Pensions Publication of the Year 2019!*

Diversity
The steps taken by the industry to better represent its diverse range of savers

Administration
The pros and cons of in-house admin versus a TPA

Member risk attitudes
Tailoring communications to match member groups' risk attitudes

www.pensionsage.com

February 2020

PENSIONS*Age*

The leading pensions magazine

DC pot sizes: *Why broadly equal contributions, over the same length of time, can still result in vastly different pot sizes*

Saving vehicles: *Whether other saving products complement, or compete with, pensions?*

Facing cuts

Aligning executive pension contributions with the workforce

Money and Pensions Service interview: Implementing its UK financial wellbeing strategy

Editorial Comment

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

I write this on 'Brexit Day', the day the UK finally exits the EU and begins its period of transition.

This day may have felt a long time coming, but it's just the start. The country is going to feel the impact of the decision for many years to come.

In the three and a half years since the die was cast, both Brexiteers and Remainers have claimed recruits from the 'other side'; those that regret their initial choice regarding our EU membership and have since been swayed by the opposition's arguments.

And within the pensions sector, while the number of converts to the joys of leaving DB schemes continues to grow, there are also concerns that once the heady rush of pension freedoms settles down, the consequences of their actions, namely the entitlements they have given up and the additional risk they have taken on, may leave some members wishing they had indeed remained.

For instance, recent HMRC figures found savers have withdrawn almost £33 billion since the introduction of pension freedoms in April 2015. This is a very high amount, yet the figures also showed that in Q4 2019, while the number of people taking a transfer grew compared to the previous year, the amount they were taking increased by a smaller percentage, resulting in the average withdrawal per person reaching its lowest point since the pension freedoms were introduced in 2015, at £6,800.

This may be a welcome indication that retirees are exercising restraint and considering the impact of their decisions. As the risk of making irreversible choices for short-term reasons, without sufficiently considering the longer-term consequences, can be great.

Undoubtedly, this concern would be a reason why the Institute and Faculty of Actuaries has recently launched a campaign to investigate the rising transfer of risk from institutions to consumers.

Its campaign – The Great Risk Transfer – will explore the extent to which risk that was previously shouldered by institutions is now falling on savers, such as the switch from DB to DC pension schemes.

But it would be wrong to assume that so many DB scheme leavers did so without wanting to hear full consideration of the facts.

The industry has lamented many times that not enough people access financial advice. But even when they try, they may run into trouble.

An FCA investigation has revealed it had concerns that 76 per cent of DB transfer advice firms may be giving potentially harmful advice, as in 2019, 69 per cent of members who had asked for DB pensions guidance had been advised to transfer out, a proportion deemed higher than optimal by the regulator.

Members may not even be able to find a firm to advise them at all, as, according to the Personal Finance Society, 30 financial advice firms stopped offering pension transfer advice in the three months to the end of 2019, citing restricted access to professional indemnity insurance at an affordable level.

A report from Barnett Waddingham additionally attributed the potential capacity crunch to the continued demand from DB members and increased regulation.

The company stressed that sponsors and trustees must put support frameworks in place to avoid a shortage of advisers.

It seems likely that members will expect trustees to offer them guidance regarding transfers, especially in the absence of visiting an adviser, and will look to blame them if the results of leaving the scheme does not turn out as expected.

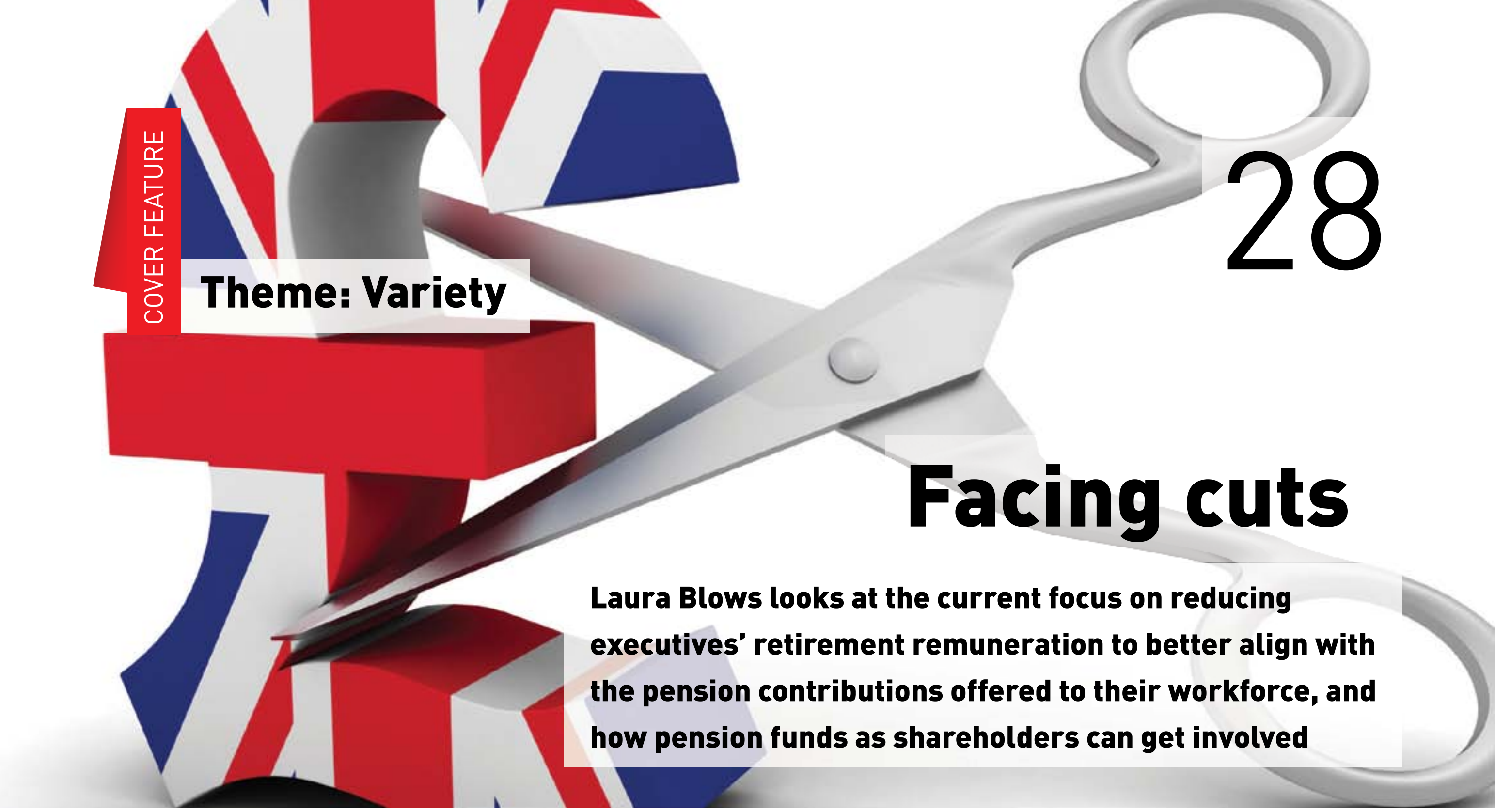
However, analysis from Royal London and Eversheds Sutherland warns that there are no 'risk-free' responses when it comes to transferring a member's benefits out of a DB pension scheme.

Eversheds Sutherland partner and head of pensions, Francois Barker, gives the example of the British Steel case for the reputational damage that can occur when members are left to find their own sources of advice.

"Trustees who engage with the issue in a properly governed way may well be less exposed than those who do nothing at all," he suggests.

Like Brexit, the actions we take with regards to DB transfers now will determine whether the future will be one of regret or celebration.

Laura Blows, Editor



COVER FEATURE

Theme: Variety

Facing cuts

Laura Blows looks at the current focus on reducing executives' retirement remuneration to better align with the pension contributions offered to their workforce, and how pension funds as shareholders can get involved

Highlighted features

PENSIONS AND LIFETIME SAVINGS ASSOCIATION
By agreement, Pensions Age is distributed free to all PLSA members as part of its package of member benefits

Pensions Management Institute
By agreement, Pensions Age is distributed free to The Pensions Management Institute (PMI) members as part of its package of member benefits

AMNT Association of Member Nominated Trustees
Pensions Age is distributed to The Association of Member Nominated Trustees members

The Society of Pension Professionals
By agreement, Pensions Age is distributed free to all SPP members as part of its package of member benefits

PERSPECTIVE PUBLISHING | PPA Publisher Member | abc Audit Bureau of Circulations Member | PENSIONS AND LIFETIME SAVINGS ASSOCIATION | recycle When you have finished with this magazine please recycle it.

** Pensions Age named WTW Media Awards Pensions Publication of the Year 2019 – as determined by industry vote*

Features & columns

PENSIONSAge

Publisher
John Woods
Tel: 020 7562 2421

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

Editor
Laura Blows
Tel: 020 7562 2408

Associate Editor
Natalie Tuck
Tel: 020 7562 2407

News Editor
Jack Gray
Tel: 020 7562 2437

Reporter
Sophie Smith
Tel: 020 7562 2425

Reporter
Duncan Ferris
Tel: 020 7562 4380

Design & Production
Jason Tucker
Tel: 0207 562 2404

Accounts
Marilou Tait
Tel: 020 7562 2432

Commercial
John Woods
Tel: 020 7562 2421

Camilla Capece
Tel: 020 7562 2438

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

NEW circulation figures

Pensions Age now has its new circulation - figure from the Audit Bureau of Circulations (ABC). 15,000 (July –June 2018) 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 25,000+ online subscribers (source: Publishers Statement Sept 18). Our print circulation is nearly 300% higher than other titles in the market.

Managing Director
John Woods

Publishing Director
Mark Evans

ISSN 1366-8366
www.pensionsage.com

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

Dateline - January 2020

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

6 January Around 11,000 people are set to face a combined cut of approximately £33m to their state pension in April 2020, a freedom of information request from **Royal London** reveals. The response shows that individuals could see cuts of up to £70 per week, following changes involving the final abolition of state pension additions for 'adult dependents'.

7 January The amount of defined benefit and hybrid schemes and their memberships continued to decline in 2018/19, with the number of active members falling by 168,000 year-on-year. In **The Pensions Regulator's (TPR)** latest annual *The DB landscape report*, it reveals that the number of active DB and hybrid scheme members in the UK fell from 1.23 million to 1.06 million.

8 January The **UK Mineworkers' Pension Scheme** and the **British Coal Staff Superannuation Scheme** secure a $350m (£267m) settlement in a US securities fraud case. The case is against First Solar, one of the world's largest producers of photovoltaic solar panels, and alleges that the firm had made false and misleading statements about defects in its products.

9 January The Carillion Rail Pension Scheme becomes the 1,000th scheme to transfer to the **Pension Protection Fund (PPF)**, securing retirement benefits for almost 4,000 members. Members that were over the scheme's normal pension age at the time of insolvency will receive 100 per cent of what was in payment at that time, with those under that age receiving 90 per cent, subject to a cap. Without the lifeboat, the members would have received a share of the sponsor's assets amounting to 55 per cent of their expected pension.

10 January The **British Medical Association** confirms that the government review of the tapered annual allowance is now underway. The review is being led by the Economic Secretary, John Glen, with the outcome expected to be announced in the upcoming budget on 11 March.

13 January Nearly two-thirds (64 per cent) of pensioners that own a home are failing to claim the full amount of state benefits they are entitled to, according to **Just Group**. Its tenth annual *State Benefits Survey* finds that 46 per cent of eligible pensioner homeowners are failing to claim any benefits that they are due.

14 January Former BHS owner, Dominic Chappell, has been ordered to pay £9.5m into the company's two pension schemes by **TPR**. This follows an unsuccessful challenge by Chappell to the Upper Tribunal, which agreed with the original decision made by the Determinations Panel in January 2018.

17 January The **High Court** rules that the 'controversial' changes made by Secretary of State for Health and Social Care to the NHS Pension Scheme last year were unlawful. The changes gave the secretary power to suspend payment of pensions benefits to any doctor or NHS worker who had been charged with certain criminal offences, before being convicted.

21 January The Money and Pensions Service (Maps) launches its 10-year financial wellbeing strategy, which includes the aim of getting five million more workers saving for later life. As well as its plans to get 28.6 million people understanding how to plan for their retirement by 2030, five million more than currently, Maps' *UK Strategy for Financial Wellbeing* sets out four more "agendas for change". By the end of the decade, Maps said it wanted 6.8 million children and young people to get a meaningful financial education, and to increase the number of working-age people who regularly put money into savings. The organisation's other goals include ensuring two million more people get the debt advice they need.

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

21 January The Financial Conduct Authority (FCA) announces that it will conduct a review into the retirement advice given to savers. It says that, due to the "greater number of options now available in retirement planning", it is imperative that savers "get good advice at the point they access their pension savings and, if necessary, going forward".

23 January The Pensions Minister, **Guy Opperman**, warns that schemes can't "just wait for legislation", urging them to ensure their data is dashboard-ready. Legislation for the dashboard, included in the reintroduced Pension Schemes Bill, will require schemes to provide "secure, accurate and user-friendly data".

24 January Christopher Woolard is appointed as interim chief executive of the **FCA** by the Treasury. Woolard, who will replace Andrew Bailey on 16 March following his departure to become governor of the Bank of England, has served as the FCA's executive director of strategy and competition, and is an executive member of the FCA board.

27 January The Department for Work and Pensions (DWP) confirms that the UK state pension will be protected by the Withdrawal Agreement in new guidance examining the rights for UK nationals after the UK has left the EU. The guidance stipulates that UK nationals living in an EEA state or Switzerland by 31 December 2020 will be covered. The UK state pension will be uprated every year that an individual continues to live there, regardless of whether the pension was claimed after 1 January 2021.

27 January State pension payments were suspended by 14,300 individuals during the 2018/19 tax year, **Canada Life** reveals. A freedom of information request submitted to the DWP by Canada Life shows that, conversely, 1,500 people elected to restart their state pension in 2018/19. There was an average increase in weekly payment of £44.50 received by those that recommenced state pension payments.

29 January Lloyds Banking Group pension schemes agree a longevity swap deal, which covers £10bn of pensioner liabilities. The deal covers members in the Lloyds Bank Pension Scheme No.1, Lloyds Bank Pension Scheme No.2 and HBOS Final Salary Pension Scheme. It is structured as an insurance with Scottish Widows as the insurer and corresponding reinsurance with Pacific Life Re. Willis Towers Watson acted as the lead adviser to the trustee on the deal, while Allen & Overy acted as the legal adviser. This is the second largest longevity swap in UK history after the £16bn deal between the BT Pension Scheme and PICA in 2014. Lloyds Banking adds that the longevity swap will not change the benefits paid to members of the schemes.

29 January Labour MP for East Ham, Stephen Timms, is named as the new chair of the **Work and Pensions Select Committee**. His appointment is announced by the Speaker following a parliamentary ballot. He takes the role after Frank Field lost his parliamentary seat of Birkenhead in the recent General Election (12 December 2019) after 40 years as the town's MP and had to step down as the committee chair.

30 January Savers have withdrawn almost £33bn since the introduction of pension freedoms in April 2015, with £9.4bn worth of withdrawals in 2019 alone, new figures from **HMRC** reveals. The final quarter of 2019 saw 327,000 people withdrawing £2.2bn from their pensions, a 24 per cent increase in the number of people compared to Q4 2018, and an 18 per cent increase in the value of the payments made. This saw the average withdrawal per person reach its lowest point since the pension freedoms were introduced in 2015 (£6,800), and marks a 5 per cent fall compared to Q4 2018 (£7,200).

31 January The **Institute and Faculty of Actuaries** launches a campaign to investigate the rising transfer of risk from institutions to consumers when planning their finances. Its campaign – *The Great Risk Transfer* – will explore the extent to which risk that was previously shouldered by institutions is now falling on savers, such as the switch from DB to DC pension schemes.

News focus

Maps targets five million more savers in new 10-year strategy

The Money and Pensions Service has announced a decade-long strategy to try and get five million more people saving for their retirement, with the industry welcoming the commitment but warning there will be challenges to overcome before it is a success

The Money and Pensions Service (Maps) has launched its 10-year financial wellbeing strategy, which includes the aim of getting five million more workers saving for later life.

As well as its plans to get 28.6 million people understanding how to plan for their retirement by 2030, five million more than currently, Maps' UK Strategy for Financial Wellbeing sets out four more "agendas for change".

By the end of the decade, Maps said it wanted 6.8 million children and young people to get a meaningful financial education, and to increase the number of working-age people who regularly put money into savings.

The organisation's other goals were ensuring two million more people get the debt advice they need and reducing the number of people relying on credit to pay for food and bills by two million.

Maps will also examine factors that make people susceptible to financial hardship, including mental health conditions and gender.

The organisation said the new strategy was needed to "transform the lives of many individuals, benefitting communities, businesses, the economy and wider society".

According to Maps, over 22 million people said they didn't know enough to prepare for their retirement.

Nine million people use credit to pay for food and bills, 11.5 million had less than £100 in savings and over five million children are not receiving any meaningful financial education, it also stated.

Maps pointed out that a more financially stable population would improve productivity at work, see businesses benefit from having more customers who can afford their services and allow the wider economy to benefit from people investing in pensions.

Maps acting chief executive, Caroline Siarkiewicz, said: "Maps will be the catalyst for a financial wellbeing movement, transforming how people engage with their money and pensions. We have a decade to make a difference and we cannot achieve change alone, so we will be connecting companies, charities and other organisations that share our vision, to make this happen."

Minister for Pensions and Financial Inclusion, Guy Opperman, added: "The government wants to make it easy for those who need it most to get help to make confident financial choices. The one-stop-shop Maps' free, high-quality, impartial information and guidance delivers exactly that.

"Also, it has an important part to play in helping today's young people become tomorrow's savvy savers, and the development of ground-breaking digital pensions dashboards, which will transform how all of us plan for retirement."

Over the first half of 2020, Maps will work with representatives from the private, public and voluntary sectors to set out specific delivery plans for its five goals in England, Scotland, Wales and Northern Ireland, before moving to develop its own corporate strategy.

Maps is an arm's-length body of the Department for Work and Pensions that engages with the Treasury on policy matters and offers free financial guidance to the public.

It was formed in January 2019 by the merging of The Pensions Advisory Service, Pension Wise and the Money Advice Service, although the decision to combine the organisations was announced in March 2016.

Many in the pensions industry have welcomed the new Financial Wellbeing Strategy launched by the Maps, but warned that there are challenges that must be overcome.

Commenting on the launch, PLSA head of DC, master trusts and lifetime saving, Lizzy Holliday, said: "The PLSA welcomes Maps prioritising greater understanding of pensions in its 10-year strategy.

"We support measures to improve engagement, and welcome Maps' goal to help five million more people understand enough to plan for later life."

She suggested that the increase in savers should be achieved through "ambitious deliverables commensurate with the importance of pensions to people's wellbeing" and that the PLSA would like the government-backed organisation to review its guidance boundary to provide reassurance to savers.

Centre for Ageing Better chief executive, Anna Dixon, added that although it was "great to see recognition of the important of preparing financially for later life", it may not solve the issue if people are not saving enough for retirement.

Dixon added: "Alongside this strategy we must ensure that people at all ages are able to find good, fulfilling work that enables them to be financially secure now and in the future."

Hargreaves Lansdown head of policy, Tom McPhail, said that one of the strategy's pillars may prove to be more difficult to achieve than others.

He noted: "There's a particular challenge with Maps' pillar of 'future focus', which concerns saving and investing for the long term.

"It needs responsible financial firms to help deliver its strategy, however the current regulatory framework doesn't allow firms to give people the guidance and help they need if they are to achieve good financial outcomes.

"We'd like to see Maps working with the FCA and with financial services firms to agree how best to give people the help they need, to turn this strategic vision into reality."

Although the difficulties that may have to be faced were acknowledged, most within the industry were looking forward to seeing the changes that may be achieved through the strategy.

Now Pensions director of policy, Adrian Boulding, commented: "We are particularly pleased with the 'Future Focus' initiative, which aims to get five million more people being more proactive with their pensions so that they better understand their retirement needs.

"To remove barriers to pension saving we recommend scrapping the auto-enrolment qualifying earnings band."

Written by Duncan Ferris and Jack Gray

NEWS IN BRIEF

The joint consultation between the government and **UK Statistics Authority** (UKSA) on proposed changes to the Retail Prices Index (RPI) has been delayed until the budget on 11 March. Chancellor of the Exchequer, Sajid Javid, confirmed that the consultation will be launched at the budget and will remain open for responses for a period of six weeks, closing on 22 April. The consultation, originally scheduled to launch in January 2020, was announced following recommendations by UKSA to scrap the RPI.

State pension payments were suspended by 14,300 individuals during the 2018/19 tax year, **Canada Life** has revealed. A freedom of information request submitted to the Department for Work and Pensions by Canada Life showed that, conversely, 1,500 people elected to re-start their state pension in 2018/19.

The Pensions Regulator (TPR) has issued the Financial Conduct Authority (FCA) Pension Plan with a £2,000 fine over non-compliance with Chair's Statement regulations. TPR revealed that the fine was handed down for its non-compliant 2018 Chair's Statement between 1 July and 30 September 2019. The value of the fine is the highest amount that TPR can issue for this kind of offence.

The Pensions Minister, **Guy Opperman**, has warned that schemes can't "just wait for legislation", urging them to ensure their data is dashboard-ready. Legislation for the dashboard, included in the reintroduced Pensions Scheme Bill, will require schemes to provide "secure, accurate and user-friendly data".

VIEW FROM TPR

2020 will be another fast-moving year of change, full of positive opportunities and challenges we must all strive to meet.

I began the year welcoming the re-introduction of the Pension Schemes Bill. The bill will give us the power to set and enforce clearer scheme funding standards in defined benefit (DB) schemes, while providing early warning of potential problems.

Where problems arise, new criminal sanctions and civil fines will act as a strong deterrent against risky and reckless behaviour.

This month, we plan to publish our response to the consultation on the *Future of Trusteeship and Governance.*

I'm pleased that feedback to the consultation shows there is support for our vision of all savers being in schemes that have excellent standards of governance that deliver good value. There is also support for our desire to consolidate underperforming small and micro DC schemes.

In March, we plan to consult on a revised DB funding code to introduce clearer funding standards, supported by the changes to legislation. The new code will focus on the importance of schemes taking a long-term view and managing risks appropriately.

The flexibilities in our regime will continue to help trustees and employers balance the need to pay promised benefits against the employer's ability to run and grow their business. I urge everyone with an interest in DB pensions to share their views with us.

TPR chief executive, Charles Counsell

The Pensions Regulator
Making workplace pensions work

Stephen Timms named as Work and Pensions Select Committee chair

The Labour MP for East Ham was appointed following a ballot undertaken in parliament in which he fended off challenges from three other Labour MPs

Labour MP for East Ham, Stephen Timms, is the new chair of the Work and Pensions Select Committee.

His appointment was announced by the Speaker following a parliamentary ballot.

He takes the role after Frank Field lost his parliamentary seat of Birkenhead in the most recent General Election (12 December 2019) after 40 years as the town's MP and had to step down as the committee chair.

Commenting on his appointment, Timms said: "It's a huge privilege to be elected chair. The committee has a great deal on its plate in this parliament.

"We will play a constructive role, particularly in ensuring – as MPs across the House intend – that our constituents' experience of Universal Credit is taken fully into account as rollout proceeds."

Timms, who had the support of MPs Hilary Benn and David Lammy, has been Minister for Pensions twice. He was also Shadow Minister for Pensions in 2010-2015 and chairs the Parliamentary Labour Party's backbench DWP Committee.

On pensions, he stated: "The committee's important work in monitoring progress with auto-enrolment and the pensions dashboard must continue. I welcome the cross-party consensus in favour of collective defined contribution (CDC) pensions.

"Too many of those taking advantage of pension freedoms have fallen prey to fraudsters. The committee should review the protections and support in place."

The unsuccessful candidates were MP for Oldham East and Saddleworth, Debbie Abrahams, MP for Rhondda, Chris Bryant, and MP for Westminster North, Karen Buck.

Meanwhile, following a second reading in the House of Lords, the Pensions Scheme Bill has now been committed to a Grand Committee after a four-hour long debate, although "serious concerns" remain.

Peers raised concerns during the reading about a number of issues, including proposals around new criminal sanctions, the scope of CDC legislation, and the lack of pensions dashboard detail.

The pensions dashboard proposals faced a number of criticisms, with queries raised around data security and implementation, as well as the choice to implement multiple dashboards.

Under-Secretary of State for the DWP, Baroness Deborah Stedman-Scott, stated that multiple dashboards would "meet the varied needs of the 24.5 million people" with pensions and savings.

However, she added that this was an area that was likely to see "extensive discussions" both before and during the committee stage.

CDC dominated much of the debate, with concerns around intergenerational issues and member understanding raised by members of various political parties.

Also, Lib Dem peer, Lord John Sharkey, expressed concern about the "number and scope of the delegated powers" around criminal sanctions.

Written by Jack Gray and Sophie Smith

VIEW FROM THE PLSA

Last year the PLSA's policy board identified four key themes for pensions. Now we have a new government in place, let's see how their plans match ours.

The first is well-run schemes. This year will be the first full year of the new regime for master trusts. It will also see The Pensions Regulator (TPR) pressing forward on its agenda on trusteeship and governance. We can also expect a new DB funding code from TPR and initiatives on value for money. So, lots of activity. We must ensure the government adopts a proportionate approach.

The second is effective engagement. Savers' engagement with their retirement savings is too low. The Pension Schemes Bill will provide much-needed clarity on the future of the pensions dashboard; something the PLSA supports, provided savers are fully protected and a sensible timetable is adopted. We would like links in the dashboard to planning tools such as the PLSA's Retirement Living Standards.

Thirdly is adequate contributions. Here, there appears to be less progress. Not removing the lower band of auto-enrolment contributions in the Pension Schemes Bill is a missed opportunity. On the upside, the government's commitment to find a solution to the net pay/RAS pensions tax relief issue, should put some extra pounds in pensions. Finally, scale and pensions. Yes, we now have a new master trust authorisation regime but the Pension Schemes Bill omitted proposal for defined benefit superfunds.

So, a mixed picture on this important issue.

PLSA director of policy and research, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Treasury proposes raising taper threshold to £150,000

The Treasury has been considering plans to raised the tapered annual allowance threshold from £110,000 to £150,000

The Treasury is allegedly preparing to give tax relief to those earning more than £110,000 in an attempt to solve the NHS pensions crisis.

Initially reported by *The Times*, the Treasury has proposed raising the 'cliff edge' threshold for the tapered annual allowance from £110,000 to £150,000, arguing that this would solve the problem for the majority of doctors.

However, many experts have warned that the proposal will not be enough to address the issue.

British Medical Association (BMA) pensions committee chair, Dr Vishal Sharma, commented: "In its election manifesto, the government pledged to 'address the taper problem', but this proposal would do no such thing.

"It does not fix the fundamental problem of doctors being forced to limit the work they do to prevent being hit with significant charges on their pensions and many will still in effect be paying to go to work.

"Simply, raising the threshold income would not remove any of the complexity of the taper, nor the threat of doctors facing a 'tax cliff' when their income increases through promotion or taking on additional work. Indeed, unless there is also an increase in the level of adjusted income, this proposal would only make this 'tax cliff' steeper."

The median earnings for a consultant are £112,000, meaning that an estimated 90 per cent would fall below the new limit.

However, the changes are expected to apply to all workers, both in the public and private sector, and could have a large impact on HMRC revenue.

Meanwhile, the High Court has ruled that the 'controversial' changes made by Secretary of State for Health and Social Care to the NHS Pension Scheme last year were unlawful.

The changes gave the secretary power to suspend payment of pensions benefits to any doctor or NHS worker who had been charged with certain criminal offences, before being convicted.

The BMA, who led the judicial review, argued this would make NHS employees "the only public sector workers to have the threat of forfeiture of their pension hanging over them at any time from charge".

The High Court agreed that the new regulations breached Article 6 (right to a fair trial), Article 14 (protection from discrimination) and Article 1, Protocol 1 (right to peaceful enjoyment of property) of the European Convention on Human Rights, and also breached the Public Sector Equality Duty under the Equality Act.

In the judgment, the Hon. Mrs Justice Andrews stated that no explanation was given for "how the scope of the power to suspend (and, indirectly, the power to forfeit) came to be expanded to cover the period between charge and conviction, or what the thinking was behind it".

The judge also highlighted that the government had failed to differentiate between someone charged with a crime, and someone convicted, stating, "every defendant to a criminal charge, however serious, and however compelling the evidence against him may appear, is presumed innocent until proved guilty to the criminal standard".

Written by Sophie Smith

VIEW FROM THE PMI

As the UK's departure from the EU gets going, our government may finally get to grips with its policy agenda and turn a new leaf.

We know that, during the years of deadlock stagnation, a growing frustration had developed across the pensions industry.

In our recent *PMI Pulse* survey, an overwhelming majority (87 per cent) of our members say that they are 'dissatisfied with the direction of travel' in pension policy. Comments from participants suggest that the frustration is driven by inaction due to Brexit and turbulent politics, resulting in a delayed and, considered by many, rushed Pension Schemes Bill.

When our members were asked which elements they would like the new government to focus on, the top four were; reforming the tapered annual allowance, reforms to auto-enrolment, the reintroduction of the Pension Schemes Bill and the net-pay anomaly to be resolved. Members have at least got their wish in that the bill has been resurrected.

It also appears that the tapered annual allowance will be reviewed as part of the Budget, although speculation is that limits may be increased rather than removed. For the net-pay anomaly, the outlook is more positive and the Treasury has stated that it will find a solution using its digital capabilities.

We have heard nothing yet on auto-enrolment reforms, however rumours surfacing at the end of 2019 suggested that the government was considering removing the earnings threshold. They do seem ambitious from a time to application perspective – at least we can keep our fingers crossed.

PMI president, Lesley Carline

HMRC repays £32m in overpaid pension tax

Over 10,000 savers that withdrew money from their pensions in the fourth quarter of 2019 were put on emergency tax rates as their provider did not have the correct tax code to provide to HMRC

Savers who withdrew money from their pensions in Q4 2019 were repaid more than £32m in emergency pension tax by HMRC.

Between 1 October and 31 December, HMRC processed more than 10,000 pension tax repayment claim forms for pension flexibility payments during this period.

Some savers were charged an emergency tax on their withdrawals, resulting in HMRC repaying a total of £32.2m to those affected.

Quilter head of retirement policy, Jon Greer, said that the record payout total was due to issues with the PAYE system.

He commented: "Pension savers have been forced to claim back over £3,000 per person, and a record £32.2m for the final quarter of 2019.

"The problem has nothing to do with anything pensioners have done wrong and lies solely with the PAYE system. HMRC's PAYE system is not built for one-off withdrawals from a pension and so does not fit with the new world of pension freedoms."

When savers withdraw money from their pension above the 25 per cent tax free amount, they are taxed according to their tax code.

However, if their provider does not have the correct tax code for the pension withdrawer, then HMRC will tax using an emergency tax code, which is often higher than the correct code.

Meanwhile, over 1,000 people failed to report that a pension tax charge had been paid by their scheme on their behalf on their tax return in 2016/17, a freedom of information (FOI) reply obtained by Royal London has revealed.

In November 2019, HMRC stated that it knows that "scheme members are forgetting to declare details of their annual allowance charge on their self-assessment returns", and urged schemes to remind members of the requirement to declare this information.

However, the FOI has revealed that 1,004 people failed to report this information on their return in 2016/17, the most recent year in which figures are available.

Royal London has emphasised that while the latest figures suggested the amount contributed in excess of the annual allowance (AA) had increased eight-fold over the past five years, there was likely still "significant" under-reporting.

The firm also highlighted that the number of people affected by 'scheme pays' has grown "rapidly" since 2016/17, arguing that it is likely that "thousands" of people are now failing to report this same information.

This follows a FOI from Quilter, which found that 84,048 NHS pension scheme members had exceeded their annual allowance between 2013/14 and 2017/18, while a further survey from First Actuarial found that 56 per cent of NHS workers expected to be affected by a breach in the future.

The research cited a number of complications that can lead taxpayers to file inaccurate information, such as not knowing what their AA is.

Written by Jack Gray and Sophie Smith


SAVE THE DATES
FOR OUR 2020
FLAGSHIP EVENTS
Pensions Aspects LIVE/20
23 APRIL 2020 / LONDON
PMI
ANNUAL DINNER /20
23 APRIL 2020
THE SAVOY: STRAND,
LONDON WC2R 0EZ
Trustee workbench.
Conference & exhibition aimed at trustee group members and those in aligned business areas.
#TRUSTEEWORKBENCH
25 JUNE 2020

VIEW FROM THE AMNT

In our interaction with organisations we give and are given various titles; members, customers, clients.

We do not normally pay attention to what we are called, provided the service meets our needs. But definitions are important as they often determine the way we are envisaged by the service provider. For instance:

Members: Individuals belonging to a group or organisation.

Customer: Persons who buys goods and services.

Client: One to whom services, usually professional, are rendered.

In defined benefit pension schemes, individuals are viewed as members, which results in a tendency to ignore the fact they are also customers and clients. This narrowing of terms leads to a myopic vision in which the pension scheme takes a paternalistic stance of doing what is best for the member, while ignoring their viewpoint. This positioning was exemplified by a recent survey that showed only 26 per cent of pension schemes prioritised membership engagement.

Does this matter when in the same survey the priority for pension schemes was maximising benefits and minimising costs for the members? Ignoring the financial planning needs of members and their environmental and social investment preferences does not provide the service quality a member, customer or client expects. Pension schemes should not be defined by closed thinking.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

Lloyds Banking pension schemes complete £10bn longevity swap

Lloyds Banking Group completes the second-largest longevity swap in UK history with Scottish Widows and Pacific Life Re, while the Post Office pension scheme plans move from buy-in to buyout

Lloyds Banking Group pension schemes have agreed a longevity swap deal that covers £10bn of pensioner liabilities.

The deal is the second-largest in UK history and covers members in the Lloyds Bank Pension Scheme No.1, Lloyds Bank Pension Scheme No.2 and HBOS Final Salary Pension Scheme.

It is structured as an insurance, with Scottish Widows as the insurer and corresponding reinsurance with Pacific Life Re as the reinsurer.

Willis Towers Watson acted as the lead adviser to the trustee on the deal, while Allen & Overy acted as the legal adviser.

Commenting on the deal, Lloyds Banking chair of the trustee, Harry Baines, said: "This will protect the schemes from the financial risk of an unexpected increase in life expectancy and make the schemes more secure to the benefit of all members.

"The selection of Scottish Widows and Pacific Life Re followed a fair, robust and transparent review of the longevity insurance and reinsurance options available across the market and their respective propositions delivered the best combination of benefits to meet our brief."

This was the second-largest longevity swap in UK history, after the £16bn deal between the BT Pension Scheme and PICA in 2014.

Pacific Life Re head of longevity, Andy McAleese, commented: "From our first discussions with them, the trustee had a clear plan, and this gave us the confidence to work closely with them to offer significant capacity in supporting their objective.

"This shows that even against the backdrop of a very buoyant bulk annuity market, there is plentiful capacity and a range of solutions available to support the management of longevity risk for pension schemes."

Editorial credit: Simon Vayro / Shutterstock.com

Lloyds Banking added that the longevity swap will not change the pension benefits that will be paid to members of the schemes.

Meanwhile, the trustees of the Post Office section of the Royal Mail Pension Plan (RMPP) announced plans to convert their buy-in policy with Rothesay Life into a buyout policy.

In a letter, Communication Workers Union assistant secretary, Andy Furley, detailed the trustees' plan to move from a group insurance policy to an individual pension policy.

The buy-in deal, agreed in 2017, was worth £453m and aimed to protect members and their benefits.

Furley added that the trustee had confirmed that the value of members' benefits, and any increases due in the future, would not change as a result of the transfer between Rothesay Life policies.

The buyout would apply to members who were employed before 1 April 2008 and were members of the Post Office section of the defined benefit RMPP, which closed in March 2017, and to benefits built up between April 2012 and March 2017.

Written by Jack Gray

Market commentary: Crossroads

Now the Brexit date of 31 January has passed, many have predicted the recovery of the UK economy and markets due to the regained certainty. The UK has left the EU customs union and is free to pursue new trade agreements with other countries around the world.

However, the UK is now in a transition period and Brexit won't be 'completed' until the end of 2020 at the earliest. This presents a crossroads for markets and, despite the increased confidence, it is still difficult to predict how markets will react during this transition period and beyond.

Aegon pensions director, Steven Cameron, explained: "The Chancellor's announcement that the UK will not remain aligned to EU rules post Brexit should not have come as a surprise, although the critical question is in which areas the UK government will seek to diverge.

"For some industries, remaining aligned will support future cross-border trade, while others more focused on domestic customers may see opportunities in reviewing regulations."

Although there are some issues to resolve, there has been evidence that the increased certainty is helping markets recover.

Refinitiv head of EMEA Lipper research, Detlef Glow, said: "Following the good performance of the equity markets globally, European investors continued to be in risk-on mode in December.

"The sentiment of investors might have been supported by a calm market during the trade war between the US and China, as well as a clearer situation around Brexit after the general election in the UK, since both led to a better outlook for general economic growth and company earnings for the year ahead."

JCRA associate director, Andy Scott, added that the UK economic data had shown a "better than expected recovery".

He continued: "Sterling rallied to a five-week high above 1.19 versus the euro in the lead up to the PMI data release, as a combination of weaker eurozone PMI data and market expectations of stronger UK surveys drove demand for the UK currency. Sterling did however drop around half a per cent after the data, reflecting the fact that the chance of a rate cut is still 50/50.

"Having been faced with several Brexit paths that left UK politics completely dysfunctional and businesses unable to plan much beyond a few months ahead, there is now just one path. The increased certainty – even with the future trading relationship still to be defined – along with a majority government that will allow Westminster to function more efficiently, should encourage businesses and investors to start committing capital again."

Despite confidence from many experts, there are still concerns that Brexit could lead to the UK's economic influence on the global stage being threatened.

"This escalating de-equitisation crisis is particularly concerning as we approach Britain's formal exit from the EU as, without efficient, liquid and well-stocked public markets, the UK's standing as a global financial centre in a post-Brexit world could well be at risk," warned Peel Hunt chief executive, Steven Fine.

Although markets appear to be improving, many are still holding their breath for what the future may hold. AJ Bell investment director, Russ Mould, added: "With the Budget due in mid-March, the Bank of England might decide to wait and see if there really is a bounce post-Brexit and how much extra money the government is going to spend."

Written by Jack Gray

VIEW FROM THE PPI

February is the month of Valentine's day, so I suggested the piece this month should be about spouses and pensions.

"Good idea" was the cry around the office, "but make it about divorce, that's a more interesting topic".

Pensions are one of the major assets held by married couples; perhaps the largest asset that is not specifically in joint ownership. There is often an imbalance in pension savings. This may result from decisions made by the couple, for example one partner taking time out from working to care for children or elderly relatives, with the intention that the breadwinner's pension will cover them in retirement. Scottish Widows reported in 2017 that 71 per cent of divorcees did not discuss pensions as part of the settlement. Often this results in women not receiving an equal share of household pension wealth, contributing to the gender pensions gap.

Tackling the inequality of pension settlements at divorce could therefore go some way to achieving greater equality in retirement outcomes, though labour market and pension saving behaviours, and unequal pay, are the most significant contributor to the gender pensions gap. The Government Equalities Office has committed to using their online divorce process to "nudge" couples to "consider the benefits of pensions sharing".

PPI senior policy analyst, John Adams

PENSIONS POLICY INSTITUTE
PPI

Appointments, mandates and moves


Christopher Woolard

The Financial Conduct Authority (FCA) has named Christopher Woolard as interim chief executive, following an appointment process conducted by the Treasury.

Woolard, who will replace Andrew Bailey on 16 March following his departure to become governor of the Bank of England, has served as the FCA's executive director of strategy and competition, and is an executive member of the FCA board. He is currently a non-executive member of the Payment Systems Regulator Board, and has previously held roles at Ofcom, at the BBC and in the Civil Service.

The Pensions Regulator chief executive, Charles Counsell, said: "I welcome the news that Christopher Woolard has been appointed interim chief executive of the FCA, and look forward to working with him to further strengthen our strategic partnership."

The Treasury will be running an open competition for the permanent chief executive role, with further details to be announced in due course.


Steve Longworth

PTL has appointed Steve Longworth as client director.

Prior to his new position, Longworth worked as a senior manager at KPMG. His 25 years of experience in pensions have also involved roles at PwC, Deloitte and Mercer. He has spent time working with both trustee and corporate clients, dealing with schemes varying in value from less than £10m to more than £1bn. He is also a fellow of the Institute and Faculty of Actuaries.


Dame Kate Barker

Universities Superannuation Scheme (USS) has announced the appointment of Dame Kate Barker as chair-elect. Barker will become chair later in 2020, following the retirement of Professor Sir David Eastwood, who has served on the board since September 2009. Prior to this, Barker was chief economic adviser to the CBI and a member of the Bank of England's Monetary Policy Committee until 2010.


Caroline Siarkiewicz

The Money and Pensions Service (Maps) has appointed Caroline Siarkiewicz as its chief executive.

She had been serving as interim CEO since June 2019 and was partnerships and commissioning director at Maps prior to that. Siarkiewicz was also head of UK debt advice at one of Maps' precursors, the Money Advice Service, and chief executive of the Institute of Money Advisers.


Sir Steve Webb

Lane Clark & Peacock (LCP) has appointed former Pensions Minister, Sir Steve Webb, as a partner.

Webb will join the consulting firm from Royal London, where he had been director of policy since 2015. LCP said that he will be working on the firm's client service offering to help it adapt in an "ever-evolving regulatory environment". He will also help LCP to lead campaigns the wider industry.


John Preston

London Pension Fund Authority has named John Preston as chairman.

Preston replaces Sir Merrick Cockell who stepped down in December 2019 after serving nine years on the LPFA board. In addition to this new role, Preston is also chair of the Sainsburys defined benefit pension scheme and chair of the Medical Research Council pension scheme. He is also a fellow of the Institute of Chartered Accountants.


Stephen Timms

Labour MP for East Ham, Stephen Timms, has been named as the new chair of the **Work and Pensions Select Committee**.

His appointment was announced by the Speaker, following a parliamentary ballot. He takes the role after Frank Field lost his parliamentary seat of Birkenhead in the most recent General Election (12 December 2019) after 40 years as the town's MP and had to step down as the committee chair.

Commenting on his appointment, Timms said: "It's a huge privilege to be elected chair. The committee has a great deal on its plate in this parliament. We will play a constructive role, particularly in ensuring – as MPs across the House intend – that our constituents' experience of Universal Credit is taken fully into account as rollout proceeds."

Timms, who had the support of MPs Hilary Benn and David Lammy, has been Minister for Pensions twice. He was also Shadow Minister for Pensions in 2010-2015 and chairs the Parliamentary Labour Party's backbench DWP Committee.

Active engagement with emerging markets

James Lindsay reveals why active matters for emerging market opportunities

2019 proved to be another bumper year for asset returns, despite a bumpy geopolitical environment. What does 2020 hold in store, and how will markets fare in a post-Brexit world?

As events in recent years show, from continuing trade tensions to Brexit-related currency volatility, few things in markets and investing are certain. This is why we believe taking a longer-term perspective and viewing opportunities through a secular or structural lens can help in allocating capital responsibly for clients.

When viewed through such a lens, emerging markets (EM) have the potential to provide UK institutional investors with a variety of portfolio benefits compared to developed markets (DM) – from the prospect of higher returns to geographical diversification and, importantly, exposure to secular trends that may mean emerging markets grow faster than developed ones in the coming years.

Higher growth and returns in EM?

Given both the labour and productivity growth advantages of EM versus DM, we expect a gradual increase in the developing world's contribution to world economic growth. With the potential for EM growth to pick up modestly and developed market growth to further decelerate, the EM/DM growth differential, which has historically been a key driver of capital flows into EM, could widen modestly, supporting EM asset prices.

Over a 10-year time horizon, as of January 2020, MFS Long Term Capital Market Expectations EM equities (8.5 per cent) to outperform US equities (2.1 per cent) as well as global equities (3.9 per cent), and EM debt (4.0 per cent) to outperform global investment-grade credit (2.7 per cent) as well as global aggregate bonds (2.4 per cent).

Why does active matter in EM?

While we feel EM equities and debt offer potential return premiums to DM equivalents over the long term, we believe security selection in both asset classes offers significant alpha opportunities for asset owners.

Corporate margins, which had been at historically high levels, deteriorated throughout 2019 as companies faced challenging business conditions and an increasingly unpredictable policy environment. However, we expect margins to fall further as they revert toward their longer-term average over the coming five years.

While corporate debt service appears manageable under current conditions, we remain watchful of both the level and diminishing quality of corporate debt, particularly in cyclically-oriented industries such as energy. In the sovereign space, as central banks diverge in their policy stances and toolkits, this could allow the market mechanism to better align fundamentals and valuation, potentially allowing issue selection to become a large source of portfolio return.

The search for alpha in EM

Investing in EM is not black and white – with the potential for additional return comes the possibility of added risk. To uncover the most attractive risk-adjusted opportunities, we believe investors need to gain clearer perspectives by seeing the full colour spectrum.

To us, the clearest perspectives require assessing EM opportunities in the light of DM equivalents. These perspectives require gathering insights into the entire capital structure, across equity and debt. They also require big picture macro analysis in addition to deep fundamental analysis.

That's why we bring together our equity, fixed income and macro analysts across both EM and DM. We believe this fully integrated global research platform brings EM investors the clearest perspectives possible, helping to uncover opportunities that EM-only managers may miss.

As conditions become more difficult for companies and countries in a world of continuing trade tensions and economic uncertainty, investors need to incrementally build portfolios, while looking through the lens of fundamentals and long-term owners of capital.

Written by MFS head of UK institutional sales, James Lindsay

VIEW FROM THE ACA

We have welcomed the opportunity presented by the DWP consultation on simpler benefit statements to radically re-design statutory annual benefit statements, as part of a wider industry drive to encourage members to think about their retirement and the outcome they want at an earlier stage in their working lives, aided also by the pensions dashboard initiative.

In order to successfully achieve the twin ambition of consistency and simplicity, we believe that full legislative standardisation of annual benefit statements would be required. To the extent that any guidelines and/or principles are subject to interpretation, there is the risk that consistency is not achieved. Ultimately, we are supportive of change that reduces the degree of confusion and apathy in pensions.

With pension freedoms, we believe this is an opportunity to consider the relevance of the information presented to members through the annual benefit statements, as this is also a driver to better engagement. As such, consideration should be given to how different members are likely to use their savings at retirement and illustrations developed accordingly.

The combination of a standardised simple benefit statement with a dashboard that shows multiple pension policies in one place will help millions of people view their pensions savings in a clear light for the first time.

ACA chair, Jenny Condron

ASSOCIATION OF CONSULTING ACTUARIES

Diary: February 2020 and beyond

Pensions Age Awards 2020
27 February 2020
London Marriott Hotel, Grosvenor Square

The 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 awards are now in their seventh successful year.

For more information, visit:
pensionsage.com/awards

PLSA Investment Conference 2020
11-13 March 2020
Edinburgh International Conference Centre, Edinburgh

The PLSA Investment Conference is the UK's largest conference focused on pension scheme investment and is attended by 950 pension professionals, including pension managers, trustees, HR and finance professionals, and their advisers. The programme will consist of plenary and specialist stream sessions, focusing on defined benefit, defined contribution, investment and governance, and asset allocation. It also features networking events.

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

Sustainable Investment Summit
18 March 2020
The Waldorf Hilton, London

The Sustainable Investment Summit offers institutional investors and corporates the opportunity to both learn and network alongside their peers at such a key time for the sustainable investment industry. This conference, takes a new angle for 2020, moving on from general ESG, SRI, impact and sustainability awareness, to exploring how returns objectives can be met through sustainable investing and strategies that can be implemented to ensure this is the case.

For more information, visit:
http://sisummit.net/index

Asset Management Awards 2020
23 April 2020
The Waldorf Hilton, London

The Asset Management Awards are designed to recognise outstanding achievement in the UK/European institutional and retail asset management spaces, honouring the excellent professionals and firms in the many and varied fields of asset management. Now in their second year, the awards aim to celebrate and promote best practice, to support continuing development, and to provide recognition for those who are providing effective support to the sector.

For more information, visit:
moneyage.co.uk/assetmanagementawards

Visit www.pensionsage.com for more diary listings

Month in numbers

£9.5 million
The amount that former BHS owner, Dominic Chappell, has been ordered to pay into the company's two pension schemes by The Pensions Regulator. It follows an unsuccessful challenge by Chappell to the Upper Tribunal, which agreed with the original decision made by the Determinations Panel in January 2018. It concluded that a series of actions had been materially detrimental to the pension schemes, including the acquisition of BHS, management decisions of the company, and the appointments of inexperienced board members.

168,000
The number of defined benefit (DB) and hybrid schemes memberships declined by 168,000 year-on-year in 2018/19. TPR revealed that the amount of active DB and hybrid scheme members fell from 1.23 million to 1.06 million.

£1.48bn
The dashboard could cost businesses up to £1.48bn, the DWP estimated. The implementation could cost between £200m and £580m and ongoing costs range from £245m to £1.48m over 10 years.

Look out

Jonathan Watts-Lay considers ways to help employees avoid pension pitfalls, leading to better outcomes at retirement

While Lamborghinis and caravans made the headlines at first, the real story of the pension freedoms has been the revelation of how little pension scheme members actually know about their retirement savings; whether it's where they are invested, how much they are worth, or the options they have when they come to take money from them. I stop short of saying 'retiring' because many people are taking cash from their pension schemes before retirement.

Research from a variety of sources continues to support this. Recent FCA data showed the majority of people accessing benefits are aged 55-64 and most are cashing in pension pots in full (usually small pots with an average value of £13,000) and 90 per cent of all pots fully encashed are under £30,000.

Our research findings from 2019 show that 81 per cent of trustees believe members are not equipped to deal with the taxation implications of accessing their pension. This risk is likely to be heightened by the many individuals failing to seek regulated financial advice when accessing their pensions.

The FCA found that almost half (48 per cent) of pensions accessed in 2018/19 were taken without the scheme member receiving regulated financial advice or guidance. Perhaps members think they understand cash rather than the intangible value of a pension scheme, but they are leaving themselves vulnerable to making poor decisions, which can create a permanent dent in their retirement income.

To help overcome this, let's look at some of the tax implications of individuals accessing their pension and the ways trustees and employers can help mitigate these implications to avoid poor outcomes for employees and pension scheme members at retirement.

Firstly, tax planning should be at the heart of any pension transaction. Only the first 25 per cent of the amount that is withdrawn from a pension pot is tax free and the remaining 75 per cent is taxed as earned income. If employees and members cash in a pension during a tax year when they are still working, 75 per cent of the sum withdrawn will be added to their earnings for that tax year and may push them into a higher tax bracket. Employees and members need to be aware of this, as they may want to consider withdrawing smaller amounts from their pot.

They should also be aware that if they withdraw any cash simply to add to their savings, the money withdrawn will form part of their estate for inheritance tax purposes. It's crucial to remember that a pension remains one of the most tax-efficient saving vehicles available.

Many are unaware that accessing a DC pension is a trigger event for the Money Purchase Annual Allowance (MPAA). Those who fully encash pots over the £10,000 limit will trigger it, reducing their annual allowance from £40,000 to £4,000. This could mean they have to revise their retirement plans, as they missed the opportunity to boost their pension savings in their later working years when other financial commitments, such as a mortgage, have ended.

Freedom of Information requests by Just Group and Royal London uncovered that, between 2015 and 2019, nearly one million pension scheme members over the age of 55 triggered the MPAA.

To help combat these issues, it is important to facilitate access to financial education and guidance, as employees and members are more likely to make informed choices if they do; including being able to decide if they need further support such as regulated financial advice. Studies have shown that those who take regulated financial advice are more likely to increase their wealth than those who do not. This is because it provides them with a plan tailored to their needs and added consumer protection for the advice given to prevent them from making costly mistakes.

This approach helps trustees and employers, as well as employees and scheme members by ensuring the retirement process and the options available are well understood, therefore leading to better outcomes.

Written by Jonathan Watts-Lay, director, WEALTH at work

In association with WEALTH at work KNOWLEDGE | EXPERIENCE | OPPORTUNITY

VIEW FROM THE SPP

As we start a new decade, we have a strong majority government with a five-year fixed term to serve and Brexit trade negotiations to sort out to set our future direction.

Hopefully this fresh start will lead to a bright future and, if we're lucky, that might even extend to pension schemes.

In the short term, we will finally have a Pension Schemes Bill to move ahead on several outstanding issues. The regulator will welcome new and stronger powers and members will surely benefit from an enhanced funding regime. Waspi women will have to recover from their disappointment about not having a Corbyn settlement of their grievances but will still harbour at least slim hopes of successful court action, or a more generous approach by Boris Johnson.

I am personally looking forward to continued growth in auto-enrolment over the next decade, with funds growing massively as annual contributions accumulate over time. As ever, the challenge will be to ensure that long-term pension savings are adequate to provide decent retirement by increasing contribution levels and extending the scope to lower paid workers and the self-employed. The situation should naturally improve gradually over time as more and more people will have been in schemes for longer but extra contributions will help too.

Most importantly, our industry will continue to provide financial security and wellbeing for millions of retired people, paying them good pensions reliably month after month.

SPP council member, Hugh Nolan

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On the findings that the majority of Generation X are ill-prepared for their retirement

"It's worrying that 22 per cent of Gen Xers claim to have no pension whatsoever. Those that have pensions are saving about a quarter of what they need to be to fund even a moderate retirement lifestyle and only 5 per cent of this group look to be anywhere near on track. The only surprise then is that this is not already a national scandal as one in four Gen Xers look set to rely totally on the state pension for income in retirement and nearly two-thirds resign themselves to working longer than planned or cutting their living costs substantially in retirement."

Dunstan Thomas director of retirement strategy, Adrian Boulding

On the Money and Pensions Service (Maps) 10-year financial strategy, which aims to get five million more workers saving for later life

"Maps will be the catalyst for a financial wellbeing movement, transforming how people engage with their money and pensions. We have a decade to make a difference and we cannot achieve change alone, so we will be connecting companies, charities and other organisations that share our vision, to make this happen."

Maps chief executive, Caroline Siarkiewicz

On pension schemes getting their data ready for the launch of the pensions dashboard

"Pensions schemes can't just wait for legislation; they need to improve their data quality now so that it is ready. Dashboards will help savers, therefore it's in everyone's interest that pension schemes are getting accurate, up-to-date information in place to help to ensure the new services work well."

Pensions Minister, Guy Opperman

On the need for better pension support for the self-employed

"While auto-enrolment has meant millions of additional employees are now saving into workplace pensions, the self-employed, who are not automatically enrolled and don't benefit from the valuable employer contributions, remain out in the cold and find themselves at a significant disadvantage in their pension savings."

Aegon pensions director, Steven Cameron

On the prediction that the number of large de-risking deals will decline in 2020

"The number of mega deals completed through 2019 shouldn't be repeated in 2020, but there is certainly a lot of demand for deals across the market. The changes in pricing over the past few years do show that the importance of choosing the right time to complete a transaction rather than simply leaving it to chance. Knowing your target price, retaining price discipline and flexibility are all key to achieving the best deal possible in this new market environment."

Willis Towers Watson senior director, Shelly Beard

First, they came for our doctors…

Pensions tax, in particular the annual and tapered allowances, has gathered attention over the past year, with issues affecting NHS doctors quickly picking up media and public sympathy. Recent research from NHS providers shows that pensions taxation is threatening an "exodus of NHS leaders", having already caused staff shortages and patient delays.

While the government has confirmed that a review of the allowance is underway, it could already be too late to attempt yet another 'sticking plaster' solution, as more and more savers face an onslaught of pensions tax issues.

Savers at both ends of the spectrum have been affected by the complex pension tax rules, with lower earners exposed to issues stemming from net-pay arrangements, and higher earners increasingly caught out by the taper and annual allowances.

Industry experts have also expressed concern that yet more savers could be affected by the annual allowance, with many members unaware that they will have triggered a reduction in their annual allowance, from £40,000 to £4,000, simply by taking advantage of their pension freedoms.

Furthermore, recent research from Royal London has shown that hundreds of workers in ill health early retirement could face unexpected tax bills.

Meanwhile, the Pensions Scams Industry Group has bought attention to the tax issues faced by scam victims, having recently presented a paper to the House of Lords that called for a legal amnesty in tax law for victims of a pension scam.

It can feel like every day brings yet another pensions tax issue, and with every new issue that emerges, it becomes increasingly obvious that pensions tax doesn't need a reform, but a blank slate.

But has the damage already been done?

NHS doctors sit close to the heart of the British public, and many of the groups impacted by the complexity of the pensions tax structure share this trait – with teachers, the armed forces, pension scam victims, and those in ill health, all affected.

It's perhaps unsurprising then that pensions tax issues have been progressively covered in the consumer press, with emergency room delays and NHS staff shortages increasingly blamed on the ongoing pensions crisis for example.

Public trust in pensions is once again eroding as a result, and these 'bad news stories' mean that everyone is losing faith in pensions. Not just those directly affected by tax issues.

Whilst the pensions industry is not the one handing out these tax bills, schemes are unfortunately the 'face' that members will often blame for their misfortune. And after all, it only takes one bad interaction for a member to lose trust in their pension.

It may not be a problem that's been created by schemes or providers, but it is the pensions industry's reputation on the line, so it is the industry that will need to engage with policymakers to protect members' retirements.

Incentivising consumers to save into their pension is already an uphill battle, and tax should be a key tool in the industry's arsenal – not another obstacle to overcome.

Written by Sophie Smith

VIEW FROM THE ABI

The drawdown market will change for the better in August as pension providers introduce investment pathways for customers without a financial adviser.

When a customer takes tax-free cash, they will be asked a straightforward question with four choices about when they expect to access the rest of the money, and offered an investment pathway based on their answer.

This is a welcome move, widely supported, but only applies to FCA-regulated firms and the DWP now needs to introduce an equivalent for occupational schemes. The DWP should never just copy and paste the FCA's rules, nor vice versa, but they should have a good reason if they are going to differ on any issue. For investment pathways, there is no good reason to diverge: the risks savers face in retirement are very similar, however their pension scheme is governed.

No-one using pathways will need to be an expert, but everyone will need help to understand the decisions they need to make throughout retirement. Clear communications will be critical, and any provider or scheme faces challenges in helping customers without unintentionally giving financial advice – especially about how much money to withdraw.

We think pathways, more than any other issue, expose the need for a rethink of the boundary between advice and guidance. We will explore both the advice boundary and in-retirement communications at our Annual Conference on 25 February – see ABI.org.uk/events.

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

BHS saga finally draws to a close

Over five years since the retailer's collapse, the determination notice for Dominic Chappell has finally marked the end of the BHS saga, although the mark left on the industry seems likely to remain for years to come

Editorial credit: Cristina Nixau / Shutterstock.com

The years' long BHS pensions saga has finally been bought to a close, with former owner, Dominic Chappell, being ordered to pay £9.5 million into the company's two pension schemes by The Pensions Regulator (TPR) in January 2020.

But the issues surrounding BHS and its pension schemes stem back to the now infamous 2015 sale of the retailer from Phillip Green to Dominic Chappell for £1, and its impact on the businesses involved is still being felt.

In 2018 for example, the Financial Reporting Council sanctioned PwC, alongside one of its former audit partners, for the work undertaken before the sale. The firm was handed a £10 million fine, while the former PwC partner, Steve Denison, was given a £500,000 fine and was banned from undertaking any audit work for 15 years.

Less than 13 months after the sale of BHS to Chappell, in April 2016, the business collapsed into administration, triggering not only concern for members' pensions, but also an investigation into Green and Chappell by MPs that would continue for well over a year.

The Pension Protection Fund (PPF) estimated the schemes' liabilities at £275 million in May 2016 and called on administrators to engage with potential liquidators. A month later however, administrators confirmed that no buyer had been found, and began the wind-up process.

TPR began enforcement action against Green and Chappell in November of the same year, seeking redress for the 20,000 pension scheme members affected by the retailer's collapse, and accusing Chappell of "having his fingers in the till".

Green remained heavily involved throughout the fallout of the collapse of the business, and received heavy public criticism, with a petition of over 100,000 signatures presented to Arcadia in November 2016, demanding remuneration for the BHS pension scheme.

Green appeared in front of the Work and Pensions Committee in mid-2016, yet six months later, in December, he had failed to act on his promise to sort the retailer's pension scheme.

However, in February 2017, Green agreed to a £363 million cash settlement, bringing certainty for the 19,000 members affected.

The settlement provided funding for a new independent pension scheme, which the regulator estimated would see average workers receiving around 88 per cent of the value of their original benefits, higher than they would otherwise receive from the PPF.

However, Chappell, at this point the final owner of BHS, opposed legal action from the regulator, claiming that the BHS pension scheme deficit was not his fault.

Shortly after this, in August 2018, the regulator began proceedings against Chappell over section 72 failings. The subsequent investigation found Chappell guilty of failing to hand over information to TPR in relation to the collapsed retail chain's pension scheme, with a subsequent appeal by Chappell denied. As a result, he was handed a £124,000 fine.

As we entered the new decade, the regulator published its determination notice, outlining its decision and action against Chappell in relation to the enforcement action it had begun back in 2016.

It concluded that a series of actions had been materially detrimental to the pension schemes, including the acquisition of BHS, management decisions of the company, the appointment of inexperienced board members, the implementation of an inadequate business plan and the way money was extracted and distributed to Chappell.

Following the ruling, TPR executive director of frontline regulation, Nicola Parish, said: "This case illustrates how TPR is willing to pursue a case through the courts to seek redress for pension savers.

"It illustrates the situations our anti-avoidance powers were designed to meet and which allow us to protect the retirement incomes that savers deserve."

The determination marked the end of TPR's legal battle against Chappell, and with it, the ongoing BHS pensions drama. But the true impact of the retailer's collapse will likely be felt for a long time still, with the fallout prompting various new guidance and regulation, such as stronger sanctions and greater regulatory powers.

Written by by Sophie Smith

Levying fairness

Gregg McClymont explores the challenges of ensuring the pensions general levy is fair for all

Fairness is something that most right-minded people crave – but achieving it is not so easy.

Take the government consultation on the pensions general levy. The levy is the mechanism through which the Department for Work and Pensions (DWP) raises funding for The Pensions Regulator (TPR), the Money and Pensions Service (Maps) and The Pensions Ombudsman (TPO). The costs of these bodies are growing fast; so fast that a deficit has rapidly opened up between what is raised and what is spent.

The picture is complicated further by the current method of raising the revenue, which defines pension schemes' ability to pay in terms of the size of their memberships, not assets under management. Admittedly, this is easy to administer – doubtless an advantage uppermost in the DWP's mind, but it has increasingly perverse consequences in the light of auto-enrolment's creation of tens of millions of small pension pots. It means auto-enrolment schemes – master trusts – don't just pay a lot more, but that the proportion which they pay is only going to accelerate even further as the number of small pots continues to increase.

For example, just the 10 master trust pension schemes that form the PLSA's Master Trust Committee are liable for a quarter of the overall bill, despite only holding around 2 per cent of the occupational pension sector's assets.

The People's Pension, with nearly five million members and £9 billion of assets will be paying £2.9 million towards the general levy in 2020-21. That amounts to 7 per cent of the total levy raised, when our assets only amount to 0.5 per cent of the assets in occupational pensions. The biggest pension scheme in the country will pay just £390,000, on an asset based seven or eight times bigger than The People's Pension. We mean no criticism of USS – a fine scheme – but with assets of more than £60 billion, it dwarfs the £9 billion managed on behalf of members of The People's Pension. Can the government really justify an auto-enrolment master trust paying 700 per cent more than a blue-chip DB scheme?

These kinds of disparities have set the cat amongst the pension pigeons, especially given the size of the levy increases that have been floated by government in the consultation paper.

As a reminder, the four options contained within the consultation document are:

1) Holding increase of 10 per cent of 2019 to 2020 rates on 1 April 2020, further increases from April 2021 informed by a wider review of the levy.

2) Phased increase in the levy over the three years commencing 1 April 2020.

3) Phased increase in the levy over approximately 10 years commencing 1 April 2020.

4) Phased increase in levy over approximately 10 years commencing 1 April 2021.

The industry is increasingly asking questions about the cost of regulation and how the costs differ between different pensions sectors, most obviously between DB and DC. Clarity on what the levy pays for will be an important part of building a new consensus on the general levy.

For our part, we believe a well-designed levy should do four things:

- Provide a stable revenue stream for Maps, TPO and TPR.
- Place limits on cross subsidy, while recognising that cross subsidy is an inevitable feature of levies and is in some cases desirable.
- Ensure the costs of 'greater good' regulation do not fall disproportionately on any one group of levy payers and that schemes should generally fund the regulation of the benefits they offer.
- Be consistent with government policy for the pensions market. It should not focus on any one market sector or create perverse commercial incentives.

The government is currently considering responses to its consultation paper. There are no easy answers. And fairness is often in the eye of the beholder. But it's hard to see how the per member approach can continue to be justified in an auto -enrolment world where members with small pots pay far more than so schemes with much higher average pensions' entitlements. Appraising the principles above is, we think, a reasonable place to start.

Written by The People's Pension group director of policy and external affairs, Gregg McClymont

In association with

the people's pension

Facing cuts

Summary

- Calls for executives' pension contributions to better align with that of their workforce have grown in recent years, due to an increased focus from the FRC, IA and government, as a matter of 'fairness'.
- As long-term investors, pension funds have been encouraged to engage with the issue, either through their fund managers or directly.
- The past year has seen a number of companies change its executive pension remuneration by levelling down its contribution levels, with some also increasing the pension contribution rates for the majority of its staff, to better achieve alignment.

Laura Blows looks at the current focus on reducing executives' retirement remuneration to better align with the pension contributions offered to their workforce, and how pension funds as shareholders can get involved

'*Top bosses earn the average annual wage in just three days'* was the news greeting people on their first Monday of the year back at work.

Splashed upon the front pages of the national press were reports that FTSE 100 chief executives starting work on 2 January 2020 would have earned above the average wage of £29,559 just three working days later, by 5pm on 6 January.

This headline-grabbing statistic, depressing for most, is just one example of the fight against 'fat-cats', LCP partner Shaun Southern says.

This focus on the growing disparity in wealth between the country's richest and poorest can be traced back to the 2008 financial crisis, Aon partner Nic Stratford adds. First, attention was drawn to 'banker bonuses', before moving onto executive pay generally, and now it's the turn of bosses' pensions to be placed under scrutiny.

Increasing focus

According to LCP research in March 2019, nearly half of FTSE 100 companies paid chief executives pension contributions, usually as cash allowances, of 25 per cent or more of their basic salary. This compares to auto-enrolment contribution levels of 8 per cent, for example.

Arguably kickstarting the focus on executives' pension provision was BlackRock. The self-described world's largest fund manager began 2017 by demanding cuts to director pension entitlements, along with an end to high pay rises, in its letter from the company's head of investment stewardship in Europe, Amra Balic, to the bosses of over 300 companies.

The following year saw the Financial Reporting Council revise its *UK Corporate Governance Code* in July, explicitly stating that pension contribution rates for executive directors, or payments in lieu, should be aligned with those of their workforces.

In November 2018, the Investment Association (IA) sent its updated *Principle of Remuneration* to the chairs of FTSE 350 remuneration committees, setting out investor expectations on executive pay.

This was followed by the IA's Institutional Voting Information Service in February 2019, announcing it will 'red top' companies (indicating that shareholders should have serious concerns) that pay new executives pension contributions that are not in line with their staff.

Around this time politicians also got involved. In March 2019, the Business, Energy and Industrial Strategy (BEIS) Committee called for 'greater alignment' of the pension contributions of executive and employer pay, in its report, *Executive rewards: Paying for success.*

The Work and Pensions Select Committee (WPSC) also gathered evidence from a number of companies over the year, over inaction, or arguably insufficient action, to align executive pensions with that of their employees.

Executive pensions in 2019 therefore became a volatile issue during the spring AGM season and beyond.

For example, according to *Sky News*, July 2019 saw banknote printer De La Rue receive an 'amber top' alert from the IA – one below red top – on the firm's pay report after it revealed its chief executive, Martin Sutherland, had £132,000 paid into his pension pot, equating to 30 per cent of Sutherland's base salary. Food ingredients producer Tate & Lyle also received an amber top.

The year ended with Santander chief executive, Nathan Bostock, agreeing to have his pension allowance cut by £436,000 over the next two years, bringing it from a 35 per cent of salary cash lump sum in lieu of a pension, to 22 per cent this year and 9 per cent in 2021, completing all five of the largest high-street banks in 2019 agreeing to cut executive pensions.

The next two years will continue to place executive pension contributions high on shareholders' agendas. In September 2019, the IA told companies they must pay all executive directors, not just new ones, the same pension contributions as the majority of the workforce by the end of 2022 or risk being red topped.

"Companies with high executive pension payments who don't provide that plan *[to align them to the majority of the workforce]* risk facing further shareholder rebellions in their 2020 AGMs," IA director of stewardship and corporate governance, Andrew Ninian, warns.

Also, the 2020 AGM season will see the majority of listed companies bring new remuneration policies to a shareholder vote for the first time since 2017, therefore keeping executive pensions a top issue.

The year has already begun with *Sky News* reporting that the IA issued a 'red top' to WH Smith for its group chief executive, Carl Cowling, receiving a pension contribution of 12.5 per cent of his salary, due to this percentage not being in line with the company's average worker.

So, with AGM season this spring just around the corner, why should pension funds as investors take notice of executive pension pay?

Pension funds' role

Commenting at the time on the PLSA's January *AGM Review* report, its policy lead for investment and stewardship, Caroline Escott, said: "As long-term investors, pension funds are ideally placed to encourage companies to behave in a way that ensures sustainable business success."

Dalriada Trustees professional trustee, Judith Fish, highlights how the BEIS committee stated that the primary responsibility for ensuring change with executive pay rest with asset owners, such as pension funds, as they invest for the long term. "The behaviour of institutional investors is likely to be monitored to determine the extent that they get 'on board' with this," she warns.

"Providing directors with the same pension contributions as the rest of the workforce is fundamentally an issue of fairness," Ninian summarises.

Independent thinktank, the High Pay Centre, describes CEO pay as the "canary in the coalmine", indicating poor corporate governance and higher business risk.

"One of the most prominent trends that has gained traction is ESG. So far there has been much focus on E *[environment]*, but less on S *[social]* and G *[governance]*. Executive pensions are now about the G. Executive pay is one of the most prominent indications of the need to improve governance. Governance is now beginning to get the right level of focus, but this always should have had more attention, especially following the collapse of Carillon," Aries Insight director, Ian Neale, says.

LCP partner, Gordon Watchorn, recommends pension funds make use of their fiduciary managers to critique executive pay as part of their ESG remit.

The IA states that pension funds "can play an important role", with some conducting direct engagement with companies. Others will communicate their expectations of companies on key issues like executive pay through their fund managers, or participate in collaborative engagement with companies.

"Knowing this issue is of direct concern to the end owners of capital is helpful to incentivise change within companies," it adds.

In addition, Stratford recommends pension funds compare the rate of average pension contributions for the workforce with the plans for the executives' pension remuneration, "to see if what the company proposes seems reasonable to achieve alignment by 2022".

According to Escott, the PLSA is very keen to emphasise that individual accountability is vital. "If you as an investor have an issue with an executive's pension contributions, then there are a number of things you can do; you can vote against the board, or the remuneration report, or vote against the person responsible, such as the chair of the remuneration committee or even the chair of the board."

Engagement

Yet not all investors are necessarily keen on this subject. According to the High Pay Centre, in May 2019, investors "are not interested in tackling inequality and excessive executive pay". It stated that between 2014 and 2018, every single FTSE 100 company pay policy put to AGMs was approved by shareholders, and only 11 per cent of pay-related resolutions attracted significant dissent levels of over 20 per cent.

However, the PLSA's *AGM Review* report in January found that executive remuneration levels remained a key concern for pension schemes as shareholders over the past year.

So far, the response from executives has not been unanimous wild joy at this increased scrutiny of their pension arrangements either.

For instance, outsourcing firm G4S refused to answer questions from the WPSC and BEIS committee in May 2019 about its policy of paying 15 per cent pension contribution to new executive directors and 25 per cent to existing directors. However, G4S remuneration committee chair, John Daly, said the company had made "significant changes" to its remuneration policy over the past year, which were "well received by shareholders".

The 2019 BEIS report had criticised Lloyds Bank and HSBC for "seeking to flout the spirit" of the FRC's and IA's remuneration principles regarding pension contribution rates, by offering "substantial" alternative pensions advantages to their chief executives, to compensate for the alignment of pensions contributions.

This is a concern of Fish, who says that, while the trustee firm supports calls for executive pensions to be aligned with the majority of the workforce, it is worried that "if the company exec's pensions are reduced, they will just get the reward in other ways".

Potentially highlighting this was Standard Chartered's 2019 remuneration policy, which saw executives receive 20 per cent of 'total' salary, down from 40 per cent of salary, with new directors receiving 10 per cent of total salary. (Total salary includes all fixed elements of remuneration – going against the *UK Corporate Governance Code*, as the code says pension contributions should be expressed as a percentage of basic salary, LCP states). Other staff receive 10 per cent of salary as pension contributions.

Commenting at the time, LCP said

by decreasing the headline number, Standard Chartered seemingly responded to pressure to align pension contributions for executives with that of their workforce, but in practice, the amount received would stay broadly the same, giving the example of CEO, Bill Winters, receiving a pension allowance of £474,000 in 2019, compared to £460,000 in 2018.

Having been called on by the WPSC, Winters reportedly described picking on individual pension arrangements as “immature and unhelpful”.

But in November 2019, Winters agreed for his pension allowance to be cut from 20 per cent to 10 per cent, taking effect at the start of 2020 and bringing his pension in line with that of his workforce. The firm’s group chief financial officer also took a 50 per cent pension cut, from £294,000 to £147,000.

“A number of companies proactively reduced executive pension entitlement, to ‘head off’ investor dissent”

Impact

Whether the cuts are being made with good grace or not, significant change is being made. The PLSA’s January report noted that a number of companies proactively reduced executive pension entitlement, to ‘head off’ investor dissent.

The IA states that in the past year, 36 companies committed to any new director being given a pension contribution in line with the majority of the workforce. Twelve companies, including HSBC, BHP and British American Tobacco, have reduced pension rates for incumbent directors immediately, and 10 companies, including RBS and Aviva, have already appointed new directors with pension contributions in line with the majority of their staff’s.

Last month saw incoming Sainsbury’s chief executive, Simon Roberts, set to receive 7.5 per cent of his base salary as an annual pension allowance; a marked contrast to the outgoing executive’s 30 per cent contribution when took the role in 2014.

Meeting in the middle?

But it is not just the levelling down of executive pensions that is occurring to achieve workforce pension contribution alignment.

For instance, following on from BEIS’ concerns regarding Lloyds’ executive pension arrangements, its executives were questioned in front of the WPSC in June 2019.

That year, Lloyds’ chief executive, António Horta-Osório’s pension was cut from 46 per cent to 33 per cent of salary.

In November, Lloyds confirmed that Horta-Osório will take a further pension cut, from 33 per cent, to 15 per cent of base salary for 2020. Staff pension contributions are also expected to rise from a maximum of 13 per cent to 15 per cent of base salary this year.

Meanwhile, Barclays was reported in December 2019 to be considering increasing its employee pension contributions from 10 per cent to 12.5 per cent. In 2019, Barclays chief executive received a £396,000 cash lump sum in place of pension provision, equivalent to 34 per cent of salary. This year he will take a £200,000 cut, bringing his pension payment to around 17 per cent of salary.

Is this the emergence of a broader trend, that of executives’ increasing interest with their staff’s pension contributions, as well as their own?

Possibly so, according to the IA. “We are particularly pleased that some companies have used this shareholder scrutiny as an opportunity to assess whether their broader workforce contribution rates are appropriate,” Ninian says.

While the focus is on executive pension arrangements, aligning them to the majority of employees, Southern wonders about the ‘middle tier’, such as managers and directors, which sit between the CEOs and the main workforce. “If bosses contributions have to significantly reduce, will they reduce the other tiers accordingly, effectively creating one uniform pension contribution rate?”, he asks.

Whatever may happen, one thing’s for sure; the year is likely to carry on as it began, with executive pay continuing to hit the headlines.

Written by Laura Blows

A question of balance

Marcus Mollan reveals how Aviva manages the tricky balance of leading the way with sustainable investing, while ensuring secure, long-term returns for its annuity business

"It is no longer considered necessary to sacrifice returns to invest sustainably," says Aviva's annuity asset origination director, Marcus Mollan. "In fact, taking account of environmental, social and governance (ESG) factors, and adopting a sustainable investment approach, is critical; it is another level of due diligence that allows you to manage some of the most significant long-term investment risks and to enhance the risk-adjusted return you will achieve over the long term."

Aviva has been involved in sustainable investing for many years now; from a time when far fewer people were convinced that investing in this manner didn't have to mean giving up returns.

It was ahead of the curve in its concerns about carbon emissions. For instance, in 2006, the company was the first carbon-neutral international insurer, and it has now reduced its CO2 emissions by 60 per cent, relative to its 2010 baseline. Also, in 2015, Aviva made a public commitment to invest £500 million annually in lower carbon infrastructure. It has already smashed that target, with nearly £4 billion invested in low-carbon infrastructure, particularly in the renewable energy sector, as well as over £1 billion in green bonds to support the transition to a low carbon economy.

More widely, when it comes to aligning the needs of its annuity business with sustainable investing, Aviva mainly turns to social infrastructure, often in the form of private infrastructure loans, due to their relatively low risk and predictable cashflows compared to equities.

"We take our responsibility to make regular pension payments very seriously. Our customers rely on us and so we need reliable cashflows from our investments for decades. The investments we make need to stand the test of time and be fit for purpose in a changing world," Mollan says. "That naturally leads us to look at areas like social infrastructure, which are fundamental to society and have a long-term timeframe."

While Aviva's percentage allocation to private assets has increased lately, as it invests more in infrastructure, real-estate debt and equity-release mortgages, Mollan predicts that the rate of increase may slow as the company needs to maintain a balance of publicly-traded assets to ensure it retains sufficient liquidity and flexibility in its portfolio.

But while the ratio between public and private assets may remain largely stable, the amount of private assets held within Aviva's portfolio will likely increase as their annuity business continues to grow.

As a key part of the strategy for this expansion, Aviva understands the importance of building a diversified portfolio to balance its exposure to different risks. Therefore, Mollan says, as well as ensuring the company diversifies by investment type, it is also increasingly diversifying by location.

Aviva is currently expanding its asset allocation to regions outside the UK, particularly into Europe and North America, with recent private loan and infrastructure investments in France, Germany, Canada and the USA. However, Mollan adds, "with overseas investments, we have to use derivatives to convert the cashflows from these assets back to sterling, and we need to lock in the conversion rates for many years in advance. These derivatives can introduce new risks and potential costs. Sometimes the risks or costs are not worth bearing. We have to ensure we're getting an acceptable rate, after allowing for all the implicit and explicit costs of going overseas."

As well as going abroad, Aviva is also turning to whole new sectors for investment opportunities. Within infrastructure, there are new options coming to market all the time, Mollan explains.

Many of the current areas of interest arise from the UK's commitment to become a net zero carbon economy by 2050. "This will require some dramatic changes to how we generate energy, how we deliver it to businesses and families, and how we power our transport systems. There will be no single energy source that will fill the gap left by de-carbonisation; achievement of the country's targets will require investment and innovation on multiple fronts. We'll likely see a very significant increase in offshore wind farms, the use of bio-energy, carbon capture and storage, the use of hydrogen gas, and potentially more reliance on nuclear power. Heating, insulation and energy efficiency technologies for both new and existing housing stock will also become an area of focus."

When considering investing in new areas, Mollan highlights the importance of "doing your homework". Aviva takes a rigorous approach to this, initially considering how much the new opportunity diversifies its portfolio and seeking an understanding of the source and sustainability of the underlying cashflows. If it sees an attractive-looking opportunity, it will conduct a deeper analysis of the dynamics of that particular market, its long-term prospects and how the market is structured. Particularly in the area of infrastructure, this will usually include an analysis of the regulatory and political dynamics of the market and how these might evolve over the long term. The underlying revenue streams will then undergo stress-testing against different scenarios, to check the robustness of the expected cashflows.

As a lot of new projects are riskier in early years, Aviva's annuity business typically lets other parties take the bulk of the investment risk, and allows them the biggest return opportunity, in these early stages. The reason for this is that privately-traded assets can be hard to exit if things go wrong, he explains. "Taking a risky equity-like position is not consistent with our need to achieve secure, reliable cashflows to back our annuity liabilities. We will usually seek at least an investment-grade quality loan exposure, and this can require a more mature market. So, we will often sit out the very early stages of development of a market. But once we are satisfied that we can achieve the right sort of risk exposure, and the right return opportunity, we can invest in very large size," Mollan says.

For all of this work, Aviva's annuity business makes extensive use of the private assets teams in Aviva Investors, who lead the on-the-ground sourcing of new asset opportunities. "Asset origination for our annuities business is very much a partnership between the life insurance company and the fund management teams at Aviva Investors," Mollan states.

Aviva also looks to its in-house investment company for advice on ESG policy, and discusses with Aviva Investors' Global Responsible Investment team how ESG issues apply both to sectors and to particular investments. Mollan gives the example of the debate on fossil fuels, considering whether it is best to be divesting or engaging with firms in this sector.

"We need to strike the right balance," he says. "Simply divesting from a company can sometimes be appropriate, but in many cases more of an engagement-driven approach is better to try and change behaviour and can be more effective."

In 2018, Aviva Investors engaged with 91 countries about climate change. Alongside the efforts of other asset owners, Aviva's engagement with oil companies in particular helped to create a significant change in those companies' stance, with the oil majors now broadly welcoming the Paris Agreement, which united the world's nations in an effort to combat climate change.

Within the coal sector, Aviva believes that any plans for new investment in coal-generating capacity are inconsistent with the Paris Agreement. Aviva has divested from 18 companies within this space and is also engaged with several more companies to ensure that they have the appropriate plans to achieve the necessary transition.

Engagement such as this is traditionally considered the preserve of equity holders, due to their ability to vote in shareholder meetings. However, Mollan notes that, while bond holders and loan lenders do not have that direct voting option, they do still have a position of significant influence, which is increasingly being recognised.

New equity issuance is relatively uncommon, he explains, but new borrowing opportunities, or companies looking to get better rates on their borrowing, is common. "Whether we are happy to keep supporting them for loans gives us a point of engagement and power as they may be looking to us for more financing in the future."

This, Mollan states, is a change in dynamic.

"Large debt holders like us will be more bullish and sophisticated in how we use that power to get the right changes taking place from a governance perspective. This is something that we and other large debt holders will be looking at more seriously over time."

There is still a lot of room for investors to work more closely together, he adds. In November 2019, Aviva was one of the insurers and pension funds signed up to the Net Zero Asset Owners Alliance, pledging to have a zero-emission investment portfolio by 2050, and Mollan believes that with increasing alignment between major asset owners, a significant impact can be achieved. "As a single investor, Aviva is already making an impact. However, as we see the industry align behind an ESG agenda I believe this could drive even more significant and positive change."

Aviva investment director, Marcus Mollan

The views expressed in this article are personal ones. You shouldn't take this information as advice.

Summary

- Low interest rates and negative cashflows continue to make long-income products popular propositions.
- Their popularity has meant that some markets such as real estate can be constrained and a global reach is needed.
- The illiquidity can pose a problem for any potential buyout so investors need to do careful analysis and understand their options.

The long view

Lynn Strongin Dodds considers how low interest rates and negative cashflows make long-income products appealing to pension funds

Although the UK has entered into a new decade, its defined benefit (DB) pension fund community is still grappling with the same old issues of depressed interest rates, spluttering growth and geopolitical tensions. Their cashflow-negative positions are only set to worsen over the next 10 years, which is why long-income products, such as real assets and credit, are expected to remain key features in their asset allocation.

A study last year by Mercer highlighted the direction of travel. It found that 72 per cent of UK DB schemes were in the cashflow red, up from 66 per cent in 2018. In other words, three out of four DB schemes were distributing benefits annually that were higher than the amount of new contributions received. This is mainly due to the maturing of these schemes, which are now being closed both to new members and accruals, according to the report.

It also showed that for 91 per cent of respondents, divesting assets remained the most common method to meet cashflow requirements, although 2019 saw an uptick in alternative ways to meet liabilities. For example, nearly 50 per cent turned to fund managers to dispense income from investments, compared to 43 per cent who employed this tactic the previous year.

In the past, index-linked gilts would have been the preferred hunting ground but not only are they too expensive, but the returns are meagre and the yields have been significantly compressed over the past seven years. One of the problems, according to Columbia Threadneedle global head of asset allocation, Toby Nangle, is that there is no longer enough duration in the gilt market to satisfy pension funds' requirements. Aggregate UK DB plan liabilities, valued on a section 179 basis, top £1.8 trillion and have an effective duration of 19 years, he says.

"The entire conventional gilt and sterling non-gilt market put together offer less than three-quarters of the duration needed to match these liabilities, and that's before we exclude the £445 billion of duration-bearing assets that the Bank of England has taken out of the system in its programme of quantitative easing," Nangle adds.

The confluence of factors has meant that UK pension funds need "cashflow to pay the benefits, especially in a low interest rate environment", says J.P. Morgan Asset Management head of pensions solutions and advisory, EMEA, Sorca Kelly-Scholte. "This is why we are seeing an increased demand in real assets such as real estate. For example, high-quality, core properties with 10-year leases have high-quality cashflows that have been stabilised for decades."

The attraction for long-income properties was reflected in a recent survey by Alpha Real Capital. It found 84 per cent of professional investors canvassed believe pension funds will increase their investment, with 20 per cent expecting a dramatic hike to combat low bond yields and an uncertain macroeconomic backdrop. Moreover, eight in 10 investors gave income security and inflation protection top marks while 68 per cent cited its attractive risk-adjusted returns.

Feeling the squeeze

However, the growing popularity of these products has also created concerns over capacity, which is why selectivity has become increasingly important. "Where there is a lot of demand in the market, returns can be competed away," says M&G Investment director of institutional distribution, Annabel Gillard. "We do not look at sectors as such but the specifics of a deal from a credit quality and bottom-up focus. We have tended to go for less frequent and lumpier deals such as the American Anglo deal (to redevelop its London headquarters), which will complete this year, and the hotel development with Whitbread."

A global reach has also become significant in the long income space. "Instead of moving down the size scale and increasing allocations, we think a more robust response is to diversify globally," says Kelly Scholte. "We like high-quality, core assets that have a greater degree of resilience, such as downtown office buildings that have stable tenets and low vacancy rates. We are also looking at OECD-grade infrastructure, as well as global transportation, such as shipping and airplanes."

Renewables are also of particular interest on the infrastructure front. "Increasingly we are looking abroad because the UK PFI (private finance initiative) model has been exported to other countries, as has the stable income-generating business model for renewables," says Newton Investment Management fund manager, Paul Flood. "We like operational wind and solar farms, for example, because generally speaking they have government subsidies, power purchasing agreements with a utility and stable revenue streams. They are well suited for pension funds who need long, steady income and there is a wide global opportunity set."

As for credit, given the relatively minnow size of the sterling market, Insight Investment head of investment specialists, April LaRusse, believes that pension funds have no choice but to cast their nets wider to look at the more opportune euro and dollar markets. "For example, the long end of the US market has considerably more bonds available than the UK, as well as better liquidity and spreads, so if you need to sell a bond you can," she adds. "There is an added layer of complexity with the currency hedging but it is not a problem and easily doable."

Some fund managers are also exploring the world of private debt, particularly as the banks continue to withdraw due to the more stringent regulatory capital requirements. The income and returns may be appealing but these investments can also be more resource intensive. "When dealing with private asset markets there is a huge opportunity but obviously these deals are harder to access as you need the scale and relationships with companies," says Invesco head of EMEA client solutions, Mark Humphreys. "Although you need to be selective, it is worth the work because senior-secured loans, for example, offer much higher yields than investment-grade credit. The size of the private debt market has also grown dramatically to around $800 billion in 2019, four times what it was in 2008."

The illiquidity barrier to buyout?

Despite the breadth and depth, pension funds are advised to understand the role these illiquid assets play, especially in regard to the impact they could have on buyout outcomes. As AXA Investment Managers head of client group UK, John Stainsby, puts it, maturing pension schemes should have some form of balancing act between designing a portfolio to generate long-term cashflows, while remaining attractive to potential buyout partners. "In truth, it makes sense for schemes to keep their options open," he says.

Stainsby notes that there are typically a number of interim steps that most schemes can consider today on the journey to achieving an attractive buyout deal. "Coupled with the fact that the amount of capital available for buyout across the market is relatively limited, we would urge schemes not to ultimately just bet on a buyout in the endgame and design a portfolio with this goal in mind," he adds. "They should also ensure that they can consider other options such as self-sufficiency, at least for the next five to 10 years."

Mercer principal, Matt Scott, also believes that illiquid assets are not an insurmountable obstacle to buyout in and of themselves. For example, he notes that a trustee may agree with an insurer to transact 95 per cent of the premium on one date, and a 5 per cent portion corresponding to illiquid assets within say the next year. In addition, a long-income asset may be something that an insurer would be happy to have passed over, as it is the type of investment some insurers already have.

As with any investment decision though, careful analysis should be part of the equation. "For schemes with illiquid assets who are considering buyout, they should consider their plans for their illiquid assets in advance of going to market, and engage early with insurers to understand options for accommodating the illiquid assets in a transaction," he says. "The advice on illiquid assets has always been to make sure you are in it for the long term and the current focus on endgame has brought this into sharp relief."

Written by Lynn Strongin-Dodds, a freelance journalist

Stargazing, Star Trek and steam engines

Society of Pension Professionals company secretary, John Mortimer, speaks to Duncan Ferris about Thomas Mann, well-hidden talent and watching the night skies

What's your employment history (including jobs outside of pensions)?
I have been with the Society of Pension Professionals and its predecessor in a number of roles since 1978. Before that I was with a firm that is now part of Deloitte. I have also acted as secretary to the Workplace Pensions Joint Industry Forum and predecessors on several occasions.

What's your favourite memory of working in the pensions sector?
I would definitely say it's the people.

If you did not work in pensions, what sector do you think you would be in instead?
I'm not sure what sector it would be, but something involving speaking up for people who cannot properly speak up for themselves.

What was your dream job as a child?
At different points throughout my childhood becoming an astronomer or engine driver were probably my two favourites.

What do you like to do in your spare time?
In no case as much as I would like – community activities, gardening, keeping up with my German and (soon) French languages, observing the night sky and occasional marathons.

Do you have any hidden skills or talents?
Still looking…

If you had to choose one favourite book, which would you recommend people read?
The Magic Mountain by Thomas Mann.

And what film/boxset should people see?
Every Star Trek TV episode and film, plus *All Quiet on the Western Front.*

Is there any particular music/band that you enjoy?
My top three are probably Joni Mitchell, Neil Young, and Steely Dan.

Editorial credit: spatuletail / Shutterstock.com

Is there a particular sport/team that you follow?
Leicester City.

Editorial credit: charnsitr / Shutterstock.com

Who would be your dream dinner party guests?
Duke Ellington, Donald Fagen and Thomas Mann.

Is there an inspirational quote/saying you particularly like?
"Do not judge and you will not be judged" speaks to me a lot.

Written by Duncan Ferris

The changing mirror image of UK pensions

Summary
- The Pensions Regulator is set to introduce new guidelines for trustees on achieving diversity and inclusivity.
- The Financial Conduct Authority is also placing a greater emphasis on firm culture, with diversity and inclusion a major part.
- Trade bodies are being proactive in this area, with the PLSA aiming to coordinate work across the industry.
- Consultants are incorporating measures and assessments of diversity and inclusivity in their manager selection processes.

Nick Reeve examines the efforts taken by the pensions industry to represent its increasingly diverse range of savers

With auto-enrolment now fully up and running across the UK, the population of pension savers is continuing to grow – and it is more diverse than ever.

In addition, the increasing focus on social and governance issues in investment strategies has put more emphasis on culture, diversity, and inclusivity across the corporate landscape.

Given these major societal shifts, how has the pensions sector reacted? And how can it ensure it best reflects and represents its membership?

UK regulators have been placing a fresh emphasis on corporate culture within financial services in recent years to improve outcomes for consumers, with diversity and inclusivity playing a major role. The Financial Conduct Authority (FCA) has put culture at the heart of its asset management reforms, while The Pensions Regulator (TPR) is expected to publish a set of new guidelines for trustees imminently, including a number of recommendations and expectations related to diversity and equal opportunities.

Cicero executive chairman of consultancy group, Iain Anderson, says the FCA's focus on culture has been a major driver of behaviours. He points out that Christopher Woolard, recently appointed acting chief executive of the FCA, has been a vocal proponent of diversity and inclusion in the UK's financial services sector.

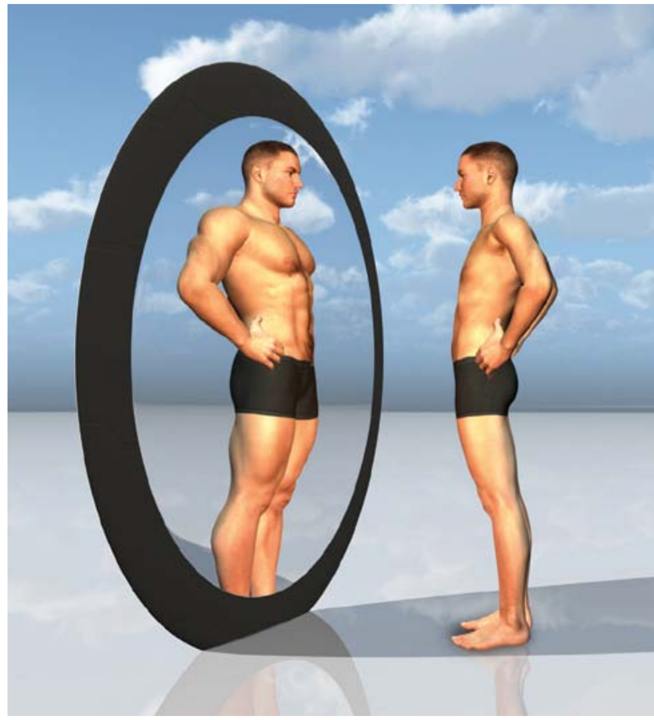
Customer demand is another major driver that providers cannot afford to ignore, Anderson adds. "Part of this is allied to the wider ESG agenda," he says. "On the 'social' side, pension savers are asking questions of their pension provider, such as where is the money invested? How do you run your business? Is it diverse? They're asking questions that their parents never asked."

The PLSA

The Pensions and Lifetime Savings Association (PLSA) intends to lead by example, according to the association's policy lead for investment and stewardship, Caroline Escott.

It published a 44-page report – *Breaking The Mirror Image* – in 2017, featuring contributions from industry experts encouraging more support for female representation. The trade body now highlights on its website that its senior management team is balanced 50-50 in terms of men and women, while 58.8 per cent of its policy board, 37.5 per cent of its main board and half of its independent directors are women.

At its conferences it now aims to achieve a 50-50 split between male and female speakers. Last year's PLSA Trustee Conference saw 20 women and 17 men address delegates during the day. (The balance is not easy to keep, however; the trade body's Investment Conference, taking place in Edinburgh in March this year, at the time of writing, has 31 men and 18 women due to speak, according to the PLSA website.)



"Generally, the pensions industry is lagging on a number of key diversity indicators," Escott says. "That's something we're particularly interested in changing. Auto-enrolment has brought a huge number of new savers into the sector, and many of those will be younger first-time savers. I think it's really important that trustee boards are as equipped as possible to be able to respond in an appropriate fashion to the particular needs of this new cohort of savers."

Investment diversity

Investment consultancy Willis Towers Watson has made diversity and inclusion an important factor in its manager selection process. Its head of manager research, Chris Redmond, says adopting measures of how diverse an asset manager's workforce is has led to some investors making different selections during tenders.

"We have got to the point where we've changed our mind based upon an assessment of culture, and diversity and inclusion is wrapped up in that," Redmond says. "We think there is significant information in this about the quality of an investment process."

The Investment Association – the trade body for the UK's £7 trillion asset management sector – has published several reports highlighting ways in which managers can address the gender pay gap and improve the opportunities for underrepresented groups. Among these is *Investment 20/20*, a recruitment project aimed at broadening the intake of the investment sector and breaking down the stereotypical view of the industry as accessible only to those from top-level universities.

However, progress has not been equal across the financial services sector. The FCA in 2018 highlighted a 220 per cent increase in reports of 'non-financial misconduct', including bullying, homophobia and sexual harassment. It has targeted firms' diversity and inclusivity as a key indicator of culture as it monitors the way firms operate outside of traditional financial metrics.

EY UK life and pensions leader, and the consultancy's lead on diversity and inclusion, James Tufts, says improving diversity and inclusion will not be straightforward: "Cultural change as we all know takes time, as well as strong

leadership to succeed. It can be uncomfortable for some at times.

"When you're going through cultural change, I think it's quite easy to have some good progress early on and see some good results. But then you hit barriers that can be quite hard to overcome, and they require more effort, more resource, more leadership and more time."

EY runs training programmes for senior managers, aimed at providing them with a 'toolkit' to help support underrepresented groups and break down communication barriers. So far, they have covered topics related to gender, ethnicity, LGBT+, and disability.

"It's really about giving a bit more of an understanding of the lived experience of people in those groups," Tufts explains. "It also provides a toolkit to help our leaders be more comfortable about talking to someone that's not 'the same' as them.

"Most people in life want to do the right thing, and want to encourage diversity, and in many cases the challenges that present time and again happen because people don't have the right language. This is about giving people the confidence to have those conversations well from the start."

Trustee boards

While larger, well-resourced service providers can dedicate time and effort to addressing diversity-related issues, smaller schemes may struggle.

However, diverse boards can lead to better results and less groupthink, so it is vital for the sector to address its lack of diversity. For instance, a PLSA survey in 2017 found that 83 per cent of pension fund boards were male, while a poll by Aon in 2016 found that just 2.5 per cent of trustees were aged under 30.

Redington chief operating officer, Lee Georgs, believes trustees can look to the wider financial services sector for examples of how to address a lack of diversity.

"I don't think it's dissimilar to the challenge that we as an industry face, where if you're always fishing from the same pond, you're always going to find the same kind of candidates," she says. "I don't think that's any different for a pension fund trustee board.

"Of course, you need people on that board who have experience and understand the challenges that a pension trustee board will face, but that doesn't mean, when you have an opening on that board, that you ought not to look in a slightly different place for people to contribute to those decisions."

At March's investment conference, the PLSA will launch a recruitment guide for trustee boards, in cooperation with law firm Travers Smith. Escott says it will provide "step-by-step guidance and some handy tips and techniques" for all kinds of trustee boards.

The guide will help "achieve the kind of diversity of thought I think the industry badly needs in order to reflect the changing needs of an increasingly diverse pool of savers", she adds.

Just appointing new faces will not be enough without ensuring those people can contribute properly, Georgs warns.

"If your decision-making structure ultimately rests with the same individuals in that room, if you don't have equal opportunity across the different board members, then it probably doesn't matter whether you're diverse or not," she says.

The PLSA plans to work closely with other trade bodies and industry organisations to coordinate strategies and "amplify" their efforts, Escott says. The association already works closely with NextGen Now, a working group set up to encourage a more diverse intake of new recruits to financial services. Escott is a member of its committee, alongside Smart Pension's Michael Watkins and LCP's Laura Myers, both of whom also sit on PLSA committees.

It has also forged close links with the Diversity Project, a multi-national group working to promote all forms of diversity, inclusion and equal opportunities, and has signed the Women in Finance charter. The Investment Association also supports both projects.

Achieving positive change may take many years, but it is clear the UK pensions sector is on the right path.

For Georgs, the industry's next challenge is making sure that achieving diversity does not become a box-ticking exercise.

"The real challenges now are in how you ensure that, once you have someone from an underrepresented group at the table, how do you make sure that they have a voice?" she says. "You have to make sure that you have fostered the kind of environment, culture and values that will allow that person to feel like they can contribute, and they can bring their whole self to the table.

"We were all fishing from the same pond of talent for so long that I think it was easy to say, 'the talent's not out there'. Now that we've broadened our definition of what a good candidate looks like, and where we can find them, that becomes a bit less of an issue. But we still have a lot of work to do to make sure that everyone at the table feels like they have an equal opportunity to speak, to be heard, and to be represented."

According to Tufts, there fundamentally has to be cultural change led by leadership and informed by data and academic thought.

"Firms need to create an environment where everyone can have a positive experience, feel they belong and are supported, and that work is a safe environment where they don't have to hide aspects of themselves," he concludes.

Written by Nick Reeve, a freelance journalist

Mapping out financial wellbeing

Duncan Ferris speaks to Money and Pensions Service (Maps) head of pension policy and strategy, Carolyn Jones, about the organisation's new 10-year strategy

Money & Pensions Service

What will Maps be doing to advance its new strategy in 2020?
This year our priority will be to connect with companies, charities and other organisations that share our vision. We are forming challenge groups to create recommendations on how we can meet the goals in the strategy, to collectively improve the UK's financial wellbeing. These recommendations will form the basis of clear delivery plans for each of the nations in the UK to support the five agendas for change we have articulated in the UK strategy.

Maps will also develop its own corporate strategy that will set out how we will activate the strategy over the next three years.

In the short term, how can Maps help the 48 per cent of those approaching retirement age who don't feel they can plan for retirement?
Maps is continuing to deliver essential pensions guidance to our customers through face-to-face, phone and digital guidance. This is happening through Pension Wise, a free service run by Maps that helps people understand their options for their pension pot. Our recent service evaluation shows that our appointment customers are more informed, knowledgeable and take more positive steps towards accessing their pension pots than a similar group of people who haven't used the service. We also support customers across all stages of their pensions journey through The Pensions Advisory Service helpline.

Work is also already underway on a range of pilots exploring how people can be encouraged to take up pensions guidance. All of these trials will teach us how they can be scaled up to help as many people as possible. We're currently running behavioural trials with pension providers, testing different ways to nudge more people to take guidance from Pension Wise before accessing their pension savings. The results of the trials will help inform how we can use nudges to increase take up of guidance.

In terms of your long-term plans, how does Maps aim to ensure five million more people are saving for later life by 2030?
Two challenge groups will be formed representing consumer groups, industry and subject matter experts. These groups are tasked with recommending how we can support people planning for retirement, accessing their savings and looking at the needs of people in later life. The recommendations will form the basis of our delivery plans, detailing how we will achieve our goals over the next 10 years.

How can the UK hope to change attitudes towards long-term savings and ensure more people have the

knowledge to plan for retirement?
Getting people to be more active about long-term savings is challenging because we know that people live for today – they find it hard to make trade-offs between spending now and planning for later life.

We know through our evaluation of Pension Wise guidance that once people engage it makes a difference to their confidence and how they feel about the choices they ultimately make. The question for us now is how we achieve change across the broader population. This could include developing guidance packages, across all delivery channels, to work alongside tools like the pensions dashboards, focusing on life events such as parental leave and divorce.

It could also involve working with industry, regulators and government to help develop products and services with customers at the heart of their design. Working with partners on campaigns to increase confidence, engagement and trust could also normalise conversations about later-life issues. The challenge groups will help inform on how best to do this.

How do you think improvements to the financial education of children and adults will impact retirement saving?
Evidence shows that people who have learned vital money skills early on tend to fare better with managing their money as adults. It's about creating lifelong habits like saving and budgeting, which are also important for retirement planning. We also know that encouraging parents to talk to their children about money can improve parents' own financial wellbeing, so adult learning is also important.

How could the pensions dashboard help with achieving Maps' strategic goals?
A key part of improving financial wellbeing is knowing what pensions you have and how much is saved in them. Pensions dashboards will ensure people throughout the UK have easy online access to key information about what pensions they have, who manages them and what they are worth in one place. They have the potential to revolutionise how people engage with their pensions throughout their lives by encouraging them to feel proper ownership of their long-term savings.

We are also interested in working with others to explore how other new technologies can make pensions more accessible for consumers as we activate the strategy.

What can the pensions industry do to encourage financial wellbeing?
We want the sector to get involved in activating the strategy to improve financial wellbeing. That could involve working with us to normalise the conversation about pension savings, so that people take ownership of their pensions. Work could also be done to encourage consumers to have more open conversations about later life in general, such as planning for illness and bereavement. An important element of this is making the language used around later life more consistent and simpler, so that providers are talking to consumers in a way that's understandable and relatable.

Written by Duncan Ferris

Summary
• Although workplace pensions may be seen as the best option for saving for retirement, there are alternatives that could suit some workers.
• Individual Savings Accounts (Isa), Lifetime Isas, Venture Capital Trusts and Enterprise Investment Schemes are valid saving options.
• However, most agree that these kinds of vehicles should be used in addition to a workplace pension, rather than instead of them.

A little something extra

Jack Gray investigates which type of saver would be best suited to which saving vehicles, and whether these products should compete with, or complement, a pension

When saving for retirement, it is hard to argue that a pension is not the best way to go. It can be the safest and most cost-effective way to do so, with tax relief on the money you pay in and the first 25 per cent of withdrawals being tax free. However, they do not provide much flexibility, and some may prefer to have the option to withdraw funds when unexpected or large costs come up.

Tried and trusted

Auto-enrolment has helped get more than 10 million additional people saving for their retirement, with many seeing it as the best way to fund a comfortable life in old age. It provides tax relief as the contributions from a worker's pay are not taxed, through either a relief at source or net pay arrangement. Savings are invested and grow throughout a career, with the decision making being made by experts, which, in theory, should result in better outcomes than if a saver with little financial knowledge was making the investment decisions.

Furthermore, employer top-ups in workplace schemes add 'free' money into people's retirement savings and the first 25 per cent withdrawn is done so tax-free.

Hargreaves Lansdown personal finance analyst, Sarah Coles, explains the advantages of pension saving, but concedes that additional vehicles can be useful: "If you have a defined contribution pension, you have more flexibility over taking lump sums, but it's incredibly useful to have a pot of tax-free savings too, so you don't face tax implications when withdrawing larger lump sums.

"The trump card for pensions is that if you're saving into a workplace pension, under the auto-enrolment rules, you'll get contributions from your employer. In many cases, when you pay in extra to these schemes your employer will match any extra you pay in too."

AJ Bell senior analyst, Tom Selby, adds: "Automatic enrolment means workplace pensions now come with a matched contribution of at least 3 per cent – effectively free money from your employer.

"While pensions remain the retirement savings vehicle of choice for most people, there are alternative vehicles it's worth considering."

One of the perceived shortcomings with pensions is the lack of flexibility when it comes to accessing the savings. Pension pots are not accessible until the saver is at least 55, which means that any unexpected or emergency costs that arise before then must be paid for through other means.

However, this could also be seen as a positive characteristic of pension schemes, as those who may be tempted to withdraw money when they do not really need it, such as for a holiday or other luxuries, will not be able to without incurring substantial tax bills.

Additional not replacement

It seems as if most experts believe that, although a pension is the best way to save for retirement, it may be savvy for savers to consider an additional savings vehicle to fund them in later life.

"The most obvious and popular is the Individual Savings Accounts (Isa)", says Selby. "Isas enjoy the same investment tax benefits – namely tax-free growth – as pensions, but you can also access your money without paying tax at any point in time. This flexibility is appealing to many investors who don't want to lock their money up until age 55, as you do with a pension."

Coles explains that, although someone may have a "generous and reliable income" if they have a defined benefit pension scheme, "it's not going to be so useful when the boiler breaks down or the car gives up the ghost."

Research from Hargreaves Lansdown finds that 23 per cent of savers are planning to use Isas to help provide income for their retirement.

Coles continues: "The major advantage of an Isa is that not only is all growth tax free, but the income is tax free too. It's also much more flexible, so there's no age limit on when you can withdraw the cash. You're limited to contributions of £20,000 a year, but this still leaves enormous potential for retirement saving alongside a pension."

Despite the potential benefits of an Isa, Selby believes that a pension is still the most attractive retirement savings option.

He explains: "In return for locking away your money pensions offer generous tax benefits. You get tax relief on the money you pay in, while Isa contributions are made out of taxed income, and once you reach age 55 you can get 25 per cent tax-free through a pension, with the remaining 75 per cent taxed in the same way as income.

"This means that, end-to-end and provided you manage your withdrawals in retirement sensibly, a pension should give you a bigger bang for your buck than an Isa. You can also save twice as much each year in a pension (£40,000 in a pension vs £20,000 in an Isa)."

Self-employed

Saving into a pension may be the best option for most workers, but the self-employed could be better suited to using alternative saving vehicles. Isas and investment schemes can present a more flexible options that would better suit their income and lifestyle.

Now Pensions director of policy, Adrian Boulding, says that some self-employed workers may be better off saving into an alternative vehicle.

He adds: "Although it is really important to save for later life, pensions may not be the best way for some self-employed people to do this and other savings vehicles could be better suited. Some self-employed people's incomes are not very stable and so they can need more flexibility with their savings, which other saving options can provide.

"For example, if they have a big outlay with their job, such as hiring employees or needing equipment, they may need to access their savings to fund expenses. Self-employed workers' income can be irregular, which does not always suit pension saving.

"However, more traditional pensions are suited for the self-employed who do have a regular income such as fixed-term contractors who might choose to pay into a pension on an annual basis."

Age can also be a factor in determining who may be best suited to alternative savings vehicles. Columbia Threadneedle Investments head of pensions and investment education, Chris Wagstaff, says that the flexibility that the alternatives facilitates can be "good for the Sandwich Generation".

He continues: "The Sandwich Generation is people that are sandwiched between caring for elderly parents or relatives and providing financial assistance to their children.

"Alternative saving options can help this generation meet those needs as they are more flexible."

Riskier alternatives

Another option for savers is a Lifetime Isa (Lisa). This, as Coles describes, "combines the advantages of a tax-free income with the government top up". The government will pay a 25 per cent bonus on top of whatever savers put in each year. However, it does offer less flexibility than a standard Isa. Individuals must be over 18 but under 40 to open a Lisa and there are maximum annual contributions of £4,000. Additionally, if the money is withdrawn when the saver is either not buying their first home, not aged 60 or over, nor are terminally ill with less than 12 months to live, the saver will pay a 25 per cent charge.

Coles, however, adds that this can still be more flexible than a pension. She says: "While being less flexible than an Isa, a Lisa is more flexible than a pension. If you don't want to use your money for a property purchase, and you don't want to wait to access it at 60, you can get hold of money in your Lisa. You'll have to pay a penalty of 25 per cent, but that's far less than the penalty for accessing your pension early."

Selby states: "Lisas are worth considering if you're looking to buy a home, have used up all your annual or pensions lifetime allowance, or are a basic-rate taxpayer. However, for most people an auto-enrolment pension with a matched contribution is hard to beat."

There are other saving options, including investment schemes such as Enterprise Investment Schemes and Venture Capital Trusts. Selby continues: "Away from these mainstream vehicles, some investors have also turned to Enterprise Investment Schemes and Venture Capital Trusts, which offer tax benefits in return for investing in start-up companies. These investments tend to be particularly popular among people who have maxed out their pensions lifetime allowance.

"Anyone going down this route needs to be aware that the investments tend to be high risk and so there is a chance you will lose a substantial amount, or all, of your money."

It seems as if there might be riskier but potentially more rewarding saving options, but mostly for those that are more financially educated and experienced.

Despite the alternatives, most experts agree that other saving vehicles should be used by the average saver in conjunction with, rather than in place of, a pension.

Written by Jack Gray

Summary
- Scheme consolidation will be critical in reducing the difference in DC member pot sizes.
- Members of larger schemes tend to enjoy more sophisticated investment strategies and economies of scale.
- Members who proactively engage with their scheme are expected to achieve better outcomes than those who do not.

(S)pot the difference

Gill Wadsworth examines the many reasons why DC pot sizes may vary wildly, and what can be done to shrink the gap

Nine out of 10 people actively saving into a workplace pension scheme entrust their hard cash to a defined contribution (DC) scheme, according to the 2018/19 figures from The Pensions Regulator.

These schemes will eventually form the bedrock of retirement income provision for most individuals in the UK, which accounts for the widespread concern among savers and the pension industry as to their adequacy.

The 2019 *Schroders Global Investor survey* reported that a quarter (24 per cent) of non-retired people are uncomfortable as to whether they are saving enough for retirement. Meanwhile, a survey from the DC Investment Forum, published last November, found half of members who have not yet retired have not spent much time thinking about how they will manage financially in retirement, and 13 per cent have not thought about it at all. Also, a Sanlam survey of 1,000 adults, published in October, reported that people are four times as likely to know their lottery numbers off by heart than their target pension pot.

This level of discomfort and – perhaps more importantly – engagement represent red flags to those in the industry whose business it is to ensure investors end up with suitable retirement pots.

Sanlam group chief executive, Jonathan Polin, says: "Despite years of industry effort to turn the tide, engagement with longer-term savings is shockingly low. We are about to see a tidal wave of people coming into retirement who will be ill-prepared and severely disappointed when faced with their retirement reality."

Schroders' head of retirement Savings, Sangita Chawla, agrees, arguing that people are "not realistic about the lifestyle they want to enjoy when retired".

Rock solid rules

Typically, there are four widely accepted factors that influence ultimate DC pot size; how long one saves, how much they save, where they invest, and how much they pay in charges. The importance of each of these factors varies depending upon the individuals, but the first two – how much and how long one saves – are the most critical.

"The most important things are how early you start and the amount you pay in," says Salvus Master Trust head of sales, Bill Finch.

Redington director, Jonathan Parker, agrees, calling them rock solid rules, but irrespective of their solidity there is no escaping the disparities in pot size between members who may have contributed the same amounts over an equivalent length of time. It is then fees and investment strategy that create inequalities.

Fighting fair

In 2015, the UK government recognised the severe erosion excessive charges have on final DC pots and imposed a fee cap for auto-enrolled workplace DC default funds at 0.75 per cent. According to 2019 research from the Pension Policy Institute (PPI) and Columbia Threadneedle, reducing charges from 0.72 per cent to 0.45 per cent or 0.37 per cent could increase a pot size for a 22 year old median earner on reaching state pension age by around 6-8 per cent.

But while this prevented providers charging astronomical annual management charges, the cap did not protect members entirely.

According to a Work and Pensions Select Committee: "Not all charges are covered by the cap, and the full extent of charges outside the cap is not known. That makes it impossible to know how well the cap is working in practice."

Furthermore, the cap cannot ensure members get what they pay for, and there is no guarantee that the cheapest investment strategies represent the best value. For example, a member paying 0.75 per cent may end up with a larger pot than someone paying 0.5 per cent, simply because the more 'expensive' strategy delivers higher returns.

Parker says: "At some point *[the charge cap means]* you do start to constrain yourself in the types of investments you can access."

The key to truly levelling the playing field lies in creating economies of scale. Large single employer trusts and master trusts are usually able to negotiate more attractive fees for their members, than those smaller and less well-resourced DC plans, without compromising returns.

Parker says that as DC market grows and as smaller schemes choose to join larger multi-employer trusts, outcomes for members should start to equalise.

He says: "A lot of DC schemes are getting to a size where they can negotiate competitive rates, and while master trusts and big insurance companies already have massive buying power in the market."

Default discrepancies

Given that 95 per cent of DC members invest in the default, this makes the adequacy and efficacy of default funds paramount. Fortunately, these initially-unloved vehicles have become the jewel in providers' crowns since the advent of auto-enrolment and are given far more attention from policymakers, trusts and insurers. Nest, for example, has dedicated significant resources to ensuring they offer 'world-class investments', while contract-based providers rely on their independent governance committees (IGCs) to improve members' experience.

However, that does not detract from the variation in default fund performance. Analysis of nine default funds from large insurers, published by Punter Southall Aspire last March, shows a 5.9 per cent difference between the performance of the top and bottom funds. At the same time, the level of investment risk between these two varies by 3.2 per cent. And while no two defaults funds are the same, making like-for-like comparisons challenging, there is no escaping that there will be DC winners and losers.

According to the PPI, the likely losers will be those members whose funds lack the assets or investment expertise to invest in more esoteric assets. The institute says a median-earning 22 year old could increase their final pot by around 3 per cent by investing 15 per cent of funds in illiquids, yet these assets are largely ignored by UK schemes. PPI research shows three-quarters (76 per cent) of DC assets are invested in bonds and equities, plus 5 per cent in cash, with the remainder going to multi-asset and alternative funds.

Parker says: "DC schemes are reaching a position where size and scale is less of a constraint, and it is down to the governance and desire of IGCs or trustee boards to push the boundaries and invest in new asset classes."

And it is not just illiquid assets that might make a material difference to a DC member's pot. The PPI claim that investing in assets with good ESG credentials could increase that 22 year old's pension pot size by around 2 per cent.

Rules of engagement

Irrespective of whether an IGC or a trustee board is pro-ESG or illiquid assets, or they think members should increase contributions and save for longer – according to Finch – it will not make much difference unless members engage with their scheme.

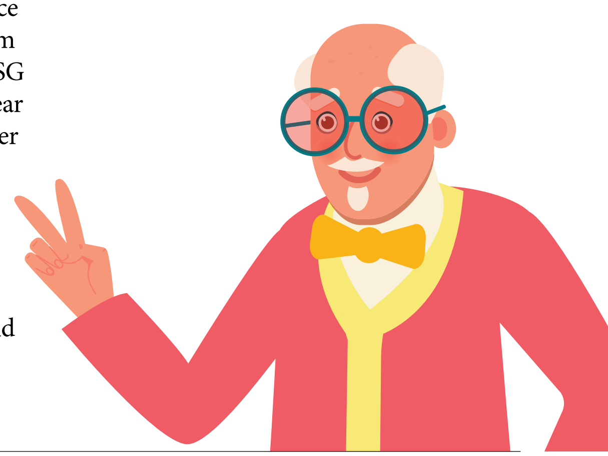
Finch says: "Engagement is the most important element, but only once people realise their DC fund is a significant size and truly worth something, will they really take an interest."

In a bid to encourage that interest, in December the government closed a consultation exploring ways to improve the annual DC statement. The Department for Work and Pensions is now considering ways of standardising the statement in an 'engaging' template, as well as making it easier for members to understand costs and charges.

The overwhelming response has been positive to the proposed template, but whether the new statements engage members will largely depend on the widespread adoption by IGCs and trust boards.

There will never be equality of outcomes in DC since so many variables exist; not least the vagaries of the investment markets. Yet as scheme consolidation continues, investment strategies broaden and fees area managed, the disparity between members' pot sizes should be less stark. However, such advances can only do so much, and the ultimate success will depend on individuals taking responsibility for their pension savings.

Written by Gill Wadsworth, a freelance journalist



Summary

- In-house operations are vulnerable to staffing issues, but does offer trustees control.
- Outsourcing can leave trustees feeling they have a lack of control, but provides a dedicated team focused on admin regulations and technology.
- Scheme administration is likely to remain in the spotlight ahead of advances in digitisation and regulation of pension schemes.

The big outsourcing question

Duncan Ferris looks at scheme administration, examining why some like to keep things in house and others favour calling in a third party

Good pension scheme administration is essential for interfacing with members, adapting to regulatory changes, keeping on top of data and much more besides. But how do trustees pick between handling administration in house and calling in a third party to manage things?

Figures from The Pensions Regulator (TPR) indicate that third-party administrators (TPAs) are very much in vogue. Defined contribution (DC) schemes are increasingly likely to use TPAs, with the proportion rising from 41 per cent to 53 per cent between 2012 and 2018.

Over the same time period, the proportion of defined benefit (DB) and hybrid schemes opting for TPAs remained high and consistent, sitting pretty at around 84 per cent and 88 per cent respectively. While these trends point towards the growing popularity of TPAs, managing the day-to-day running of schemes in house can offer some perks to trustees and members.

In house

The major advantage of keeping things in house is that trustees can exert more control over operations. Service level agreements (SLAs), which outline targets for TPAs, are not needed and communication between trustees and administrators can be slicker if they are all under one roof.

Outlining this, Premier Pensions head of administration, Girish Menezes, says the use of an in-house team affords a trustee board increased freedom, such as the choice between running “a minimal service run on spreadsheets and paper files” or investing in platforms, automation and staffing.

However, complications can easily arise for in-house operations when it comes to the issue of manpower. Scheme administration is often the responsibility of a small number of individuals, sometimes even a single person, meaning that periods of absence or key employees leaving can cause major disruption.

This places smaller schemes at particular risk, while larger schemes with dozens of administrative staff are more likely to be able to cope.

The in-house strategy can also rack up significant costs, from investing in software and technology updates, to keeping on top of member data or complying with changing regulations. Menezes states that while some trustees will “invest significantly on a one-off basis to fully automate their pension administration”, long-term costs can quickly exceed budget expectations.

Third parties

So, what are the motivating factors behind handing over the reins of administration to an outside workforce? Muse Advisory chief executive, Ian McQuade, says schemes shopping for a TPA are looking for a firm that can get the basics right, focus on members' experiences, offer high levels of automation and commit to "innovation and continually developing what they do". However, he cautions that clients should remain engaged even after outsourcing administration.

"The administrator should be a strategic partner – they are a critical part of the end journey for DB schemes, and central to the delivery to members in DC schemes – so it is important that the client and trustee also invest in the relationship and think about how they work with their administrator, manage them and monitor their performance," he says.

When it comes to the benefits that TPAs can offer, Equiniti EQ Paymaster chief executive, Duncan Watson, argues they give schemes access to a "consistently expert resource pool" that minimises the potential risks posed by key staff moving on.

He also points out that TPAs are better equipped to deal with "peaks and troughs of demand" and can allow schemes to keep up to date by offering access to "supported technology systems and innovation".

"TPAs are also a specialist resource that schemes are able to call upon at times of need. For example, administrators can help schemes with their data cleansing, GMP rectification and GMP equalisation requirements, while also bringing an expert knowledge of technical and legislative requirements that can prove crucial in day-to-day scheme management," adds Watson.

While these benefits have proved attractive, and seen some schemes flock to TPAs, some still favour the internal approach.

Making the leap

The BT Pension Scheme, which is worth more than £50 billion, began to transition from a partnership with Accenture to providing its own administration services in May 2018, bringing its contract with its TPA to an end five years early.

BT Pension Scheme chief administration officer, Simon Langworthy, says the change was made following feedback from members, adding that the trustees "felt constrained" by the outsourced model.

Langworthy explains: "Taking the administration in house enabled us to move away from a traditional time-based SLA model that most TPAs contracts use, giving us the freedom to develop our own KPIs *[key performance indicators]* that are based more around quality and member experience and drive the 'member first' behaviours we want from our administration team.

"In our view, an incorrect quote, written in a language that a member cannot understand, which is sent quickly, is not as good as a correct quote, written in a clear and understandable way, that takes a bit longer to arrive. Better still, a quote that's available on demand via whichever channel the member wants, supported by a call centre staffed with knowledgeable, helpful people."

But when trustees decide to switch from one method of administration to another, it's inevitable that complications can arise. When making the leap to a TPA there might be teething problems with communication. On the other hand, bringing scheme administration in house is likely to require recruitment of qualified individuals and investment in new technology.

In the case of the BT Pension Scheme, Langworthy says the scheme inherited a "largely temporary" workforce from Accenture and hired more than 50 permanent staff in the first year after transition.

"We've had to fully integrate this new team overhauling management, structures, staffing, training and service protocols into our operation. We still have work to do but we've made huge steps forward," he adds.

The future

Scheme administration has come under increased focus in recent years, what with the introduction of GDPR and the growing scrutiny for accurate data. This attention appears unlikely to relent as the arrival of the dashboard remains hotly anticipated and GMP equalisation guidance is expected to be released by HMRC later this year.

Watson says he expects that the emergence of the dashboard, coupled with "greater use of digitisation" and cost pressures, will lead to an increase in the number of schemes that opt to use TPAs.

However, he adds: "It is likely that administration firms will have to recognise that there is a growing trend for pension assets to move away from pension 'schemes' and into master trusts and other pension or drawdown products offered by providers, and so the nature of the vehicle being administered will change."

Menezes comments that the market is facing pressure from the attentions of The Pensions Administration Standards Association and TPR, stating that the former is doing a "sterling job" in raising the profile of pension administration and the latter is focused on the "systems, processes and quality of data that are in place today".

"My expectation is that in the future there will continue to be very large schemes, where they may find that even if they do not have the economies of scale, they are large enough to make the premium investments to make their pension administration work. For the rest, most schemes will either wind up or move to an outsourced arrangement," concludes Menezes.

Written by Duncan Ferris

GMP equalisation: The what, when, why and how

Our panel of experts look at where we are with GMPe, ask what schemes should be doing now and how schemes can tailor their communications around this thorny topic

Challenges around GMPe

Chair: Just over a year has passed since the Lloyds judgment on GMP equalisation (GMPe), giving us some time to reflect and even start planning. A lot of hard work has been done and people have started to get their heads around what it means, not just for carrying out various projects but also what it's going to mean for ongoing administration, communications and so on.

The biggest challenges I foresee relate to the preparation of data and having to make changes to systems in respect of what's happening. I'm looking at the administration systems side of that, as well as the data that's needed to carry out the rectification projects.

What would you say your biggest challenge is around GMPe in relation to your field of expertise?

Kola: I am a pensions lawyer and, amongst lawyers, there's always a tendency to love the detail. But it's not our detail that we are dealing with when it comes to GMPe – it's the data and administration detail. What we as lawyers should do is stand back so the administration implications can be considered and then come in at the right time to help people formulate practical solutions that are right for them. Not everyone can do every option, so there's no point in talking to them about all the options – we need to narrow things down and then help trustees navigate what works for them.

Reeve: Cosan provides administration, consulting and governance services to help companies and trustees better deliver their pensions. From that point of view our interest in GMPe is to ensure pragmatism – there are some very clever people in the industry with some good thinking, but I'm not sure that's going to deliver what people really want or need – proportionality is needed.

Also, good governance is key – we need to make sure that not only do we do the right thing, but we are seen to be doing the right thing. There's going to be a lot of scrutiny of this in the future, so making sure that everyone documents what they're doing and why they're doing it is essential.

Morgan: GMPe is all about data. However, it is important to take a proportionate approach to data requirements for GMPe, as for many members the impact of GMPe will be tiny or non-existent. It's worth carrying out some initial analysis of the likely impact of GMPe so that you can prioritise your data cleanse to work around those members likely to be most materially affected.

Mayes: We have mentioned data and we have mentioned proportionality but there's also tax issues that need to be considered.

But the main concern, as I see it, is

In association with

itm
Solution delivered...

GMPe roundtable

CHAIR

Maurice Titley, Director, ITM
Maurice has worked in financial services specialising in corporate pensions for the past 22 years, including roles at Watson Wyatt and most recently Punter Southall, where he was principal in charge of administration systems development. Maurice has 20 years' experience in software architecture and systems integration, and is also a Microsoft-certified professional. Maurice is the director responsible for pensions technical matters at ITM and is a regular speaker at pensions industry events.

PANEL

Simon Grover, Lead Writer, Quietroom
Part of Quietroom since 2007, Simon has worked on pensions-related projects for clients, including Kodak, B&CE, Invensys, Irish Life, JLT, Atkins, First Group, Lloyds bank, RBS, British Steel, BHS, Agility, Urenco and LV. He has written and produced a dozen pension animations for KPMG. His work with Whitbread on its pension scheme helped increase the rate of people joining by 17 times, earning Whitbread an award for DC Scheme of the Year. Simon is also an actor and a scriptwriter for children's TV.

Jane Kola, Partner, ARC Pensions Law
Jane is a partner at ARC Pensions Law. She has over 25 years' experience of advising trustees and employers on their workplace pension arrangements. Jane has helped many clients on the journey to buyout, developing a deep understanding of the way in which schemes operate in practice, the extent to which they are paying the correct legal entitlements to beneficiaries and the planning necessary to achieve a successful buyout. She started her career at Nicholson Graham & Jones, and later worked at Sackers LLP and Gowling WLG (UK) LLP.

Alasdair Mayes, Partner, LCP
Alasdair Mayes is a qualified actuary and has over 20 years of experience helping sponsors and trustees on pensions matters. He advises on funding, risk management and benefit design. He is a specialist in equalising for GMPs, pensions tax and financial reporting and likes to provide simple and pragmatic solutions to complex problems. He helped draft the *Equalisation Working Group Methodology* guidance that was published by Pasa in 2019. He is also helping a number of clients, large and small, equalise their benefits ahead of buyout or for ongoing administration.

Alex Mitchell, Head of Tracing & Data Solutions, Capita Employee Benefits
Alex is head of tracing and data solutions at Capita Employee Benefits, where he has worked for a number of years. He has over 15 years of financial services experience, including the pensions industry, having originally set up the tracing business for Capita Registrars back in 2004. Alex has a core understanding of the complexity of delivery operational efficiency within project parameters across the data industry.

Rebecca Morgan, Head of Technical Research, ITM
Rebecca is head of technical research at ITM. She is a qualified actuary with 20 years' experience in the pensions industry. Rebecca joined ITM in November 2016 as a senior technical consultant, responsible for ensuring her colleagues at ITM are aware of technical issues, including pensions legislation that impacts on their work and/or affect clients. Rebecca also provides high-level technical input to complex projects, to ensure technical accuracy and support where required.

John Reeve, Director, Cosan Consulting
John is a qualified actuary, focusing on advice to trustee boards and employers regarding the effective and efficient management of their employee benefit arrangements. He brings his business knowledge and experience, along with his strong technical knowledge of the pensions environment, to help clients design and manage their arrangements in the interests of their business and their employees. John prides himself on clear explanation of complex issues and on creating pragmatic solutions to the problems that clients face.

Peter Thompson, Client Director, CCTL
Peter joined Capital Cranfield in 2018, having previously worked for a leading actuarial consultancy and a professional trustee company. In his role as a professional trustee, Peter has dealt with a wide range of schemes including several with assets in excess of £1 billion. He has also handled a regulated apportionment arrangement, several buyouts, a company voluntary arrangement and many sets of employer negotiations and regulator interactions. Peter has also been chairman of the NAPF (today known as the PLSA).

In association with

GMPe roundtable

that people only want to have to do this once. We've seen many occasions where people did equalisations back in the 1990s and then found that they didn't actually equalise. One of the key things is making sure that people equalise in a robust way that means they can ensure the job is done and they can move on.

Mitchell: From my perspective and my team's perspective, being at the coalface, working through the data, there are challenges around the fact that when you get into the individual member details, a broad-brush approach won't work.

It's understanding how we navigate around that. It's going to draw out a lot of skeletons in the closets around the administration and records that are going to cause trustees headaches. It's how we manage those and the communication out to those members, which is important.

Thompson: I am a professional trustee and an actuary by background and, even for me, GMPe is an extraordinarily complicated area. I've been working in pensions for a long time and I'm just about getting to grips with it. The difficulty for lay trustees is understanding what is going on and what is meant by C2 and D2 and conversion and so on. It's quite challenging.

Grover: The main challenge around GMPe is creating a message for members that is meaningful and useful. You can say something broad and you can say something compliant, but it might not be something that people can get their heads around or that will help them to understand how much they might be looking at getting or not getting; or to understand who's involved or who's not involved and why it's all happening in the first place. Also, how much information do members really need? The answer is usually less than you think.

What GMPe means for schemes

Chair: Are pension schemes aware of what GMPe means for them? What do they need to know right now? What should they be starting to do right now? What can they start to do and are there valid reasons for waiting?

Mayes: Trustees and sponsors are broadly aware of what needs to happen and the quantum of liability that's involved. For many schemes that's much smaller than they feared, and it might be only 0.5 per cent of the total scheme's liabilities. That's reassuring.

The next step then is how many members might be affected and that can easily be more than half the total population. That suddenly means it is a much bigger issue that people are addressing.

Data is one area where people can be getting on and doing something now. It might be too early to be choosing which method they're going to use to go forward.

They need to know exactly how the tax treatment is going to work with conversion, for example, before they decide that's what they want to do. But there is a lot of work that people can be getting on with now.

Chair: So, we can be getting on with data-related activity. Anything else we can be getting on with now?

Thompson: We can be getting on with trying to educate trustees, explaining to them that this is out there, it's going to have to happen and why they, in most cases, probably shouldn't panic. They have already seen GMP reconciliation and then rectification, and now there's another one. So, we need to be educating and informing trustees, but not necessarily going to members just yet except for maybe a paragraph in a newsletter.

Grover: Yes, that is probably right for most schemes. With Lloyds it was different because it was in the news and the unions were involved. But certainly, mostly we've seen since then a paragraph in a newsletter saying something along the lines of: "You may have heard about this thing called GMPe and are wondering how it affects you. We are looking into it and will get back to you." That's pretty much all you need to put. Not silence but not reams of information either.

Chair: In terms of all the rules around GMPe, are there valid reasons for saying, "we're not there yet, we can't get started"?

Kola: Trustees should start by looking at the quality of their data – seeing what the data tells them about the people who are affected by this. Because there are several different methods in theory under the Lloyds judgment, and there's only one method that you can do on your own. Then there are others that might end up being more efficient or cheaper to do.

But until you know what your data

In association with itm Solution delivered...

GMPe roundtable

looks like, you can't work out whether there is only one option for you or if there are others. You shouldn't spend a lot of time with lawyers talking about the different options. Why can't you narrow your options down from the data and then work from there to deliver something efficient and practical?

Also, once you've worked through the data, there is a need to look at the rules as well. Not all schemes adopted model GMP rules that were strictly the same as the ones issued by the authorities at the time. Some of them have some quite nasty traps in them, which may at some point inform the trustees' options for the long term. But for now, we should see what the data tells us.

Mitchell: Clients are keeping their options open and see it as moving towards a crossroads, doing that data work in the background. Even if they haven't decided C2, D2 or whatever the method is, they can still prepare as much as possible.

But that is easier for the schemes that have a bigger journey plan. They are looking ahead, beyond potentially the scope of what we are seeing. It might be to de-risk the scheme or to buyout. They're preparing things as much as possible so that when they go to market, they're in a more attractive position and are able to tick all the boxes to show they've done all the necessary exercises.

Reeve: I first stood up in front of an audience to talk about data and how we need to sort data out more than 20 years ago. Trustees are getting very bored with the topic. Many think they have fixed their data already and in a lot of cases they have done what they can.

So, we should be asking: "Is there any more data available?" not "what data do we need?" but "what data can we reasonably get?" We're never going to be able to find everything.

If we haven't got some salaries and we're never going to get them, then we need to draw a line and stop spending time and money trying to find out if there is an archive somewhere. We are never going to do GMPe exactly, so let's understand where we can get to with regards to data. A lot of schemes will have done as much as they can, and they've got what they've got. We need to agree an algorithm to fill the gaps as opposed to spending more years trying to find missing data items.

Thompson: Also, are there going to be any *de minimis* rules? Are we going to spend £1,000 for a 10p a week correction?

Also, what do we do about people who have transferred out; people who have died? You don't get any thanks for writing to relatives to let them know about £100 being added to the estate of someone who died 20 years ago.

Kola: Lloyds 2 will talk about transfers although it may be just about past transfers. We don't know what that will say, but there is a view that this might give us some clues about how far back to go. I would say, don't go back too far if you can manage it because when estates are closed it causes a headache for families and creates more data problems – do we have the data to be able to reconstruct the calculation, say, 25 years ago? If not, let's not waste time and money trying.

Reeve: As soon as you realise that point, that we are not going to be able to do this accurately in all cases, it puts a completely different light on this exercise.

Proportionality

Chair: There's a very strong theme around the table that we should approach GMPe with proportionality. Is that message getting through to trustees?

Reeve: The trustees I have spoken to are massively frustrated about this and that's one reason they're kicking the can down the street. They know that, in many cases, it's not going to make a big difference to anybody.

The danger is that, as an industry, we're seen to be milking this and seeing it as an opportunity to earn fees, as opposed to action required to improve members' retirement. I see a lot of work going on already that is disproportionate.

Thompson: The admin costs across the industry are another concern.

Grover: There's a potential reputational risk for the whole industry here too – we have been told to do this 'good' thing that's going to give more money to some people, and we are correcting a wrong. But the potentially huge costs of it are going to come out of people's pension pots, ultimately. How is that a good thing?

Kola: But there are a small number of members who, relative to the size of their

In association with

GMPe roundtable

pensions, do have quite a big amount owing to them.

So, my view is that we should prioritise the people for whom this will make a meaningful difference, because those are the ones who need the money the most. They tend to be pensioners with small benefits, where the GMP is all or most of that. Surely, it must be possible to identify that small group.

There is a minimum that you must do, and for pensioners that's probably an underpin for all of them, so even if you decide to do other things later, you do at least have that. They're not likely to be impacted by tax concerns unless they've got very large benefits elsewhere. So why don't we focus on the people for whom it will make a meaningful difference given their low level of income, and let's not worry too much about everybody else.

For the people who've got LTA concerns, tax concerns – they should be at the back of the queue, because there's no point in touching them until HMRC has told us what the position is.

That's something I have encouraged my clients who want to get on with this but are worried about doing the wrong thing. I have asked them: "Who are your lowest value pensioners who are most affected?" If there are, say, 10 of them, you ought to be thinking about how you can make a difference to their lives now. It is no comfort to give their children a cheque when they're dead, you want to do it now and the rest can wait.

Mayes: I agree. There's no need to wait for the entire picture to become completely clear. You can get on with the bits that are already clear. Get on with those and come back to some of the more complex cases or some of the ones that might never even need to be addressed, later, but only if you must.

Chair: It's always helpful for trustees to see what the impact is and if you have 10, 20, 50 members that are really impacted then that helps frame what needs to happen next.

Reeve: We also need to be careful about how we present this information, not only in the industry but outside of it. To the earlier point about reputational risk, I've seen some figures suggesting that a pension might be 20 per cent different, but if you dig deeper, it's 20 per cent of the GMP of that period as opposed to 20 per cent of the whole benefit. In many cases the big percentages are of a very small pension. We must avoid sensationalising these figures. Educating the trustees and members is key.

Communication

Chair: Is communication around the topic sufficient? I am not just thinking about how it's going to be communicated to members when it finally happens, but the communication that's going around to trustees, the press coverage and so on.

Grover: 'Sufficient' is an interesting word. There's certainly enough of it. Whether it's the right sort of communication is the question. Here around the table, we're involved in the build-up of pensions rather than the receipt of pensions. We think of 'pensions' as being an industry but everyone else thinks of it as income you get when you're retired. We will typically start a communication with background, for example: "In 1974..." Why would anyone want to read that? That's the kind of communication that we see going out.

So, is it sufficient? No, in the sense that it's not thinking about what the member wants to read about.

Ideally, you segment your communications. You say something like: "Just to let you know, there's a thing going on called GMP equalisation and you're not affected, but some of your colleagues, or former colleagues, may be." Or: "Just to let you know, you might be affected, but it's unlikely to affect you very much, but we'll get back to you."

Something along those lines. That's all. They don't want to know the history.

Mayes: When we've looked at real-life cases, many people that are affected might only be looking at £500 over a lifetime; and many others won't be affected at all, so it's important to get things into perspective, whilst remembering for some the sums could be significant.

Grover: If the trustees or advisers can possibly come up with an approximate number, like you have just done there, that's really helpful as it makes it more tangible for members; makes it easier to get their heads around what this might mean in reality.

Mitchell: There's so much activity going on behind the scenes that members are completely oblivious to and they don't need to know about it either – they need a short version; they need to know what they need to do about it. We need to keep things very simple.

Getting the right parties involved

Chair: Which parties need to be involved and at what stage?

Kola: Lawyers do need to be involved earlier rather than later, but not so they can write long letters about the Lloyds judgment. The role we should play is to help refine what needs to be done and what doesn't. Those questions about proportionality. What about tax? How do we deal with that? And so on.

Some people also are working on conversion, but they can't easily do it under the current law, so let's not spend a lot of time thinking about it now. If the law, at the moment, will not let you convert easily, can we stop that process at this point and look at more practical

In association with

GMPe roundtable

solutions for the most affected members which can be done now and pick up conversion when it becomes easier to do legally?

Chair: Are administrators being involved in the process early enough?

Mitchell: They're being more reactive than proactive around it. It's the clients that are driving the conversations, because perhaps they've got plans or visions of where they want to take things, so it's about managing those clients.

There's still rectification going on as well and some clients want to do equalisation at the same time, to kill two birds with one stone and have one message going out to members – that's where we start to see individual paths developing for clients.

In terms of the administration systems, there will be multiple GMPe methods, therefore we've got to have systems that can manage multiple outputs. How that's going to be dealt with within the systems is still being worked on.

Reeve: I don't think enough trustee boards have a strategic relationship with their administrator. Having a discussion at a strategic level, as opposed to an operational level, can make all the difference. We have been saying for many years that you need a strategic relationship with your administrator.

Having said this, many administrators don't put people that can have that strategic relationship with trustees at the forefront of the relationship. They see client management as something done elsewhere within the business.

Mitchell: For the larger schemes, there are quite often individuals in the administration firms that act as guiding lights to help trustees, but the smaller and medium-sized schemes don't necessarily have access to those individuals, so they're wondering who to talk to. They don't have the buying power to have all the key parties in one room to help them, so they won't be having that joined-up conversation that is needed in all this, and that's where they'll struggle.

Mayes: It's also important for the trustees to work with the employer. Lots of people will be thinking that the absolute focus here must be one of minimising the benefit cost. The employer might have other objectives – maybe they are seeking to do a buyout, or they are concerned about the reputational risk associated with not doing the right thing here. That's something that people are very focused on and worried about.

Data requirements

Chair: What data do you need to carry out GMPe?

Morgan: GMPe places some very heavy demand on data, such as identifying the element of pension accrued between May 1990 and April 1997, along with the equivalent pension element were the member the opposite sex.

In order to calculate these data items it's likely that you'll need to roll back pensions in payment to date of leaving – the data you're going to need for that is going to be far more than the data you're using for the day-to-day admin of the scheme. Not only will you need detailed member data, like commuted pension and service dates, you're also going to need the scheme data like commutation factors, early and late retirement factors and understanding approaches to anti-franking. Because it was so long ago, lots of the data needed may well have been lost, particularly for pensioners and dependants. As we've already been saying, it's all about being proportionate.

If a member only has a couple of days of relevant service, it's not worth going down to the cellar and trawling through files to get details of their pension commutation.

The way that we've been thinking about it is by looking at the actual impact of GMPe; doing approximate calculations to understand how each member is likely to be financially affected. If you can tell they're not going to be significantly impacted, then you can take a proportionate approach and make assumptions that are reasonable. It's worth bearing in mind that if you know which equalisation method you're using, this can also affect the way you do things. For example, if you're doing conversion, the population may be different as you could convert all members with a GMP whereas for GMPe the population is restricted to members who have accrued benefits between May 1990 and April 1997.

Chair: Yes, the data requirements to support conversion are more significant because, if you are looking at converting

In association with

itm
Solution delivered...

GMPe roundtable

benefits from one shape to another, to our mind you're reaching the same level of data quality you need to do a buyout, effectively.

Mayes: Indeed and if you're going down the conversion route, a lot of the work you need to do is very similar to what you need to do for a buyout, and so all you'll be doing is bringing forward that work, and with any luck that might also make buyout easier as well. That makes sense to me where buyout is part of your journey plan.

Reeve: Where does the GMP checker comes in?

Mayes: I think the GMP checker will have limited use – it depends on how your reconciliation has gone. If you have reconciled everything to the penny then it could be a useful tool for some members. But I think it's unlikely to be the case, and most people will have decided that there are certain things they just don't want to pursue when it comes to the reconciliation, and therefore you'd have the same issues with the GMP checker.

So, it probably makes more sense to use something more pragmatic and proportionate, taking the GMP that you're using and then making an adjustment to that.

Morgan: I think it's most useful when you've got members with service breaks or part-time service, but arguably it's still not very proportionate.

Costs of GMPe

Chair: How can cost concerns be addressed for employers, but also the trustees?

Thompson: The responses I've had so far have been along the lines of: "We've got to do this, so we'll take the costs associated on the chin. We might not like it, but we've got to get on with it."

In most cases we don't yet have accurate information about what the changes are going to cost or what the increase in ongoing fees is going to be, which is perhaps the bigger concern.

Reeve: Trustees don't feel comfortable paying a big fee to the consultants to tell them how to solve what quite frankly they don't see as being a big problem. So, again, it comes down to proportionality.

For example, if we are going to pay £100,000 in adviser fees for something that is going to mean an extra £500 in the pension pot across a member's lifetime, that doesn't feel like a good use of scheme money. You can only spend a pension pound once – this can either go to the consultants or to the pensioner. Where do the trustees want this to go?

This is particularly an issue if you've got a weak covenant and are under-funded. Small schemes might have a bigger problem too. They have got to incur the same costs as a big scheme – such as the legal costs – but often for a very small number of members.

Mayes: Most employers had to recognise a cost in the company accounts at the end of last year, so a lot of work was done at year end to make sure there was an estimate that could be put in. Most people in fact were pleasantly surprised that it wasn't as high a liability cost as they thought it might be.

So, there's been a small sigh of relief there, and it's now more a question of the long-term journey plan. Are there going to be ways in which this can be done more cost effectively to make sure that they can get to their ultimate destination, whether that's a self-sufficient plan or whether it's going towards buyout.

What the insurers wants

Mitchell: By making things simpler does it ultimately make the schemes more attractive to the insurers?

Chair: There are differing views as to whether conversion itself is what insurers want schemes to be trying to do right now or not. The tax situation has also thrown a spanner in the works. What are people's thoughts?

Kola: It depends on the insurer. I'm currently working with two insurers. One is adamant that conversion is all they will do, even with the uncertainty. Another is saying we want conversion long term, but we will accept C2 now.

Tax is the problem essentially for the higher earners, but you don't have to convert everyone's benefits. Conversion is an individual by individual approach.

But some schemes can't convert in a legally low-risk way because there's an issue about employer consents. Some lawyers feel they can stretch the meaning of the legislation to mean the current employers who sponsor the scheme. But that is a risk the employer is going to have to take, and a lot of them don't want to. They don't want to convert people's benefits then discover they got consent from the wrong people, and the insurers definitely don't want that risk.

However, for some schemes who had the same employer at the beginning as they do now, conversion is perfectly doable without the extra risks.

It depends on your circumstances, but conversion should be something that we can easily do that makes sense and simplifies benefits. Insurers would be delighted to have that, but we don't have a law that readily allows that at the moment. We have something that's been badly drafted, that's been cobbled together, and some lawyers are making more of it than others in terms of what can be done.

Reeve: It's a bit of a circular argument as well when it comes to what the insurers want because some say they will accept dual records but they clearly like converted GMPs and their premium

In association with

GMPe roundtable

reflects this.

But when you think about it, most of the insurers have TPAs running their book, and if the TPAs can manage the different bases for the rest of their clients they'll be able to do it for the insurer. How the insurer will price in the complexity and how they'll price the risk is a completely different question.

The big problem in the insurance market is the dearth of capacity. If they've got two options, one with converted GMPS and one with dual records, I know which one they'll go for.

Mayes: That does make this a real challenge. We're finding the same – some insurers are insisting you have to convert; that's the only thing they will accept. Others are willing to be flexible. Over time the market will evolve and the ability to do both will emerge, but it would be a great help if both HMRC and the DWP could make that process as streamlined and as straightforward as possible.

Chair: Once you have been through conversion, will the administration be more complicated or simpler?

Mayes: I think most people are looking at a form of conversion, which isn't a drastic change, but does result in simplification overall, so you're able to sweep away some of the complexities of GMPs and reduce the number of tranches, rather than increase them. There will be overall a benefit and a simpler benefit structure going forward.

Mitchell: As we highlighted earlier, you should identify the members that are most affected, but that means, in terms of administration, you've then got two different platforms. You're then having to manage a smaller population that you've dealt with and closed off and converted, whilst managing the rest of the individuals on the old platform.

So you're managing those two areas while being in that BAU state for potentially a longer period of time until finally everybody transitions over, which might be an elongated project plan in terms of that piece and the comms that would be going out to those members.

Kola: There are no simple solutions here. If the law was simpler and easier to deal with, many schemes would be quite a long way down the process of trying to simplify benefits. There are legal complications, and the DWP and HMRC should get together and sort it out.

Capacity concerns

Thompson: Something that is a concern for me is capacity – once we have all decided what we're going to do, how is the industry going to handle it?

Mitchell: It is a concern because that knowledge base at the top end seems to be very thin on the ground. We are lucky as we have people who are immensely knowledgeable, but it's about extracting that knowledge and turning it into a real operational process, which is a challenge – it's a massive piece of work. You then need to translate that across to the trustees.

You also need to make sure you get it right too, because you don't want to be 10 years down the line and realise there is a flaw in the calculation. Because those algorithms are going to be very complex.

Reeve: That capacity point is critical because it's not just this project that's going on. We are working on GMP equalisation, buyouts, dashboard etc – there are so many different things. Who knows what the next big thing is going to be because there will be something else.

Mayes: It's important to be practical and pragmatic – what we want to do is get to a situation where members are able to request benefits quickly and efficiently using online services; or make the scheme ready for buyout. That means that you need to be clear about what benefits you are going to provide and then get on with it.

Kola: I agree – it is about being practical and pragmatic. Often there is precious little in terms of law that dictates what you actually have to do. So, once you have done something, stick with it and document it rather than perpetually refining the position. The whole point of doing the exercise is to not have to bring it back up again.

Mitchell: On the upside, while there'll be a lot of data work going on, this should set the industry up to better manage the dashboards when they finally come on board. This data issue is going to have to be dealt with one way or the other and this just drives schemes to dealing with it now rather than having to panic when the dashboards come out.

Chair: Yes, there is a lot of positivity around this – this could be for the greater good in many ways.

Grover: Another potential positive area is around consolidation – if making all these changes would help towards buyout, it could also help on the road towards other forms of DB consolidation too.

Kola: I don't think it matters which destination you are going towards – you still need to have the right benefits for the right people at the right time. Buyout is what people are aiming for because they've been told that's the gold standard. But if you are not going to make it to buyout, consolidation may be your next step and there's no reason why a consolidator should be easier on a pension scheme than a buyout provider in terms of the benefits to be provided or the risks transferred.

But I just don't think it matters where you think you're going to end up. This is what you need to do. The question is, when are you going to do it?

Concluding thoughts

Chair: What is everyone's main takeaway from today?

Grover: When I first came across GMP, I called up an actuary and asked them to explain it. They said they couldn't because it was too complicated!

That was just GMP. In the GMP universe, GMPe is the death star. So, thank goodness for everybody in the industry who helps people like me decipher all this.

The challenge is having to get the detail right and then think, what does that actually mean for the member and how do we simplify that into a sentence or a paragraph in a newsletter for them to read? That's the challenging bit for me.

Thompson: Contracting out GMPs have been a very sorry journey since the start. They were a fundamentally flawed idea when they were first introduced, and nothing has changed that. In fact, everything that's happened subsequently has just reinforced that view. They were a rotten idea and they should never have been brought in.

I don't think it helps members of pension schemes one bit. The advisory industry has made a lot of money out of this. But that's just increased the whole frictional costs of running defined benefit pension schemes over the decades.

Mitchell: We will be focusing on devising a solution, but we need to remember that there is no silver bullet for this. We will be at the front end, developing solutions, taking those initial schemes through it, acknowledging and working with them to understand the risks and liabilities that go with it.

But it will take time – this is going to be a longer journey than rectification and reconciliation even.

Mayes: The important thing to remember in all of this is that the member should be at the heart of everything that we do. It's important to come up with practical, pragmatic solutions to make sure that this can be done in a reasonable timeframe and in an efficient way. That means having a good clear plan as to what your priorities are, what's important and then being able to get on with it.

Morgan: GMPe is challenging and there are still many unanswered questions, but you can start preparing your data now – this will likely be a substantial part of the GMPe project. Just remember to take a proportionate and pragmatic approach.

Reeve: We need to encourage the trustees to realise that this is a risk management, not a risk elimination task.

We have talked a lot today about the importance of proportionality however that's not what I'm seeing in the market. I'm seeing a far too pedantic approach. Perhaps that's because we are in the early stages, but it worries me.

This has got to be about pure risk management, which makes it a risk and reward discussion as to what's the right thing to do for our members overall, not just saying we've got to get the right pension, to the penny, to Mrs Smith's. It's not possible and it's not in everybody's interest.

Kola: I agree – it is a risk management exercise. Also, we've got ourselves into a mindset where there can never be a loser amongst the membership population. Even if it's only a fraction of a penny, they can't lose that. But you need to look at this in the round overall, because you might end up a few pennies worse off but your benefits will be more secure, which means you will lose no pounds.

Also, fortune favours the bold, so we need to be bold about sorting out this issue in a practical way that does have the members at the heart of it, but also manages the risk appropriately. Because otherwise we might give our members a few extra pennies, but we'll drive the sponsor to the wall, and that's not going to help anyone.

Chair: To conclude, there have been lots of interesting points raised today but the proportionality and practicality points are key; also we should focus on the fact that this whole undertaking, despite its frustrations, should leave us in a better place – better for buyout, consolidation, simplification and generally better for paying the right benefits at the right time.

Summary
• Attitudes to risk can be a hard thing for schemes to measure, but there are common trends that can be used to broadly segment members.
• Tailoring communications to suit different member attitudes to risk can be beneficial.
• Knowledge of differing attitudes can enable the scheme to assist its members in achieving their retirement outcome goals, within their own risk parameters.

Talking risk

While those in the industry benefit from an awareness that there are differing member attitudes to financial risk, savers themselves are often unaware of their own attitudes. So how can schemes appropriately communicate financial risk to different segments of their membership?

"We all have to make, on a daily basis, calculated decisions," says Stamford Associates principal behavioural psychologist, Professor Adrian Furnham. "They concern our own and others wealth and welfare; health and happiness; fun and pleasure… For some, that is the very nature of their job, which is to take calculated risks that can have very significant outcomes."

Pension trustees and providers fall into this group, making decisions with varying risks. But when the members themselves have to make decisions about pension saving, they do so with their own viewpoint as to the level of financial risk to take, which could have a significant impact on their eventual outcome. So, are schemes genuinely considering differing attitudes to financial risk when communicating to their members?

"It is very difficult for individuals to understand what their real risk level is," points out Redington head of DC and financial wellbeing, Lydia Fearn, emphasising that members often need help to gauge their own attitudes to financial risk, with many savers "nervous of going too far".

"No one likes the feeling they may lose their money," she explains, "so the middle or low risk options are often the most popular for those who self-select."

Equally, while risk attitude questionnaires are used by many DC schemes to help members make informed decisions, the majority will still remain in their scheme's default fund, highlights Dalriada Trustees professional trustee, Judith Fish.

Making an assumption

Measuring individual attitudes to risk can have obstacles, but there are broader trends that trustees can make use of, to further break up their membership and better tailor communications to help members make informed decisions.

"Attitudes to risk are clearly related to those classic three variables: age, sex, and class," says Furnham. "Young people, particularly adolescents, tend to take more risks than older people. Males are always more risky than females. By and large, better-educated middle class people take fewer risks, at least with their health…There are good evolutionary theories to explain this."

However, Ferrier Pearce client relationship director, Laura MacPhee, emphasises that whilst academic research may be able to indicate broader trends, trustees should approach these with caution and avoid making assumptions across broad groups, such as gender.

Agreeing, Furnham notes that "personality factors play a bigger part". He explains that although situational, social and cultural elements can impact an individual's "taste for risk", their personality impacts how much of an influence this has on their actions.

Putting it into practice

A happy balance can be achieved though, as MacPhee explains: "When we work with our clients we encourage them to segment based on demographic factors (such as age and income), as well as behavioural and attitudinal factors, which can be gleaned through both research and analysis of the actions members take."

LEBC director of public policy, Kay Ingram, echoes Furnham's warning, explaining that while segmenting may "seem attractive from an efficiency point of view" there are risks associated with overdoing it.

"Every individual is different and targeting solutions based on age or gender could lead to a mismatch of the individual's needs and their investment risk profile," she explains. "A more useful indicator is life events, which influence savings patterns and priorities in the member's lives and when they are most receptive to targeted help."

Work with what you know

Struggling to access information on individual attitudes to risk is not a reason for trustees and providers to ignore member attitudes altogether though; they simply need to work with what they already know.

Where this information is not available, MacPhee explains, schemes and providers can build it by creating content that members can 'self-select', and then using that data to inform ongoing communications.

"For example," she adds, "if a member logs onto a scheme/provider website and frequently views content that is relevant to family life (eg leaving an inheritance to children), the scheme/provider can deliver more content that is relevant to that lifestyle."

Trustees and communication providers "need to get better at understanding their membership", agrees Fish, stressing that member communications are "a good example of poor process", with too many schemes continuing to use a "one-size-fits-all approach".

Citing an EIOPA report on good practices on communication tools and channels, Fish explains that segmentation can be crucial tool for trustees, as it ensures that key messages resonate with members.

Knowing your goal

Ensuring communications genuinely resonate with members is a crucial goal for trustees. But tools such as PLSA's Retirement Living Standards and modellers, which place more focus on the desired outcomes rather than the risks faced on the journey, are increasingly popular. So where should trustees place their focus when engaging members?

"Outcome for members is absolutely key to their later life. However investment risk is an important factor that needs to be considered as part of a members' journey," emphasises Fearn.

"Risk profiling," explains Ingram, "needs to measure the risk the individual needs to take in order to meet their desired income level and to compare this to the risk level they are comfortable with. Where there is a mismatch between the two, the member needs to be given guidance or advice about how they can resolve this."

Furnham agrees, emphasising that savers are "psycho-logical rather than logical", meaning that "they are persuaded, not only by the logic of any argument but how information is presented to them".

Sharing the message

This is where communications can play a crucial role, clarifies MacPhee, emphasising that pension communications have to "explain risk very clearly, in a way that encourages people towards behaviour that is likely to lead to better outcomes".

"It is important the communications to members make it clear what the risk level of the different funds are," agrees Fearn, "which includes the different components of the default. Members can then make more informed personal fund choices should they wish to do so."

Member communications and member attitudes to risk go hand in hand then, with both benefiting from an awareness of the other. And as further segmentation of member communications evolves, likely prompted by advances in technology, schemes will have to consider the role of behavioural psychology, such as attitudes to risk, more proactively.

Tailoring communications to match member attitudes will allow trustees to help members genuinely understand the decisions they are making, ensuring that members are able to benefit from the same knowledge and context that those within the industry enjoy.

Written by Sophie Smith

A matter of choice

Pensions Age **asks: How much fund choice, and in what variety, should DC pension schemes offer members?**

"In a world where we have too many choices and too little time, the obvious thing to do is just ignore stuff." - Seth Godin

Nowhere is this more true than in a pensions fund range. Therefore a limited choice, say around 10 to 15 individual funds, should be made available to members to choose from, and these funds should be as carefully governed as the default investment strategy. The choice of funds should be aligned to the needs of members and should include a range of asset classes from equities to bonds and cash.

ESG is becoming increasingly important and should also be included in the selection of funds – this should not be confused with providing a range of ethical funds – ESG can be integrated within any individual fund and does not have to be, and shouldn't be, a standalone fund.

Redington head of DC and financial wellbeing, Lydia Fearn

When thinking about fund choice, scheme sponsors and advisers need to acknowledge diversity in all its guises, diversity in market outlook, diversity in risk appetite and socially-responsible beliefs. It's therefore intrinsically obvious that each membership is likely to have diverging needs in fund choice; so a range of risk levels, asset classes and socially-responsible options are needed.

It is important not to overload members with options but where possible provide them with a stable set of options – and then to give them time to become familiar with these options.

Members find it much easier to make choices about socially-responsible/ESG beliefs than to make choices about asset classes, so as the impact market develops we need to embrace this and offer members choices they can engage with to help make pensions a source of empowerment.

Aon senior DC investment consultant, James Monk

Before embarking on considering what funds to select, those offering them need to consider defining 'investment beliefs' to guide future decisions and form the foundation of discussions on investment strategy and asset allocation. These beliefs could reflect core, long-term views that would not be expected to change frequently, as doing so may introduce avoidable costs.

Although not exhaustive, the following should be considered when selecting funds; governance and oversight, complexity, type, active versus passive, ESG integration and risks. The latter focusing specifically on market, currency and fund specific risks.

A balance then has to be struck between, by offering enough asset classes to capture the needs and beliefs on most investors but not too many that investors are confused or overwhelmed. Typically, we see a range offered, between seven to 12 funds.

Mercer partner and director of consulting, Brian Henderson

Evidence suggests most members will be better off in a well-governed default strategy, rather than making their own investment choices. Few members have the time, expertise and confidence to choose their own investment allocations and keep them under review over time.

Some limited choice may help members be confident in the scheme, knowing there is an alternative to the default. But the choice needs to be kept simple. Some schemes offer partial transfers so that the very few members who demand specialist investment choice can switch out to get the funds they want, avoiding complicating the schemes for the majority.

State Street Global Advisors head of pensions and retirement strategy, Alistair Byrne

We see a suitable range of funds for most schemes, including a well-thought-through default, which is constructed to meet members' needs for a decent standard of living in retirement, with downside protection along the way. Also available should be 'risk rated' funds, for members who don't understand asset classes, but can identify with being a 'high risk' or 'low risk' type of investor, and basic asset class options for more sophisticated members, eg global equity. Generally we support passive here, so that trustees can focus on the default and incorporating retirement flexibilities, while at the same time keeping costs down and meeting members' expectations. Finally, there should be options that match particular individual beliefs that aren't financially motivated (eg religious).

River and Mercantile head of DC Solutions, Niall Alexander

Looking at the number of funds available does not tell the whole story: the range in each case is appropriate for the membership. Offering a lower number of funds plays to every behavioural finance concept, particularly of not providing an overwhelming choice that stifles selection. The widest level of choice is offered by an employer that provides holistic financial advice as part of its benefits package.

SEI managing director, defined contribution, EMEA and Asia, Steve Charlton

We should be striving to ensure that members 'consciously' remain in the default and that is where communications play a vital role. It therefore follows that if we want members to better understand investments, we have alternatives in place for individuals that want them.
Alternative lifestyles should, at a minimum, cover the different options available at retirement (i.e. cash, drawdown, annuity) and cater for different risk appetites. Self-select funds should cover the main asset classes, have a selection of active and passive funds. and offer ESG options. The choice offered should also take into the account the governance budget of the scheme to manage them on an ongoing basis.
There should be no more than 30 fund choices available. After that point, the availability of choice will become counter-productive, with communications becoming cumbersome and members getting overwhelmed by the choices.

Capita head of clients, proposition and strategy, Anish Rav

Fund choices should span the key asset classes and should also offer members the option to invest in a manner that is consistent with their views (eg ESG, religious beliefs, etc). Furthermore, the introduction of pension freedoms has resulted in members' retirement options differing. Therefore, whilst a default investment strategy might target the retirement option that is expected to be the most popular amongst the membership, asset classes that help members to prepare for alternative retirement options should be available through a self-select strategy.

Quantum investment consultant, Jayna Bhullar

Behavioural evidence suggests that almost all those who automatically enrol onto a pension will remain within the default fund, so it makes most sense for schemes to concentrate their efforts on providing a best-in-class default fund. Schemes may also wish to provide funds that cater for people with particular needs or values. It is sensible to offer both an ethical fund and a Sharia-compliant fund, not to mention satisfying those with a lower risk appetite than would be appropriate for the default fund or, where the default fund asset allocation target does not cater for a member's needs.

The People's Pension director of policy, Gregg McClymont

The degree to which funds are made available will be dependent on the governance budget, in terms of time, expense and resource of the IGC or trustee board. This can be managed by having a view on the value of active- versus passively-managed funds for example and offering the appropriate option, rather than adding multiple options and leaving it for members to decide.
Due to the diversity of scheme members it is likely that there could be some interest in funds that are tailored to particular religious beliefs or have an ethical focus, but experience has shown that take up is extremely limited and hence these funds tend to be offered more as a tick-box function.

Schroders UK institutional client director, Ryan Taylor

Pensions history

The evidence for investing in equities

Fifty years ago, on 17 February 1970, George Ross Goobey speaking to the Birmingham branch of the Chartered Institute of Secretaries on the merits of equity investment for pension funds said: "I hope to be able to show you why there was plenty of justification for buying equities in the past, and why they should still be considered in spite of the attraction of British government securities on nearly a 9 per cent yield basis."

During his reading for the examinations in investment of the Institute of Actuaries there were two papers by H. E. Raynes, actuary of the Legal & General. The first paper covered the 15 years from 1912 to 1927, and there was no surprise to him that during this period of expansion and inflation caused by World War I the results were overwhelmingly in favour of equities, both income and capital wise. During the 15 years, an original investment of £1,000 each in 54 different companies (covering nine different industrial groups), produced excess income of £27,662. The initial £54,000 had appreciated to £80,073, whereas the fixed interest portfolio had depreciated from £54,000 to £42,588.

The results shown by the 1937 paper were particularly interesting for they covered the years 1927 to 1937, which included the 1929 worst slump in peoples' memories. Here again the income from equities during the 10 years was £34,880 compared with £34,423 for the fixed interest and the market value at the end was £97,144 for the equities compared with £89,402 for the fixed interest. In the second paper Raynes had increased the number of companies investigated to 66 (in 11 different industrial groups).

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

W	A	P	P	R	S	Y	T	E	I	R	A	V
O	E	H	Z	B	V	G	R	D	E	O	V	S
R	T	C	R	I	R	C	E	S	E	E	A	H
A	P	P	S	T	Z	S	X	O	H	V	T	A
A	T	E	T	P	R	H	E	I	Y	M	J	R
O	U	T	S	O	U	R	C	E	D	K	R	E
O	M	A	I	J	L	L	U	Z	V	P	R	H
R	S	D	T	T	E	I	T	L	S	I	L	O
R	P	Z	S	S	U	U	I	S	I	F	A	L
K	N	L	F	P	J	D	V	E	Z	V	T	D
Y	E	P	D	A	A	Z	E	T	E	S	L	E
O	P	A	E	E	B	M	S	S	E	H	I	R
D	I	V	E	R	S	I	T	Y	T	B	S	S

ATTITUDES
BHS
DIVERSITY
EXECUTIVES
MAPS
OUTSOURCED
SHAREHOLDERS
SIZE
VARIETY
VEHICLES

I know that face...

Answer at bottom of page

I know that face... Answer: PLSA director of policy and research, Nigel Peaple

PENSIONSAge JOBS

Pensions Age JOBS service – getting the best candidates for your key roles

Pensions Age is the leading media for the pensions market
(please see our main media kit for circulation statistics and breakdowns).

We can offer recruiters:-

- Vacancy advertised on our daily email newsletter which reaches over 25,000+ subscribers every day.
- Vacancy advertised at www.pensionsage.com the leading news portal for the pensions sector.
- Vacancy advertised in Pensions Age print, which has a circulation of over 15,000+ in print and 25,000+ tablet.

Please contact us for details.

John Woods +44 207 562 2421, john.woods@pensionsage.com
Camilla Capece +44 207 562 2438, camilla.capece@perspectivepublishing.com

PENSIONSAge

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

To Advertise in the Classified Section contact **Camilla Capece** - Telephone: **020 7562 2438** or email **Camilla.Capece@perspectivepublishing.com**

Professional Services Guide

To Advertise in the Classified Section contact **Camilla Capece** - Telephone: **020 7562 2438** or email **Camilla.Capece@perspectivepublishing.com**

ACCOUNTANTS AND ADVISERS

BHP

Offices in Sheffield, Cleckheaton, Leeds, Chesterfield and York.

Call us on 0333 123 7171
Email Howard at howard.ringrose@bhp.co.uk
or visit www.bhp.co.uk

BHP is a UK Top 40 accountancy firm. Our dedicated Pensions Assurance team comprises 15 specially trained, motivated, professional and approachable individuals. We act for over 60 UK pension schemes varying in size from small legacy schemes, to multi-employer hybrid schemes with net assets of over £400m. We excel in giving proactive advice and constructive audit feedback to assist Trustees with their audit compliance requirements. Our team also carries out a wide range of Employer Covenant review assignments for trustees and employers, including desktop reviews, in-depth strategic reviews and advising on the potential impact of corporate transaction activity.

FINANCIAL EDUCATION

INVESTMENT MANAGER

LaSalle INVESTMENT MANAGEMENT®

LaSalle Investment Management
One Curzon Street
London W1J 5HD
United Kingdom

Phone: +44 20 7852 4200
Fax: +44 20 7852 4404
www.lasalle.com

LaSalle is one of the world's leading real estate investment managers, with over $67bn of assets under management globally (as of Q2 2019). We are solely focused on real estate, which enables us to fulfil our primary objective of delivering competitive investment performance, along with the highest levels of client service.

Our London office of 175 people manages £12.8bn of direct equity & debt and £5.9bn of unlisted indirect investments. We have extensive successful experience of managing portfolios to both MSCI relative and real return performance targets as well as assets and strategies targeting index-linked and absolute returns (for equity and debt investments).

PENSIONS ADMINISTRATORS

Interconnected. Insightful. Incisive

Pensions administration, actuarial consulting, pensions secretariat and member advice

www.premiercompanies.co.uk 020 3727 9800

premier

See change.

TECHNOLOGY PROVIDERS

Pension Software Solutions Limited

- Fully Automated Pension Administration Platform For All Plan Types
- Customisable Screens, Forms, Letters, Dashboards, Calculations & Reports
- Online Dashboard for HR, Members and the Administration Team
- Plan Websites
- Cloud Based With Low Annual Charge Per Member

AURORA

www.pension-software.com | Telephone Dolores on: +44 7936 414797 | Email: info@pension-software.com

TRUSTEE LIABILITY INSURANCE

OPDU

WWW.OPDU.COM

OPDU
90 Fenchurch Street
London EC3M 4ST
www.opdu.com
Contact: Martin Kellaway
Title: Executive Director
Email: enquiries@opdu.com

OPDU is a specialist provider of pension trustee liability insurance covering trustees, sponsors and pensions employees in a stand-alone policy. Our policy covers all risks including GDPR, Cyber and Regulator Investigations. We can also provide cover for: pursuing third party providers, theft, retired trustees and court application costs. Benefits include our own claims service and free helpline and free CPD training covering trustees protections and how insurance works for groups of 6+

Please contact us for a free no obligation premium indication to see how we can help.

---

ulp

The PTL Experts

Karen Mansfield
01234 340266
kmansfield@ulpltd.co.uk
www.ulpltd.co.uk

1. ULP is an independent Insurance Broker working for Trustees and their Advisers to achieve the best Pension Trustee Liability Insurance solutions.
2. ULP provide bespoke solutions and approach a wide selection of Insurers to scope the most appropriate and competitive cover.
3. We have a wealth of experience in assisting Trustees and Advisers with Schemes of all shapes and sizes, including complicated placements.
4. We can assist with cover for 'Live' Schemes, and have particular expertise in helping to source long-term Run Off cover for Schemes approaching 'Wind Up'.

PENSIONSAge

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

To Advertise in the Classified Section contact **Camilla Capece** -
Telephone: **020 7562 2438** or email **Camilla.Capece@perspectivepublishing.com**


DISCOVER
BETTER DC
built on INSIGHT
Our expertise in Defined Contribution pensions is built on our wealth of market data, renowned consultancy services and our range of award-winning pension solutions.
We can offer the complete range of DC services for employers or trustees, helping you find the right solutions for you and your members.
We recognise the challenge of providing more for your members, while still achieving value for money. Request a copy of our latest DC research to find out more about what others are offering.
Talk to us now. Call +44 (0)800 279 5588, email talktous@aon.com or visit aon.com/dcpensionsuk
Aon Hewitt Limited is authorised and regulated by the Financial Conduct Authority. Aon Hewitt Limited Registered in England & Wales. Registered No: 4396810. Registered Office: The Aon Centre, The Leadenhall Building, 122 Leadenhall Street, London EC3V 4AN.
AON
Empower Results®