mention the responsibility of overseeing the financial security of countless members. It is unrealistic to expect a single pensions manager to possess the myriad of skills and technical expertise required to fully service the complexities of a modern pension scheme. The effective management of a pension scheme is a team game requiring diverse backgrounds and mindsets and a level of resources often unattainable without the introduction of support of some kind. That support can come in a variety of different forms and at different times but helps to eliminate key person risk and ensures cost effective and efficient management of pension schemes.

**Dalriada Trustees head of pensions management, Leanne Coomber**

The role of the pensions manager is a very responsible position, and not for the faint-hearted. Anyone in the role must be prepared to deal with people on some of the most sensitive issues surrounding their later-life finances. And in most cases, it requires a very broad – yet also deep – understanding of a whole range of disciplines. Those who are supported by the expertise of a diverse team or specialist consultants may see that as perfectly manageable, but not every scheme manager has this luxury. New areas of knowledge are added frequently, with increasing requirements around investment reporting, ESG and cyber security, meaning there is a constant learning curve. It can be a hugely rewarding role, but it shouldn't be approached lightly.

**Royal London director of policy and communications, Jamie Jenkins**

Historically, pensions managers were required to look after and manage defined benefit schemes until the introduction of defined contribution schemes. Therefore, companies looked for that expertise when employing pension managers. Whilst that role has evolved over the years to include expertise in defined contribution arrangements and other benefits such as healthcare, it has been difficult to entice new candidates to make a career as a pensions manager.

A variety of dynamics come into play here. The closure of defined benefit schemes has shifted the role's focus to managing legacy arrangements, requiring a different skillset altogether. Additionally, companies are increasingly conducting cost-benefit analyses, addressing whether businesses should maintain an in-house pensions team or outsource this function.

The pool of experienced managers is diminishing, creating a talent gap, while high demand leads to frequent job changes. The escalating burden of legislation and regulation adds complexity, potentially dissuading new entrants from pursuing pension management careers.

**Isio head of governance, Jay Solanki**

Finding multi-skilled individuals able to manage a multitude of tasks, at the same time, is difficult in every profession. Throw in the often complex and highly technical demands on the pensions world, and it is nigh on impossible.

Today's pensions manager needs to be a Jack of all trades: Knowledge of every type of pension scheme; extensive organisational and administrative abilities to manage the myriad of operational challenges, including increasingly stringent regulatory demands; understanding of investment markets and asset allocation to meet long-term investment goals; and first-class interpersonal skills to manage the expectations and needs of a range of stakeholders, including sponsors, scheme members, regulators, advisers and other service providers.

A further major challenge is that there has been a flow of established talent out of the pensions industry. The closure of defined benefit pension schemes has seen long-established professionals depart, taking years of experience with them.

One solution to the difficulties of finding, attracting and keeping talent has been a clear move towards outsourcing, with schemes increasingly willing to employ third parties to not only manage their administrative issues, but also their investment and governance arrangements. Working directly with trustees, these providers support and step in to manage key areas, including investment operations and implementation as well as reporting and trustee/member engagement.

While defined contribution structures have some different requirements, the need for specific skills to manage the significant workload means there will most likely continue to be demand for outsourced support.

**Russell Investments head of UK fiduciary management, Simon Partridge**

Modern pension managers need to be equipped with the skillset to manage and deliver for all the key stakeholders they serve. This includes balancing employer and trustee demands and knowing which hat to wear at which time. The list of stakeholders can be numerous, depending upon the employer's size and complexity.

For example, pensions may not be considered a core employer focus and yet pensions decisions can have material financial, reputational, human resource or risk management consequences. A pensions manager must understand each stakeholder's motivation, whilst promoting the pension scheme's cause to ensure attention and be able to communicate complex and subtle decision factors.

Furthermore, pensions managers have to be strategic in their thinking, whilst efficiently managing day-to-day detail and compliance activity. Often operating outside of a business' core workstreams and in smaller teams or in isolation, self-sufficiency is necessary; however, they need to know when to call on their external advisers to ensure they get the right advice.

To sum up, a modern pensions manager must be many things: Accessible, trusted, a relationship builder, a strategic thinker and a safe pair of hands. And they need excellent knowledge of their organisation and the financial and regulatory regimes within which they operate. That's all!

**WTW Governance and Pensions Solutions senior director, Sean Gilfeather**

## Pensions history

# Pension by-ways

The archives of the Pensions Archive Trust contain unexpected insights into our pensions past.

Take for example our collections relating to nurses' pensions. In 1887, with active encouragement from Florence Nightingale, Henry Burdett, who was the secretary to the shares and loans department of the London Stock Exchange, founded the National Pension Fund for Nurses. Its purpose was to provide an income for those nurses unable to work, with benefits based principally on member contributions and investment income.

The contributory nature of the fund was important, the prospectus arguing that it was "…better for a *[nurse's]* self-respect and peace of mind that she provide for herself not only in youth but in sickness and age…" Nurses were also required to demonstrate their confidence in the fund through which security could be achieved: The fund would be wound up unless 1,000 members joined within the first two years. As numbers increased towards the target, Henry Burdett wrote in excitement "…Miss Nightingale may also like to know it-that more than 800 nurses have now joined the National Pension Fund …"

Donations were also solicited. Among the first donors were Junius S Morgan, Lord Rothschild, Lord Aldenham and Sir Everard Hambro.

More than a century later, NHS pensions are generous, and an important, although sometimes undervalued, part of the remuneration package. Employer contributions currently stand at just over 20 per cent of pensionable pay, with member contributions ranging from 5.1 per cent to 13.5 per cent of pensionable pay.

**www.pensionsarchivetrust.org.uk/our collections**

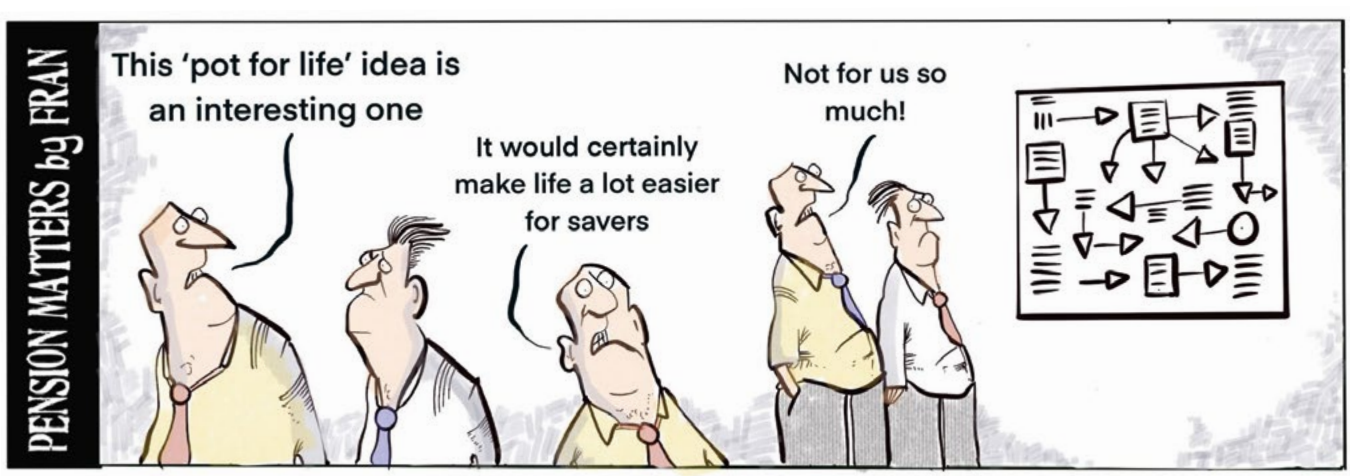
**Pensions Archive Trust director, Jane Marshall**

## The bright side

***Pensions Age* takes a closer look at some of the recent good news stories in the pensions industry...**

Standard Life will be supporting **Samaritans** to help those struggling this Christmas. This is the second year running that the group has partnered with the charity, with a series of activities ahead of Christmas, designed to help people know where to turn if they are struggling to cope during the festive period. In particular, the group will be helping to keep Samaritans services running on Christmas Day. Standard Life is also funding a TV ad that will launch first across social media, and have donated TV airtime to Samaritans in the lead up to Christmas Day.

**Pawsome Pensions,** the charity to support retired police dogs from Devon, Dorset & Cornwall, has merged with the National Foundation for Retired Service Animals. The charity confirmed that its presence will remain in the South West in the form of a committee, while fundraising will continue under the NFRSA.

# Chief Executive – Pension Fund

*Saul Trustee Company*

SAUL Trustee Company (STC) is Trustee and administrator of the Superannuation Arrangements of the University of London (SAUL) The Scheme started in 1976 and was established to provide retirement benefits for non-academic employees of the University, although all staff are eligible to join. It now covers 49 colleges and institutions that have links with higher education in the south-east of England.

As the driving force behind SAUL, the CEO plays a pivotal role in steering the Executive Management Team (EMT) towards achieving SAUL's vision: creating a sustainable and cost-effective pension Scheme that garners the appreciation of both our valued members and employers. This leadership position demands a commitment to ensuring the Scheme's impeccable compliance, stellar management, and robust governance.

**The Role:**

- Lead the collaborative development and alignment of the STC Business Plan with the COO and EMT, ensuring strategic vision integration, gain Board approval, and actively overseeing its implementation.
- Strategically manage budgets, foster an effective EMT to execute the Business Plan, provide advisory support to the Committees, and maintain a strong focus on risk mitigation, customer service, and a culture of continuous improvement. Sustain motivation through regular communication and champion an inclusive workplace culture.
- Drive strategic industry engagement by actively participating in relevant bodies and forums. Lead the development of efficient processes, ensuring full compliance with regulations, serve as the final authority in staff matters, collaborate on corporate governance, and continuously enhance technical knowledge for effective team performance.
- Continuously monitor and uphold high levels of member satisfaction with STC services. Develop and nurture strong, collaborative relationships with Employers, Unions and other key-stakeholders ensuring their engagement and satisfaction. Ensure timely delivery of professional Annual Reports and Financial Statements to the Board, maintaining up-to-date Committee documents.

**The Person**

- Strategic Visionary: - Proven experience in leading collaborative teams to develop and align business plans, demonstrating a strategic vision that integrates seamlessly with organisational goals. Track record of gaining board approval and successfully overseeing plan implementation.
- Financial and Operational Strategist: - Strong financial acumen with the ability to strategically manage budgets. A history of fostering effective executive teams to execute business plans, provide advisory support to committees, and maintain a focus on risk mitigation, customer service, and continuous improvement.
- Industry Leader and Governance Expert: - Demonstrated leadership in driving strategic pensions industry engagement through active participation in relevant bodies and forums. Extensive experience and knowledge of DB & DC pension arrangements with a proven ability to lead the development of efficient processes, ensuring full compliance with regulations.
- Stakeholder Relationship and Communication Expert: - Proven track record in continuously monitoring and enhancing member satisfaction. Strong ability to develop and nurture collaborative relationships with employers, unions, and key stakeholders, ensuring sustained engagement and satisfaction. Expertise in delivering professional reports and financial statements to the board, coupled with diligent maintenance of committee documents.

**Knowledge & Skills**

- Detailed knowledge of UK Defined Benefit (DB) final defined contribution (DC) money purchase pension scheme landscape and history and the different legislative structures of trust schemes.
- Comprehensive understanding of pension scheme management, including actuarial, administration, covenant, investment and legal.
- Understanding of the University sector, how it is funded, the challenges it faces, and the unique culture of the sector would be advantageous.
- Strategic leader of people, it is preferable that candidates have experience in a similar senior leadership position within the pensions industry. Experienced in engaging with key stakeholders and building effective working relationships.

Interested candidates should apply by sending a CV with a covering note explaining their suitability for the position to ***paul.battye@hoffmannreed.com.***

Our retained executive search partner Hoffmann Reed is exclusively handling this role for SAUL Trustee Company. Any approaches either direct or via intermediaries to STC will be passed on to Hoffmann Reed for evaluation.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