ESG
How schemes can, and should, communicate its ESG efforts to members

Financial advisers
How the growing use of technology may help close the advice gap

Choosing providers
How trustees can appoint the best providers and advisers for their schemes' needs

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February 2021

PENSIONS*Age*

The leading pensions magazine

Interview: *The Financial Services Compensation Scheme discusses the importance of informed consumer decisions*

Dormant assets: *The government's Dormant Assets Scheme can now include untouched pension funds. What impact does this have on the industry?*

Brexit: Crossing the finishing line

The Brexit transition period is over, but its impact on UK pension schemes is just beginning

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Standard Life
There's a lot to look forward to

Editorial Comment

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

2021 – one month down (which in this time of lockdown made January feel even more never-ending than it normally does) and it was a busy one, with many positive developments occurring to hopefully generate a brighter future. After all, vaccinations offer us a way out of this dystopian nightmare, Brexit has finally 'properly' happened and, lo and behold, after about a year of wrangling, the Pension Schemes Bill is set to receive Royal Assent.

But just as there is still a long way to go until enough people are vaccinated to unleash us from de-facto house arrest, so there is still the devilish detail to attend to before we can consider Brexit and this bill 'finished'.

With Brexit, as our cover feature on page 42 points out, the financial services sector is barely mentioned within the UK-EU Trade and Cooperation Agreement. This means that uncertainty remains for the pension scheme providers and asset managers that had operations in the EU, along with trustees of schemes that were previously authorised and approved to operate cross-border.

Meanwhile, the Pension Schemes Bill does indeed set out the framework for pensions dashboards and collective defined contribution (CDC) schemes, as well as expanding The Pensions Regulator's powers, but how all of this will actually be implemented will be subject to much secondary legislation and codes of practice yet to be created, as our news focus on page 10 notes.

Last month also saw the government's Dormant Assets Scheme expanded to include pensions and investments, unlocking up to £800 million for use in charitable causes.

Our feature on page 27 finds that, while the pensions industry may be keen to participate in principle, just like the pensions bill, there are some practicalities to overcome. These include concerns about how to accurately define 'dormant' funds, given that pension funds are long-term saving vehicles.

Continuing the march to ensure pension money is put to good use, the government confirmed in January that pension schemes with more than £5 billion in assets will need to have effective governance and risk management in place to assess and manage climate risk.

These increasing environmental, social and governance (ESG) regulations on schemes will likely lead to a rise in ESG enquiries from scheme members, our feature on page 30 predicts. It highlights that a clear message, without jargon, is vital when communicating ESG matters to members.

Communicating to members to let them know about the greater good their pension money is doing, and much more, is vital. After all, finally realising the immense power and influence UK Pensions plc has, and utilising it wisely, is to be celebrated, and quite frankly it is about time, but its biggest goal is still to best service the needs of its members.

That is why I was pleased to see, among all the 'big' government announcements last month, that it also remembered to focus on the 'small', announcing its intention to abolish flat-fee charging structures on auto-enrolment pension pots worth £100 or less.

Also, for pension pots large and small, this month sees the launch of the FCA's investment pathways framework – four different plans designed to help customers reach one of four distinct retirement objectives.

The investment pathways may help people make a 'better' decision about their money instead of simply defaulting into cash, but they are no substitute for financial advice – even if people are unwilling or currently find it too difficult/expensive to access advice, our feature on page 56 finds.

More change is coming soon, not least with an expected second pensions bill this parliament. It will likely focus on DB superfund provision, but I sincerely hope it will also feature methods to improve the individual's own saving experience, such as a relaxation of the interpretations of advice and guidance, and to ensure mandatory Pension Wise appointments – this being an amendment put forward for the current pensions bill but voted down by the House of Commons.

There are exciting and positive times ahead for the world, UK/Europe relations, the pensions industry as a whole and, let's ensure, for individual savers too.

Laura Blows, Editor

COVER FEATURE

Theme: Making choices

Brexit: Crossing the finishing line

Francesca Fabrizi discovers that, while the Brexit transition period is over, there is still plenty that pension schemes need to do to keep on top of the changes

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

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News, views & regulars

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NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 14,481 (July 2019–June 2020) print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20). Our print circulation is around 300% higher than the next nearest title, and 500% higher than the third title.

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Dateline - January 2021

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

4 January The accounting deficit of FTSE 350 companies' defined benefit (DB) pension schemes nearly doubled last year, increasing from £40bn at the end of 2019 to £70bn at the end of 2020, according to **Mercer**. The provider's *Pension Risk Survey* data shows that liability values had risen by £99bn over the past year, increasing from £815bn at 31 December 2019 to £914bn at the end of December 2020, which it attributes to falls in corporate bond yields. This was partially offset as asset values also increased over the period, rising from £775bn at the end of 2019 to £844bn at the end of 2020.

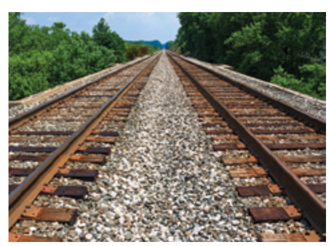
6 January Action Fraud receives 637 reports of pension scams in 2020, of which 545 were passed to UK law enforcement for action. Speaking to the Work and Pensions Committee (WPC) on pension scams, City of London Police national coordinator for economic crime, Commander Clinton Blackburn, notes that although reported pension fraud had been steadily decreasing since 2015, there was a "slight upward trend" in 2019/20.

8 January The **Labour Party** names Reading East MP, Matt Rodda, as Shadow Pensions Minister amid a frontbench reshuffle. Rodda replaces Jack Dromey, who has been moved to the Cabinet Office team after holding the role for the past three years. Prior to this, Rodda served as Shadow Minister for Buses under Labour leader, Keir Starmer.

11 January The **government's** Dormant Assets Scheme is to be expanded to include pensions and investments, unlocking up to £800m for use in charitable causes. Assets held via vehicles including savings endowments, investment bonds and income drawdown will be made available for a range of UK projects through the scheme, with over £745m having already been distributed to a variety of causes using dormant assets held in banks and building societies. The government's announcement says funding raised through the scheme would "enable continued support of good causes, social investments and environmental initiatives". The scheme will always allow policyholders to claim their money back, no matter how long the fund has been deemed dormant. The expansion follows a four-year review, which the government says showed "widespread support for expanding the scheme".

12 January The government confirms that additional powers for **The Pensions Regulator (TPR)** outlined in part three of the Pension Schemes Bill will not be applied retrospectively, and are expected to be available to TPR by autumn 2021. In response to a parliamentary written question, Pensions Minister, Guy Opperman, also confirms that TPR will provide guidance on the use of the new criminal sanction powers, although it will first undertake an industry consultation.

13 January The **government** announces plans to abolish flat fees on auto-enrolment pension pots worth £100 or less following a consultation on charge caps. The announcement states that this minimum would be kept under review with a view to an increase at some point in the future, while it also acknowledges that it would take the work of the Department for Work and Pensions' (DWP) small pots working group into account. Additionally, it confirms that there will be no change to the 0.75 per cent charge cap for auto-enrolment pensions and transaction costs will not be included. Explaining its reasoning, the consultation response cites the *Pension Charges Survey 2020* finding all members in the qualifying schemes were now below the cap and the average charge was 0.48 per cent.



14 January TPR says it received "general support" in its interim response to its first DB funding code consultation, although some concerns have been raised about proposed twin track routes. Most prominent of the concerns are the risks associated with where fast-track guidelines would be set, proposed fast-track guidelines for open schemes, a potential loss of flexibility, an increased evidential burden for schemes taking the bespoke route, the bespoke route being perceived as 'second best' and reliance on covenant being watered down.

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

18 January The **Pensions Dashboards Programme** (PDP) doubles in size in 12 months, with the project now moving towards procurement and further collaboration with pension providers and schemes. PDP principal, Chris Curry, says the project has "built a strong team, with a range of skills and expertise, who support each other admirably to overcome the continued challenges we face" and notes that there is "optimism" within the PDP amid continued progress.

18 January The latest findings from the **Financial Conduct Authority** (FCA) show "some signs of improvement" around DB transfer advice, although concerns around the supply of advisers remains a concern amongst industry experts. The FCA's data finds a "significant fall" in conversion rates, which it highlights as an indication that firms are starting to act more in line with expectations and messages that for DB advice, in most cases, a transfer is not in the client's best interests.

19 January The **Pension Schemes Bill** will receive Royal Assent and become law following a final parliamentary debate in the House of Lords. Debate centred on the final House of Commons' amendments and amendments from the House of Lords that were rejected, with the Lords agreeing with the Commons' decisions and wording. The bill sets out the framework for the introduction of pensions dashboards and collective defined contribution schemes, expands TPR's powers, and requires schemes to adopt and report against the recommendations of the Task Force on Climate-related Financial Disclosures. Once the bill receives Royal Assent, it will become the Pension Schemes Act 2021.

19 January The **XPS Red Flag Index** hit a record high in December 2020, with 76 per cent of DB transfers showing at least one warning sign of a potential scam, representing a six-month continuous rise in the number of red flags. DB transfer activity fell 20 per cent in 2020, whilst pension scam red flags increased, with 49 per cent of cases processed during 2020 showing at least one red flag, compared to 34 per cent in 2019.

20 January "Challenging timelines" mean that the **Universities Superannuation Scheme** (USS) could miss its triennial valuation deadline of 30 June, according to USS chief executive, Bill Galvin. Galvin states that unless the Joint Negotiating Committee (JNC) concludes on an answer to the scheme's report "immediately on receipt", it is likely to miss the statutory deadline. He also concedes that even if the JNC responded with an answer immediately, the scheme may still miss the deadline.

21 January The **government** confirms that the auto-enrolment pension earnings trigger will remain at £10,000 for the sixth year running, despite calls from the industry for the threshold to be lowered or removed. It states that this represents a real-term decrease in the value of the trigger when combined with assumed wage growth, predicting that it will bring in an estimated 8,000 additional savers. The government also emphasises that the Secretary of State for Work and Pensions, Thérèse Coffey, had considered the "latest analytical evidence" in concluding that the existing threshold of £10,000 remains at the correct level.

22 January HMRC has de-registered 770 schemes since 2014 that had been used for pension liberation scams. A letter from WPC chair, Stephen Timms, says pension scam victims had cited a scheme's registration with HMRC as a "crucial factor" in their decision to transfer, and he asks HMRC what action it had taken to prevent this in future. In response, Economic Secretary to the Treasury, John Glen, highlights that legislation passed in 2013 to help deter promoters of liberation scam schemes had led to an 88 per cent reduction in applications to register new pension schemes.

News focus

Pension Schemes Bill to receive Royal Assent

Over a year since its introduction, the Pension Schemes Bill passed the final parliamentary hurdle on its journey to becoming law and will receive Royal Assent. The final debate took place in the House of Lords and focused on amendments that had been added or removed in the House of Commons

The Pension Schemes Bill will receive Royal Assent and become law following a final parliamentary debate in the House of Lords.

Debate centred on the final House of Commons' amendments and amendments from the House of Lords that were rejected, with the Lords agreeing with the Commons' decisions and wording.

The bill sets out the framework for the introduction of pensions dashboards and collective defined contribution (CDC) schemes, expands The Pensions Regulator's (TPR's) powers, and requires schemes to adopt and report against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

Once the bill receives Royal Assent, it will become the Pension Schemes Act 2021.

Despite its passage through parliament, LCP noted that "large sections" of the bill will not come into force for "many months" and key provisions on pension scheme funding may not be implemented until 2022.

LCP's analysis stated that further regulations were needed on CDC schemes, dashboards, climate change governance, regulatory powers, defined benefit (DB) scheme funding and pension transfers.

"Although this feels like the end of a long journey, in reality it is more like half-time," commented LCP partner and head of research, David Everett.

"To put a new Act of Parliament into effect requires a large amount of secondary legislation, codes of practice and guidance and this needs time to be drafted, consulted on and implemented.

"We expect to see a phased implementation of the new Pension Schemes Act, with the scheme funding powers almost certainly not biting until well into 2022.

"There will be much for the pensions industry to do in terms of engaging with this process to make sure that everything is fit for purpose."

The bill passed the report stage and third reading in the House of Commons on 16 November 2020, with several proposed amendments, including committing schemes to net-zero carbon emissions by 2050 and mandatory Pension Wise appointments, being voted down by the Commons.

Pensions Minister, Guy Opperman, has said that he expects there to be a further pensions bill in the current parliament, which would include DB pension superfund legislation.

Earlier in the month, the government confirmed that additional powers for TPR outlined in part three of the Pension Schemes Bill will not be applied retrospectively, and are expected to be available to TPR by autumn 2021.

In response to a parliamentary written question, Opperman also confirmed that TPR will provide guidance on the use of the new criminals sanction powers, although it will first undertake an industry consultation on this.

He stated: "TPR will be producing guidance on the use of the new criminal sanction powers and it plans to undertake a consultation first with industry to ensure these vital views are captured.

"There are also other powers in part three of the bill that require implementing regulations and the aim is for these powers to be available to TPR by autumn 2021.

"None of the provisions in part three of the bill will be retrospective and the new criminal sanctions and information gathering powers will apply to all schemes where the act occurs, or in the case of a series of acts commences, after the powers come into force."

The potential for retrospective application of the powers had sparked concerns within the industry, with LCP warning that a retrospective effect could have allowed the regulator to look to events that happened as far back as 2015, prior to the government setting out its initial proposals.

Considering this, Everett welcomed the latest confirmation from the government, emphasising that corporate decision makers should not be in a position of facing new penalties for actions taken in the past.

However, he warned that further guidance on how the powers will be used, and specifically on how having a "material impact" on pension scheme funding will be defined, was still needed.

Everett stated: "The ministerial statement is very welcome news and is consistent with how previous powers in this area were introduced.

"What is disappointing is that there is no undertaking that the regulator will provide guidance on the new Contribution Notice tests. But it will surely need to, in order to explain when certain 'materiality' provisions of the legislation are likely to operate."

Directors and trustees have been urged to take action to avoid being made criminally liable under the extended powers for TPR.

LCP warned that the powers could have "far reaching implications" for corporate Britain, stating that the criminal offences and civil penalties laid out in the act will have a "much wider scope" and cover a broader range of corporate activity than was originally outlined in the white paper.

Considering this, the firm emphasised that the legislation is not purely a matter for pensions managers or trustees.

Instead, it stressed that the extended powers should be "on the radar" of all key decision makers to avoid potential fines or jail time as a result of financially material business decisions they are party to.

In particular, the firm has highlighted concerns around the new 'conduct risking accrued benefits' offence, stating that this is "potentially very wide reaching", and could see those undertaking what had previously been normal business activity caught in a plain reading of the law.

Furthermore, it stressed that this offence brings the risk of a £1m personal fine or custodial sentence for trustees, if it were judged that their action, or inaction, reduced the likelihood of members receiving their benefits.

The firm also warned that the act will broaden TPR contribution notice powers "substantially", introducing two new tests that are more objective in nature.

LCP argued that previously normal business activity, such as material restructuring or dividend decisions, could breach these new tests.

This will mean that a "much wider range" of corporate activity will need to demonstrate a clear audit trail of the process of reasonable decision making, as well as supporting analysis to show how the pension scheme has been considered and, where needed, provided with extra cash or guarantees.

Written by Jack Gray and Sophie Smith

NEWS IN BRIEF

A total of £2.4bn was withdrawn from pensions flexibly in Q4 2020, representing a 6 per cent year-on-year increase and bringing the total value of flexible withdrawals since the introduction of pensions freedoms in 2015 to over £42bn, **HMRC** has confirmed. The withdrawals were made by around 360,000 individual savers, a 10 per cent increase from the 327,000 seen in Q4 2019 and a 4 per cent increase compared to Q3 2020.

Four **Evonik** pension schemes have agreed to full buy-ins with Legal & General (L&G) totalling £544m, securing the benefits of over 3,600 UK defined benefit scheme members and merging the schemes. The trustee and the speciality chemicals company worked with L&G on a sole insurer basis to complete the transactions by the end of 2020, within three months of initial discussions.

Intermediate Capital Group (IGC) has agreed to acquire **Broadstone**, an independent provider of specialist pensions, trustee and employee benefits solutions, from Livingbridge. Mid-market private investor, Livingbridge, originally made its investment in Broadstone in 2016 through the Livingbridge 5 fund. Broadstone was founded within BDO Stoy Hayward in 1989.

The **All Party Parliamentary Group** for Local Authority Pension Funds has launched an inquiry into "responsible investment for a just transition" to a net-zero economy. The inquiry, which will be chaired by MP Clive Betts, will examine how the UK can transition to a net-zero economy in a way that will not leave people and communities behind, ahead of the United Nations' climate change conference in Glasgow.

VIEW FROM TPR

At time of writing (2 February), the Pension Schemes Bill is on course to gain Royal Assent. It includes proposals for new criminal powers against those who recklessly risk savers' retirement outcomes in DB schemes.

A person may only be prosecuted if they knew, or ought to have known, that the act or failure would have the effect as described by the offences, and they had no reasonable excuse for being involved in the act or failure.

This would need to be proved beyond reasonable doubt – a high threshold for a prosecuting authority such as TPR to meet.

The times we are living in may mean sponsors face unusual challenges, such as from Covid-19 or Brexit, and those challenges may mean tough decisions have to be made. But those challenges would be highly relevant to the reasonableness of a person's conduct if those tough decisions are examined in relation to the new offences. The nature of 'reasonable excuse' recognises the specific circumstances a person was in when they took that decision.

We expect our considerations will include whether adequate mitigation was provided to the scheme to offset the detrimental impact and, if not, whether there was a viable alternative course of action that could have had less detrimental impact.

TPR will work closely with all stakeholders, including through consultation, to produce guidance on the criminal offences. This guidance will inform and guide industry, ensuring these powers are introduced in the most effective way.

TPR executive director of regulatory policy, analysis and advice, David Fairs

The Pensions Regulator
Making workplace pensions work

Govt to scrap flat annual charges on AE pension pots worth £100 or less

Following its consultation on charge caps, the government has announced its intention to abolish flat-fee charging structures on auto-enrolment pension pots worth £100 or less. The industry broadly welcomed the announcement, but some called on the government to go further in reforming the system

The government has announced plans to abolish flat fees on auto-enrolment (AE) pension pots worth £100 or less following a consultation on charge caps.

The announcement stated that this minimum would be kept under review with a view to an increase at some point in the future, while it also acknowledged that it would take the Department for Work and Pensions' (DWP) small pots working group's findings into account.

Additionally, the announcement confirmed that there will be no change to the 0.75 per cent charge cap for auto-enrolment pensions and transaction costs will not be included.

Explaining the reasoning behind this decision, the consultation response cited the fact that the *Pension Charges Survey 2020* had found all members in the qualifying schemes covered by this research were now below the cap and the average charge was 0.48 per cent across all members.

It added that some respondents had raised concerns about the impact of market uncertainties from events such as Covid-19 and the importance of affording schemes the flexibility of using headroom to deal with these challenges.

The DWP's Review of the Default Fund Charge Cap and Standardised Cost Disclosure was launched in June 2020 and ran through until August, seeking responses from trustees, providers, civil society organisations, scheme members and other stakeholders.

The ban is designed to protect small pots, which are often caused by savers switching jobs frequently and being automatically signed up to new pension schemes each time, from being eroded by providers' charges.

However, the government said it would not be forcing pension companies to adopt new fee templates.

Smart Pension director of policy, Darren Philp, said: "We welcome the outcome of this consultation which limits the impacts of flat fees on members with the smallest pots.

"The introduction of the de minimis at £100 strikes a sensible balance between protecting the member and provider sustainability.

"The application of the de minimis to active members will need a lot of thought as it could be operationally complex as well as inconsistent with other industry charging practices, and we look forward to picking up on these issues during any consultation on the implementation."

However, PensionBee chief engagement officer, Clare Reilly, called for the government to go further. She commented that the new measures did not go far enough "to prevent excessive charges and ensure hard working people retain as much of their retirement savings as possible", and highlighted the deferred pots created through automatic-enrolment.

She continued: "In order to address this problem once and for all and prevent savers from accumulating a number of small pots throughout their working lives, we are calling for a radical rethink of the system."

In other news, the government has confirmed that the auto-enrolment earnings trigger will remain at £10,000 for the sixth year running, despite calls from the industry for the threshold to be lowered or removed.

It stated that this represents a real term decrease in the value of the trigger when combined with assumed wage growth, predicting that it will bring in an estimated 8,000 additional savers.

The government also emphasised that the Secretary of State for Work and Pensions, Thérèse Coffey, had considered the "latest analytical evidence" in concluding that the existing threshold of £10,000 remains at the correct level.

It stated: "The decision reflects the key balance that needs to be struck between affordability for employers and individuals and the policy objective of giving those, who are most able to save, the opportunity to accrue a meaningful level of savings to use for their retirement.

"It also reflects the need for stability at this point in the light of the challenging economic circumstances arising from the Covid-19 pandemic and whilst we continue to learn from the increases in minimum contribution rates in April 2018 and April 2019.

"It provides consistency of messaging for both employers and jobholders."

The lower earnings limit of the qualifying earnings band has also been frozen, and will continue to be set at £6,240 for 2021/22.

The government acknowledged, however, that the 2017 review of AE had proposed the removal of this limit in the mid-2020s.

It said that the report was clear that implementation should be subject to learning from the workplace contribution increases in 2018 and 2019 and finding an affordable implementation approach.

As such, the government stated that it will pay "close attention" to the impact and costs of making changes and consider the optimal approach on implementation in light of the impact of Covid-19 and the overall focus on the economic recovery, whilst still supporting long-term saving.

It also clarified, however, that this does not pre-empt this year's or any future annual thresholds review, and would be pending the introduction of legislation which would need to be enacted to remove the lower earnings limit.

The upper limit, meanwhile, has seen a small increase to £50,270, compared to £50,000.

Commenting on the review, Aegon head of pensions, Kate Smith, stated: "For the sixth year running the auto-enrolment earnings trigger has been frozen at £10,000 a year.

"As one of the three factors which determines who is automatically enrolled into a workplace pension and gets the automatic right to an employer contribution, it's an important one.

"Freezing the earnings threshold for another year, means that the real value of the threshold has fallen, allowing an estimated additional 8,000 employees to be auto-enrolled into their employer's workplace pension."

Written by Duncan Ferris and Sophie Smith

VIEW FROM THE ACA

As the owners of over £2 trillion of assets, UK pension schemes have a massive role to play in action on climate change risks.

The ACA is supportive of aligning the reporting and governance of pension schemes on climate-related risks to the TCFD requirements. Whilst it is positive that some schemes have started to consider and take account of climate-related risks in investment matters, our recent *Pension Trends Survey* findings show that many schemes have a long way to go to catch up with the ambitions of the government and industry.

The ACA believes the implementation of the TCFD requirements will need to be flexible and evolve as knowledge and experience of climate risk management develops in the UK pensions industry. To help schemes implement effectively and efficiently, we have called for The Pensions Regulator to produce an Annual Climate Risk Management Statement to guide trustees in this area.

This year's survey underscores that defined contribution (DC) schemes are falling some way behind defined benefit schemes in both recognising climate risks and in reviewing how investments might need to be adjusted to mitigate, or take advantage, of climate challenges. Whilst master trusts are shaping their default funds to take account of climate risk, it seems many traditional DC schemes are relying on members to mitigate risk through their self-select fund options. This is a concern given the vast majority of members' funds are invested in default funds.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

VIEW FROM THE PLSA

Over the past few years there has been a gradual epiphany amongst asset owners, managers, regulators and legislators that the pensions industry manages a lot of money. And, with that it is consistent with our fiduciary duty to use it to make the world a better place.

Of course, the industry is inevitably behind the curve compared to public opinion. But there is a difference between the rightly emotive popular response to climate change and the hard, analytical, risk-focused professional one.

The first argues that we should disinvest from assets that do much harm. The argument goes on to suggest that if we all, unilaterally, took this course of action the firms in question would simply die. The second argues that as asset owners we have powers to change firms' behaviours. We have leverage to force them to change how they operate. The argument suggests that if we use this leverage, we can force these firms to be less harmful over time.

So, where should we sit? I sit firmly all over the place on the wider investment debates. I could go either way on active versus passive. But on the question of dump versus hold I am firmly in the hold camp.

Why? Because of the evidence. I have seen the oil companies become the biggest investors in renewable energy sources. I have seen weapons manufacturers agree to stop producing cluster bombs. I have seen no evidence of a major company shutting-up shop due to being starved of investor capital.

PLSA chairman, Richard Butcher

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DWP confirms climate reporting changes for large schemes

Following its 2020 consultation, the government has confirmed that occupational pension schemes with more than £5bn in assets and authorised master trusts will need to have effective governance and risk management in place to assess and manage climate risk in preparation for meeting TCFD requirements and publishing a climate risk report

The Department for Work and Pensions (DWP) has issued its response to last year's Taking Action on Climate Risk consultation and published a new consultation on the draft regulations and statutory guidance to implement the requirements.

In its response, the DWP confirmed that, from 1 October 2021, occupational pension schemes with more than £5bn in assets and authorised mater trusts will need to have effective governance, strategy, risk management, and accompanying metrics and targets for the assessment and management of climate risks and opportunities in place.

Trustees of these schemes must meet climate governance requirements, publish a Taskforce on Climate-related Financial Disclosures (TCFD) report and include a link to the report in their annual report and accounts by the end of 2022.

The requirements outlined above will extend to schemes with more than £1bn in assets from October 2022 and the end of 2023 respectively.

The government had previously stated that it would review extending requirements to all schemes in 2024, but has now revealed it will conduct the review in 2023 for consultation in 2024.

In its new consultation, the DWP's proposed regulations will require trustees of relevant schemes to meet TCFD requirements and report on how they have done so.

A TCFD report publication deadline of seven months will apply for all relevant schemes from their respective scheme year end dates.

Trustees will need to undertake scenario analysis in the first year and every three years thereafter.

The website address of the published TCFD report must also be added to the annual funding statement for defined benefit (DB) schemes to make it more widely known to members.

"Climate change is a major systemic financial risk and threat to the long-term sustainability of UK private pensions," commented Pensions Minister, Guy Opperman.

"With almost £2trn in assets under management, all pension schemes are exposed to climate-related risks and I am committed to ensuring trustees do everything they can to limit this risk to their members' future retirement income."

The DWP plans to use the new climate risk powers outlined in the Pension Schemes Bill to make the regulations on which it is now consulting.

Non-statutory guidance for pension trustees to assist in aligning their schemes with TCFD recommendations and reporting has also been published.

Written by Jack Gray

FCA FINANCIAL CONDUCT AUTHORITY

Editorial credit: Ascannio / Shutterstock.com

DB funding code consultation receives 'general support'

The Pensions Regulator's (TPR) defined benefit (DB) pension funding code consultation received "general support", according to the regulator. However, concerns persist around how its new twin-track approach to funding will operate, with TPR expecting to publish its second consultation on the code in the second half of 2021

TPR said it received "general support" in its interim response to its first DB funding code consultation, although some concerns have been raised about the proposed twin-track routes.

The consultation aimed to scope out what the revised DB funding code may look like under the new developing legislation, asking for views on proposals such as TPR's proposed regulatory approach of implementing twin track routes to demonstrating compliance, the principles that should underpin all valuations in the revised framework and ideas on how these principles could be applied in practice.

The regulator stated that there were 127 responses to the consultation across a broad range of stakeholders, generating 6,000 comments in total, and noted that there was general support for the principles and regulatory approach proposed in the consultation.

It did however acknowledge that some respondents raised concerns about how the principles would be applied in practice through the proposed twin track regime.

Most prominent of the concerns were the risks associated with where fast-track guidelines would be set, proposed fast-track guidelines for open schemes, a potential loss of flexibility, an increased evidential burden for schemes taking the bespoke route, the bespoke route being perceived as "second best" and reliance on covenant being watered down.

TPR executive director of policy, David Fairs, commented: "Our first consultation was complex, and we are grateful for the well thought-out responses. We are now working through the issues raised from more than 6,000 comments received. We will be developing our fast-track guidelines while taking into account the very challenging current economic conditions, and we will carefully assess any potential impacts.

"Our revised code of practice has to be consistent with new legislation, so we will have to wait for the passage of the Pension Schemes Bill through parliament and the Department for Work and Pensions' consultation on draft regulations, currently expected to be in the first part of this year. We therefore anticipate publishing our second consultation in the second half of 2021."

The regulator said its second DB funding code consultation in the second half of the year would include the draft code of practice for consultation and its proposed regulatory approach, and an impact assessment and supporting analysis.

Written by Duncan Ferris

VIEW FROM THE PMI

Towards the end of last year, the PMI partnered with River and Mercantile to research trustees' views on the development of the fiduciary management market. Whilst the survey sought opinions over a medium- to longer-term time horizon, what was immediately striking was that trustees' principal concerns are focused very unambiguously on the short term.

The nature of the pandemic and the pressures it has generated has left many trustee boards with a very stark focus. Their principal concern – more so than at any time over the past decade – is the strength of the employer covenant.

With the constraints on businesses that have applied since the commencement of the first lockdown, insolvency has become a real threat. FlyBe was the first high-profile corporate casualty and other well known high street names have followed.

The Pensions Regulator has responded in a manner that has been both timely and pragmatic, and a range of easements to existing funding objectives have bought many employers precious time. However, we must recognise that there will be many further corporate failures before the current emergency has subsided.

It is important to remember that all the preparation in the world will not be enough to protect scheme sponsors from failure. However, we should take comfort from the knowledge that the UK's regulatory culture has the flexibility to accommodate this.

Ultimately, members' benefits continue to be protected, and we should all derive some comfort from this.

PMI director of policy and external affairs, Tim Middleton

VIEW FROM AMNT

The meaning of words evolves over time, reflecting changes in societies. For instance the word 'enthusiasm' now means 'intense and eager enjoyment, interest, or approval'. However, its original meaning, particularly in medieval times, was 'religious fervour supposedly resulting directly from divine inspiration, typically involving speaking in tongues and wild, uncoordinated movements of the body'.

In pensions the word 'governance' is tending to take on a meaning beyond the dictionary definition or normal usage.

Governance encompasses the system by which an organisation is controlled and operates, and the mechanisms by which it, and its people, are held to account. Ethics, risk management, compliance and administration are all elements of governance.

Such control and operation is an overarching position taken by all forms of trusteeship, including pension trustees. However there is a growing tendency in the pension industry to equate the word 'trustee' with 'expert'.

Pension trustees are vital in providing scheme members with good quality trust-based pensions and protecting members' benefits. Members rely on trustees to be effective guardians of their rights and benefits. But by the very nature of the role they are 'generalist,' not 'experts.'

Some will say this is just 'a rose by any other name' but the changing of the meaning of a name can have grave implications for deciding who protects the member's interests. Beware; words are a form of action, capable of influencing change.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

USS could miss 2020 triennial valuation deadline

The Universities Superannuation Scheme (USS) has said that it could miss its triennial valuation 2020 statutory deadline of 30 June 2021 due to "challenging timelines". In other news, the National Grid UK Pension Scheme has announced its intention to achieve net-zero carbon emissions in its portfolio by 2050

"Challenging timelines" mean that the Universities Superannuation Scheme (USS) could miss its triennial valuation deadline of 30 June, according to USS chief executive, Bill Galvin.

Galvin stated that unless the Joint Negotiating Committee (JNC) concludes on an answer to the scheme's report "immediately on receipt", it was likely to miss the statutory deadline.

He also conceded that even if the JNC responded with an answer immediately, the scheme may still miss the deadline.

The scheme, which serves around 500,000 members from 340 institutions, is undertaking its three-year valuation, with the effective date of 31 March 2020, and noted that it had received a covenant proposal from Universities UK (UUK), which it described as "very helpful".

However, Galvin commented: "It, indeed, is some way short of what we had asked for – and, indeed, what we had hoped for – but it has allowed real and tangible progress to be made in the last few weeks.

"We believe that, with this information, the trustee has all of the components required to decide on the structure and the conclusions of the report to the JNC that signals it's now to the stakeholders' task to find a solution. We expect that report to come together in the coming days."

He added that contribution increases in October were "close to being an inevitable occurrence".

The scheme said it had informed The Pensions Regulator of the situation.

Meanwhile, the National Grid UK Pension Scheme has announced plans to achieve a portfolio of assets with net-zero carbon emissions no later than 2050, or "earlier if possible".

The scheme highlighted climate change as the "defining issue of our time", stating that it is becoming "increasingly apparent" that the result of unchecked climate change will have negative financial repercussions for pension schemes.

As part of this strategy, the scheme has announced that it will divest from thermal coal-related assets by 2022, adding that this is not only the most carbon-intensive of energy sources, but is also the sector most likely to become obsolete.

The scheme argued that there was "no plausible path" to sustainability for the thermal coal-related market, with carbon emissions from existing and planned coal plants taking up between a half and two-thirds of the remaining 1.5°C carbon budget.

Written by Duncan Ferris and Sophie Smith

Appointments, moves and mandates


Wyn Francis

BT Pension Scheme Management (BTPSM) has announced the appointment of Wyn Francis as chief investment officer (CIO) with immediate effect.

Francis succeeds Frank Naylor in the role, who is retiring on 30 June after 16 years. Naylor will remain with BTPSM until his retirement, working towards completing a "range of key projects". Francis joined BTPSM in 2008 as head of investment risk, becoming deputy CIO in 2014. In his role as deputy he was responsible for portfolio implementation, including manager selection and oversight of the in-house managed LDI portfolio, and worked with Naylor on portfolio construction. Previously, Francis spent 10 years as a consulting director at PwC and KPMG, where he managed teams responsible for providing market and trading risk management advice.

Commenting on the appointment, BTPSM CEO, Morten Nilsson, said: "Wyn is uniquely placed to take the reins as CIO and has unparalleled knowledge of the unique challenges facing the scheme."


Varsha Gicas

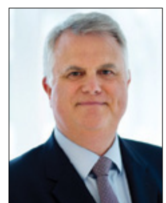
The Pensions Management Institute (PMI) has appointed Varsha Gicas as director of commerce and engagement. In the newly-created role, Gicas will oversee all commercial, marketing event and membership activities, including oversight of engagement with corporate partners, individual members and the PMI's regional communities. Previously, she spent over five years at the Pensions and Lifetime Savings Association.


Sarah Brough

Dalriada Trustees has hired Sarah Brough as a professional trustee. Brough joins from the Government Actuary's Department, where she was deputy chief actuary. She has over 25 years' experience in advising DB schemes and is the Institute and Faculty of Actuaries' Lifelong Learning Committee chair, as well as a voluntary board member of the Juvenile Diabetes Research Foundation's Audit and Risk committee.


Elen Watson

XPS Pensions Group has named Elen Watson as partner and head of covenant. Watson joins XPS from KPMG's restructuring practice and brings 15 years of experience in advising trustees and corporates on all aspects of employer covenant to the role, including triennial reviews, covenant monitoring, and integrated risk management. She also has significant experience with both single employer schemes and complex groups and multi-employer schemes.


Richard Cousins

Ross Trustees has appointed Richard Cousins as a trustee director. An actuary by training, Cousins has experience in advising a range of clients on all aspects of DB pension schemes, particularly in relation to corporate transactions, restructuring and funding. Previously, Cousins was a PwC partner and has held roles at Sedgwick Noble Lowndes. He is also a member of the PMI, and a fellow of the Institute and Faculty of Actuaries.


Louise Warden

Local Pensions Partnership Investments (LPPI) has announced the appointment of Louise Warden as head of real estate. Warden will be responsible for managing LPPI's real estate portfolio as part of the firm's broader asset management and capital deployment objectives.

She joined LPPI as real estate portfolio manager, having previously worked at West Yorkshire Pension Fund and the sovereign wealth fund of Abu Dhabi.

Phoenix Group has named Colin Williams as managing director, pensions and savings.

Williams brings more than 28 years of experience within the industry to the role, having most recently acted as Aviva Workplace Savings and Retirement Business and Financial Advice Business managing director, playing a key role in driving growth of Aviva's master trust proposition.

He has also held executive positions at Axa Corporate Benefits, Friends Life, Fidelity International and Prudential Assurance, and was a non-executive director of Sesame Bankhall Group.

Phoenix CEO of savings and retirement, UK and Europe, Andy Curran, said: "Colin is a terrific hire and is absolutely the right leader for Phoenix's pensions and savings business.

"Colin brings an outstanding leadership track record of delivering successful long-term savings and retirement businesses, and a breadth of business experience that I believe is crucial to accelerate our growth ambitions."

VIEW FROM THE PPI

2021 is a special year for the Pensions Policy Institute (PPI), as we celebrate our 20th anniversary.

And my how things have changed since 2001. We have seen the Pensions Commission, the introduction of the new state pension and automatic enrolment, increases in state pension age, reforms to public service pension schemes, changes in the tax treatment of pensions, freedom and choice, the continued closure of defined benefit pension schemes and continued growth of defined contribution schemes, the rise of environmental, social and governance (ESG) issues and, in the past few weeks, the confirmation of collective defined contribution schemes, among many other changes.

In some ways, the landscape looks much better than when the PPI started. The pensions position of women has improved significantly, more people are covered and receive a better pension from the state, and more people than ever before are covered by workplace pensions.

But there is still further to go. While the past 20 years has been characterised by almost constant change, it is likely that this will continue in the next 20.

Contributions are still not high enough for many people. There is still significant inequality in outcomes between different groups. Managing money through later life is becoming increasingly complex. And the impact of Covid-19 will place additional burdens on everyone that will impact pensions and retirement saving.

I am sure that the next 20 years will be just as busy for the PPI as the past 20.

PPI director, Chris Curry

PENSIONS POLICY INSTITUTE
PPI

Market commentary: 2021 – a new hope for markets?

Amid an incredibly tumultuous period full of uncertainty and fear, 20 January 2021 saw one element of potential stabilisation, as Joseph Robinette Biden Jr became the 46th President of the United States. Whilst the impact Biden's presidency will have on many issues is yet to be seen, the markets have already reacted, with the S&P 500 stock index reporting the biggest increase on any presidential inauguration day since 1985.

Hargreaves Lansdown senior investment and market analyst, Susannah Streeter, notes that the 'Biden bounce' on the US stock market has already reverberated around the world, with the FTSE 100 also opening with "a little spring in its step".

She explains: "President Joe Biden's move into the White House has brought the stability and certainty craved by investors following a fraught election campaign and a violent aftermath. Optimism about the $1.9 trillion emergency spending programme is still buoying markets alongside expectations the Federal Reserve will not be slow to step in with more stimulus if the US economy does not pick up."

However, Streeter warns that the wave of optimism currently hitting the financial markets, prompted by the inauguration, is likely to ebb if infection rates continue to rise, the vaccines are slow to roll out and if the virus mutates further. "Already Covid-19 has wreaked huge damage on economies around the world and a recovery will be painful with plenty of setbacks expected along the way," she adds.

Indeed, Interactive Investor head of markets, Richard Hunter, warns that the wave of optimism, which had gripped the US markets as the inauguration passed without incident and investors took "hope" from positive political noises around the stimulus package, may have already subsided.

"Economic data was mixed," he says, stressing that strong showings from the housing and manufacturing sectors have been offset by a further 900,000 initial jobless claims, adding to the 16 million who were already unemployed as at the start of the year. "US markets are still clinging to gains in the first few weeks of trading in the new year, with the Dow Jones ahead by 1.9 per cent and the S&P500 2.6 per cent," he added.

Hunter says that the UK economy is also in "sharp focus", pointing to "anaemic" retail sales figures for December, which showed growth of just 0.4 per cent excluding fuel, against expectations of 0.8 per cent and brought the weakest year on record to a close.

"The theory that Christmas spending had been pulled forward to November had previously been dispelled with a 2.6 per cent decline, although there was some brief respite for clothing sales in December, where the number was up by 21.5 per cent, albeit from a low base. Unsurprisingly, online sales was the significant winner in 2020 with growth in excess of 46 per cent."

Furthermore, he notes that an additional £34.1 billion of government borrowing in December brought the cumulative total to £271 billion for 2020, stating that this underscores the inevitability of tax hikes in the March budget.

"There is, therefore, the increasing need for a substantial amount of 2020's enforced savings, propelled by pent-up demand, to find its way back into the economy later this year," he adds.

"This backdrop has taken some of the wind from the sails in what had been a strong start to the year for the FTSE100. While the index remains ahead by 3.6 per cent so far in 2021, further positive economic encouragement will be required to maintain the momentum."

Written by Sophie Smith

Keeping on track

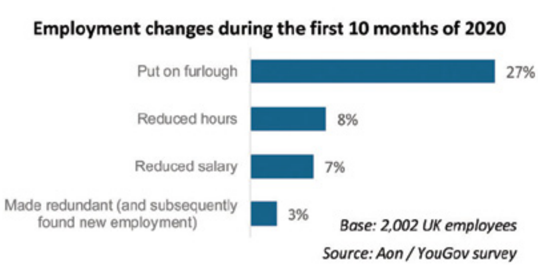
Steven Leigh considers how to keep DC savings on track in challenging times

Almost every aspect of our lives has been hit by the events of 2020, but to what extent have people's longer-term pension savings been affected, as well as their current financial situation?

Aon's new research, *Keeping on Track in Challenging Times,* found that the long-term expectations are bleak, with nearly nine in 10 pension savers expecting a shortfall in their retirement income.

For this research we surveyed 2,000 UK employees in October 2020, asking them how their work and finances had been affected in 2020, and also about their future retirement aspirations.

We found that around 40 per cent of employees had been directly affected by Covid-19, with one in six experiencing reduced hours or pay; one in four being furloughed and one in 35 having to find new employment after being made redundant.



Given the impact these challenges will have on individuals' finances, it is no surprise that the retirement savings gap is getting worse, with one in four respondents saying they believe they will never be able to retire. In 2018, when we asked the same question in our previous employee survey, *Living the Dream?*, the figure was one in seven.

For workers and employers alike, this is not sustainable. Factors such as ill health will mean that employees will not be able to continue working forever – and many will simply not want to do so. Wider workplace issues, such as succession planning, will also be affected if a quarter of employees are unable to retire.

Based on the key findings from *Keeping on Track in Challenging Times*, here are four areas where employers and schemes can provide more support:

1. Provide simple, well signposted help with financial wellbeing. We asked respondents to rate their employer's financial wellbeing support. Only 15 per cent rated this positively; one in three reported that they had no support at all – and one in six said that they did not know if any financial wellbeing support was available to them.

But when we surveyed employers for our *2019 How do you Measure Up?* research report, over 80 per cent of employers said that they offer employees help of some form with financial wellbeing, such as retirement planning, budgeting and debt management. It is clear that either the type of help on offer, or the way in which it is being promoted to employees, is not hitting the mark.

2. DC schemes need to manage investments for members. Despite some of the fastest stock market falls in history, only 7 per cent of respondents said that they had looked at their pension investments last year to see if they had been affected. Just 8 per cent said that they planned to look at them over the next 12 months. We have argued for a long time that schemes need to look after investments on members' behalf – and this is the proof.

3. Help pension members to set retirement savings goals... Employees' biggest ask was around understanding how much they need to save for an adequate income. But we found that 71 per cent of employees do not have a goal to aim for when it comes to retirement savings. Even among those over 55 – who should be thinking in more depth about their retirement needs – this figure is 63 per cent. Rather than complex tools, employees want simple rule-of-thumb figures that they can use as a guide.

4. **...and support them in achieving those goals.** Almost nine in 10 employees (87 per cent) said that they anticipate a shortfall in their income at retirement. To address this, employees say that they may work for longer, increase their pension contributions in the future, or reduce their standard of living after retirement. More than one in 10 (11 per cent) said that they did not know what they can do to address this.

Keeping on Track in Challenging Times has a wealth of insights and ideas to help employers and those running pension schemes to plan pension strategies and long-term objectives, to improve financial wellbeing support, to invest for the right pension outcomes, to improve communications and engagement – and to get retirement right.

Register to receive the full report at http://aon.io/3jiw7cq.

Written by Aon principal consultant, Steven Leigh

In association with

AON Empower Results®

VIEW FROM THE SPP

As we look ahead to the Budget on 3 March, speculation is yet again rampant about what the Chancellor could, should and will do, about pensions taxation.

At the SPP we are concerned that there are far too many myths on pensions tax relief. For a start, pensions tax relief is actually mostly pensions tax deferral, as income tax is imposed when pensions are paid. In that sense only the 25 per cent tax-free lump sum is genuine income tax relief.

Some argue that tax relief should be capped at basic rate only. However, as pensions are taxed in retirement when income is lower, it may be asked why a future basic rate taxpayer should pay an element of higher tax 20 years early. After all, a proportion of people die before pension age.

Much of the reported annual cost of pensions tax relief is for employer contributions to DB schemes and include significant deficit-repair contributions that relate to historic service rather than current accrual.

Perhaps most tellingly, many substantial beneficiaries of pensions tax relief include doctors, senior teachers and other professionals; and it may be wise to avoid radical plans that don't take their situation into proper account. The past experience with the tapered annual allowance commends caution and an awareness of 'the law of unintended consequences'. Perhaps it's time to question some myths.

SPP chair of the Legislation Committee, Mark Bondi

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On Office for National Statistics showing indviduals' increased need to borrow money

"These sobering statistics reveal how vital it is that we improve the future financial resilience of the nation. We already knew, thanks to the Money Advice Service, that more than 16 million people in the UK have less than £100 in savings even before the pandemic so our ability to absorb financial shocks is limited. Unfortunately, this will be far from the last time that people will have to absorb an economic shock, and the government's long-term goal should be to reduce these figures substantially before that day comes again. Financial education is an absolutely vital element of this and needs to be included on the primary school curriculum."

Quilter tax and financial planning expert, Rachael Griffin

On Pension Credit

"These benefits have the potential to make a very real difference to the lifestyles of the poorest pensioners and yet take up has remained stubbornly low for years. Pension Credit also acts as a gateway to further benefits – most notably the free TV licence which has been limited to those aged 75 on Pension Credit. The government did launch a campaign aimed at raising awareness last year, but this will have been impacted by the coronavirus pandemic – it must make renewed efforts to reach those affected and prevent millions of pensioners from missing out on money they are entitled to."

Royal London pension specialist, Helen Morrissey

On an expansion to the Dormant Assets Scheme

"Including certain retirement income assets in the Dormant Assets Scheme, provided they can be converted into cash and the provider hasn't been able to contact the customer or their next of kin for at least seven years, seems sensible. Customers, or their beneficiaries, can always reclaim the money from the scheme, and in the meantime it can be put to good use supporting social and environmental initiatives across the UK."

Aegon head of pensions, Kate Smith

On the removal of flat fees on pension pots with less than £100

"Introducing legislation to prevent charges eroding the smallest pensions was an urgent task for the government, and a symptom of a much deeper flaw with the system. Auto-enrolment has created millions of deferred pots and although we welcome today's announcement as a step in the right direction, it doesn't go far enough to prevent excessive charges and ensure hard-working people retain as much of their retirement savings as possible."

PensionBee chief engagement officer, Clare Reilly

On the Pension Schemes Bill passing through parliament

"Pension scheme trustees have been at the corporate stakeholder table for some time now but this bill reinforces the need that they should be at the forefront of the corporate mind. It has never been more important for corporates which sponsor UK defined benefit schemes and their pension scheme trustees to work together with openness and transparency if they are to achieve optimal outcomes for sponsor and pension members alike. It is essential that sponsoring corporates are on the front-foot when it comes to engaging their pension scheme trustees – in some cases, their largest creditor – around any intended major changes to the business including dividend policy, reorganisation, restructuring and transactions."

EY UK pensions strategy team leader, Karina Brookes

Why charges matter

David Brown talks through The People's Pension's changes to its charging structure

The industry has come a long way since the days of the very highest of charges before the stakeholder pension charge cap was set at 1.5 per cent for the first 10 years and 1 per cent for the remainder of the life of the policy.

Since then, charges have continued to fall. Partly as the result of political pressure, in the form of the auto-enrolment charge cap, and partly as the result of the entry of master trusts into the market, pooling the fixed costs of pension scheme provision over a much larger group of members. This gave rise to a workplace pensions market during the staging of auto-enrolment that was much more competitive and much cheaper. We launched The People's Pension in this environment with a 0.5 per cent Annual Management Charge (AMC), well below the 0.75 per cent charge cap.

The People's Pension recently changed its charging structure to respond to a market that has changed further and to reflect the gains we have made as a larger and more mature scheme. The revised charge structure features an annual £2.50 cash charge, a management charge of 0.5 per annum and a rebate on some of the management charge. This is a development that we are very proud of as we think it delivers a competitive and fair charging structure.

The hard part in setting workplace pension charges is that costs, complexity and fairness trade off against each other. We have redesigned our charge structure to strike what we think is the right balance between these three things for our membership.

Percentage charges may result in low charge rates but high charges for members with larger pots and very low charges for members with very small pots that do not cover the cost, or even the regulatory fees, of providing a pension pot.

In an environment where there are millions of small, deferred pension pots, common as a result of auto-enrolment, schemes may rely on a smaller number of members with larger funds to cross-subsidise the costs of managing the smaller pots. This is not a sustainable situation for a well-run scheme and this issue was a factor in the introduction of our annual £2.50 cash charge that works to reduce cross-subsidy. We are working with the DWP and others in the industry to bring forward a solution to the underlying small pots problem.

As touched upon earlier, we also, effectively, cut our annual management charge by means of a rebate that works to give members cashback on their pension savings, the more they save with us. As a member's savings hit key milestones – £3,000, £10,000, £25,000 and £50,000, we apply a monthly rebate and automatically add money back into their pension savings. The level of rebate increases at each stage, reducing the impact the charge has on their savings, and in so doing, leaving more money invested for their future.

For someone with £15,000 in their account, over the course of a typical year, £17 will be added to their pot, with this increasing the more they save for their retirement. This kind of sum might not sound much to start with but compound the rebates across the accumulation years and they could add a significant amount to an individual's retirement savings – more than £14,000 for an average earner[1].

Nothing stands still and further change is inevitable. We expect the workplace pensions market to become even more competitive with significant consolidation of both providers and pots. We expect the latter to be driven both by dashboards and, increasingly by government encouraging industry to automatically consolidate small dormant pots. This will create a tougher operating environment for providers but we expect the emergence of providers with even greater scale leading to lower charges for members.

We are not there yet but we have come a long way in the past 20 years. We hope that the next 20 see as much progress.

Written by B&CE, provider of The People's Pension, chief strategy and innovation officer, David Brown

In association with the people's pension

[1]. **Assuming a member aged 35 with a starting fund of £15,000, a salary of £30,000 per year, paying 8 per cent gross contributions, based on qualifying earnings for the 20/21 financial year, investment returns of 5 per cent per annum, inflation of 2.5 cent per annum, and a retirement age of 68, this could add up to an extra £14,566.**

Discover how The People's Pension new charging structure works at www.thepeoplespension.co.uk/clear-pension-charges. Or email us on rrm@thepeoplespension.co.uk

VIEW FROM THE ABI

Finally the Pension Schemes Bill cleared its parliamentary stages. The bill paves the way for the future of the pensions landscape and will enable crucial policy development.

Importantly, the bill allows the creation of pensions dashboards. Tracking down lost pensions and showing savers all of their pension pots in an online place of their choosing – be it their mobile banking app, pension provider, or the Money and Pensions Service – are just some of the benefits consumers will have. With an estimated £19 billion sat in lost pensions, many savers will find lost funds, and with regular access to and increased engagement with their pension information, savers will be able to make better informed decisions about their retirement.

Pension scams will also be clamped down. The statutory right to transfer and limiting the transfer destinations will be tightened. Providers will also be able to pause a transfer if it is a suspected scam and savers will be directed to take guidance when transferring their pension.

The role pension providers play in tackling the climate crisis is also recognised. Providers will be required to disclose climate-related investments and increase the information available to savers about how their pension is invested.

The bill goes a long way to bringing pensions into the 21st century. It is vital industry continues to work with the government to ensure its success.

ABI public affairs adviser, Emma Elson

Soapbox: Drastic action

One of the strange side effects of the Covid-19 pandemic has been how, amid all of the turmoil and tragedy, it has offered us perspective on what is important for the world of pensions. We have passed the one-year anniversary of the virus reaching our shores and so it seems like an apt time to reflect on how it has impacted consumers, as they are what the pensions industry is really all about.

Research released by LV= indicated that as many as 154,000 savers aged between 55 and 64 may have been pushed into early retirement by the pandemic due to a need to supplement their income, redundancy or reduced earnings.

This could of course be hugely problematic, with these unfortunate savers potentially in danger of falling into poverty following their retirement on a pension pot that might have never reached the size they were aiming for.

This could exacerbate pre-existing issues, as the *New Choices, Big Decisions* report, published by The People's Pension and State Street Global Advisors in January, revealed that 74 per cent of savers are spending their pension savings at a pace that means they will run out of money in their early to mid-80s, despite many being expected to live into their 90s.

B&CE director of policy and external affairs, Phil Brown, commented: "There is evidence that a significant number of people are sleepwalking into retirement and will have a worse quality of life in later years than could have been the case if they had been guided."

While some have been pushed into early retirement, others have simply stopped making contributions to their pensions. Survey data from Scottish Widows has indicated that just 22 per cent of UK households had put money away for retirement in the fourth quarter of 2020.

Scottish Widows workplace savings director, Jackie Leiper, said: "The continued pressure on families' financial resilience and lack of protection leaves people in danger of saving less for the long-term and more for emergencies due to uncertainty over the immediate future."

Another item on the list is crime, as one immediate concern following the outbreak of the pandemic was that fraudsters might seek to turn the tragic situation to their advantage. As a part of a January warning against this kind of malicious behaviour, Action Fraud stated that the number of 'clone firm' investment scams had increased by 29 per cent in the UK's first month of lockdown alone.

AJ Bell senior analyst, Tom Selby, commented: "It is sadly no surprise mendacious fraudsters have ramped up attempts to swindle hard-working people out of their savings during this pandemic. Cloning appears to be an increasingly popular tactic among scammers."

Covid-19 is impacting pensions across generations, while also highlighting major problems that predated the virus rearing its head. Projects currently under development, such as pensions dashboards, may help with some of these issues, but potentially more radical solutions may be required to ensure that whole swathes of the population are not left simply scraping by on a meagre allowance.

In particular, government action to boost the state pension or other benefits to somewhere at least approaching the average level of support provided by most developed nations may be required, as it looks like many thousands of people could find themselves propped up by state benefits in their old age.

Written by Duncan Ferris

Long-term savings, short-term problems

Jonathan Watts-Lay asks whether pensions are a good option to fulfil a short-term cash need

Last year there were many scheme members who accessed their pension for the first time than perhaps would have in normal times.

In fact, HMRC figures indicated a surge in early pension withdrawals in the over 55s, which is thought to be due to pressure on household income caused by the pandemic.

Despite promises the ongoing vaccination programme may bring, it will take some time for the economy to recover. It is thought that redundancies are likely to continue and many will still be on furlough or facing reduced hours, increasing the pressure on household income and potentially resulting in more members accessing pensions early. Jonathan Watts-Lay highlights some key considerations for those who may want to access their pension early:

Tax implications

There are a number of tax considerations. Firstly, up to 25 per cent of a pension pot can be received as tax-free cash, however anything beyond this is potentially taxable at 20 per cent, 40 per cent or even 45 per cent.

Also, when someone draws money from their pension beyond their tax-free cash entitlement, in most cases a money purchase annual allowance is introduced. This means an annual contribution limit of £4,000 rather than £40,000, if a tax charge is to be avoided for those who wish to work again.

For many, other savings and investments may be a better source of short-term cash than pensions. Not only may this help avoid unnecessary tax but it will also allow the pension to grow in a tax-free environment.

Underestimating how long retirement savings may need to last

Research has found that most people live longer than they expect, and so members could easily underestimate how long they think their savings will need to last. For example, The Institute for Fiscal Studies found that those in their 50s and 60s underestimate their chances of survival to age 75 by around 20 per cent, and to 85 by around 5-10 per cent. Before accessing their pensions, members will need to think about if they will have enough money to last the duration of their retirement.

Falling for a scam

A recent report by Action Fraud found that pension scams had become one of the most common types of fraud to occur last year and that £30.8 million has been lost to pension scams over the past three years.

In addition to this, The Pensions Regulator (TPR) revealed it was investigating over £54 million worth of lost pension savings, in cases that have affected 18,000 savers. However, the FCA warned that this number is in fact likely to be much higher.

TPR has advised trustees to urge members 'not to rush decisions and provide them with clear, relevant and timely information so they can make informed decisions.' They also instruct trustees to follow the Pension Scams Industry Group (PSIG) code of good practice, based on three key principles which include: raising awareness of pension scams for members and beneficiaries; having robust processes for assessing whether a scheme may be operating as part of a scam; and being aware of the known current scam strategies.

DB pension transfers

XPS Pension Group, suggests some pension schemes are seeing an increase in defined benefit (DB) transfer requests in the wake of Covid-19. Ensuring access to appropriate advice is key and many trustees now facilitate access to reputable advisory firms having gone through a due diligence exercise.

What can employers and trustees do?

Employers and trustees play a key role in ensuring members make informed choices concerning their pensions. Providing financial education and guidance to members can help them to understand their options and the generic risks and pitfalls of certain actions. It can also help members to decide if they would like further support such as regulated financial advice, although this of course is a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

Written by WEALTH at work director, Jonathan Watts-Lay

From paper rounds to presidency

Sophie Smith chats to Pensions Management Institute (PMI) president, Lesley Alexander, about gardening, the Olympics, and her eclectic taste in music

What's your employment history (including jobs outside of pensions)?
My first job was a Saturday paper round. This involved me cycling a mile to pick up the specially-designed newspaper bike, doing my round, which covered a couple of miles, and then cycling back to pick up my bike again. I grew up in rural North East Essex so my jobs involved being up to my knees in mud in potato fields, picking blackcurrants and courgettes, working in cafés and behind bars, until I joined the respectable world of pensions. From there on, it's pretty well documented.

What's your favourite memory of working in the pensions sector?
My favourite memory of working in pensions has been to see people who I have worked with over the years go on to develop their own careers and enjoy their successes.

If you did not work in pensions, what sector do you think you would be in instead?
I find I'm interested in lots of subjects, whether it be the arts, the countryside, history, sport or travel, so it could almost have been anything. Except horses. Big feet, big teeth. Scary.

What was your dream job as a child?
As a child, I spent hours designing clothes on my sketchpad. I would meticulously draw each outfit for the season and colour it in. I think I canned that ambition when I started dressmaking lessons at school and found I wasn't keen on actually having to cut the patterns out and do the sewing!

What do you like to do in your spare time?
In my spare time I can be found in the gym, the theatre, in the garden, or cycling/walking by the sea or in the countryside. I'm part way through my first RHS gardening qualifications – four papers down, four to go – as I love both the creativity and the science that goes into the design and cultivation of our outdoor spaces.

Is there a particular sport/team that you follow?
I love nearly all sports and played a fair bit when I was younger. I'm a lifelong Liverpool supporter so last year wasn't all bad. I'm one of these people that stays up all hours of the night watching the winter and summer Olympics when they come round. The only thing I'm not very keen on is Formula One. I appreciate the skill and the technological advancement. And I'm looking forward to seeing how they make F1 sustainable! Please don't write to me, F1 fans.

If you had to choose one favourite book, which would you recommend people read?
It's almost impossible to choose just one book. *Tess of the d'Urbervilles* by Thomas Hardy was the first book that made me cry when I read it in my teens, and made me acutely aware of social and gender injustice. If I had to make a recommendation, it would be *Miss Smilla's Feeling for Snow* by Peter Hoeg, which I thought was an amazing read.

Is there any particular music/band that you enjoy?
I have a very eclectic taste in music from early sacred music through to indie rock and modern classical music like Philip Glass and Max Richter. I was fortunate to go to the Canterbury Festival last year and hear Tenebrae singing Esenvalds' *Stars* in the Cathedral. One of my favourite pieces. Glorious.

Who would be your dream dinner party gusts?
People often use this opportunity to invite the great and the good. Not my idea of a dream dinner party. Far too much pressure! My dream dinner party would involve my close family and friends, the people I love the most and who love me, warts and all. With someone else doing the catering, of course.

Is there an inspirational quote you particularly like?
I don't know whether it's inspirational, but I grew up with my mother's words ringing in my ears: "Do as you would be done by." I fear I haven't always lived up to it, but I have always tried.

Written by Sophie Smith

New year, new opportunities

As the economic recovery gathers pace around the globe, risk assets are likely to emerge as the stars of 2021

The pandemic is clearly far from over, but we enter 2021 with relative optimism. We expect the economic recovery to be rapid; manufacturing and global trade are already rebounding substantially. Lockdowns are keeping many services at bay, but those too are ready to go when they have the greenlight. Consumer balance sheets are healthy given the support they have received; corporates too have not seen capital this cheap ever before.

As the vaccine rolls out and economic activity bursts into life, the recovery will likely be most potent through the summer and autumn. The final months of the year may prove more challenging, with the onus to prove the longevity of the vaccine immunity through next winter.

What does that all mean for the investment landscape? In general, I would expect less volatility than we saw in 2020, but great divergence between asset classes, sectors and industry groups. That creates interesting opportunities for active managers.

Follow the cycle

As the recovery gathers pace, we favour assets that derive returns from improving economic activity, and cyclical sectors of the economy. Consumer discretionary, metals and mining and industrials are all likely to do well. As we see a rotation into value cyclicals, the tech sector may struggle to repeat its runaway success of 2020, which, in turn, may reduce the dominance of the tech-heavy US market.

The pro-cyclical tilt could benefit the UK market, given that Brexit is now done and that British large caps are heavily weighted towards energy, materials and financials. It also opens the door to more broad-based strength in emerging markets, with gains in commodities potentially helping Russia and Latin America.

In Europe, we like consumer names – premium brands, high-end consumer companies. Domestic demand remains problematic in the face of uncertainties of the German election, the continued debate about the degree of integration and the possibility of another political crisis in Italy.

Overall, we expect global equity returns to be above their long-term average, delivering 7-10 per cent for the year.

As we find equity attractive, so should corporates themselves. There should be more mergers and acquisitions in this environment, indeed we've already seen a notable pick-up.

Commodity prices have already risen meaningfully over the past six months and we forecast further gains as demand increases. The weakness of the US dollar will further improve the attractiveness of non-US assets, including those in emerging markets, where economic growth already has a tailwind. China's pledge to keep its economic policy stable gives more comfort around the trajectory of world economic growth next year.

The fixed income market remains a licence to lose money, certainly in real terms. Corporate credit spreads are already narrow globally at below 100bps for investment grade credit (though wider in the UK). At these levels we don't think they offer enough compensation for potential default risks and for the slow and steady rise in nominal interest rates.

One area of the debt universe where we do see opportunities is inflation-linked bonds.

Inflation isn't a threat for today or tomorrow, but it will come. We are already seeing stronger commodity prices and some bottle necks in terms of supply across a number of sectors due to Covid-related disruptions. That will at some point lead to inflationary pressures. The question is whether we will see one-off price changes, or whether they will be met with demand for higher salaries and higher pay? The latter would mean a more extended inflationary threat.

A lot depends on governments too. Will they invest to improve long-term growth potential or opt instead for popular redistribution to satisfy short-term, such as higher minimum wages? Will the push for a greener economy be done primarily through regulation or through investment? As countries pick their paths, the divergence between economies may become much greater than in the past decade.

Whatever happens, we believe that assets with real claims to the economy should outperform – corporate profits via equities, real assets like gold and commodities, and index- or inflation-linked bonds.

Written by Shaniel Ramjee, senior investment manager, multi asset, Pictet Asset Management

In association with PICTET 1805 Asset Management

Responsible investing: What's it all about?

PTL client director Dan Richards reflects on what ESG investing should really mean for pension scheme trustees today

Each year brings new ideas and new regulations to the way we work with legacy (and a small handful of ongoing) defined benefit pension schemes. In recent times, these new additions have increasingly been focused on understanding our investments – be that setting and assessing objectives for our investment advisers, collating how our investment managers have been voting on our behalf, or making our investment principles available for all to see. Consistently rearing its head within this deluge of updates is responsible investment, covering difficult to assess topics such as the environmental, social and governance (ESG) aspects of investment opportunities.

The direction of travel that government thinking wants us to head in is clear – to invest directly or indirectly in environmentally-sound businesses with strong governance processes. But the UK pensions industry is a flotilla of ships of all sizes, kayaks through to oil tankers. Regulations alone cannot force everyone in exactly the same direction, because each ship has its captain and crew, and can chart its own course. This can mean nimble decision making and seizing opportunities, but it can also lead to inertia, objections and dissent.

In particular, throughout the years a familiar refrain calls out – trustees are not ethical gatekeepers, they should only be interested in investment return. This may feel coherent but, the longer you stay in the investing game, the more you realise that ignoring any piece of information is the real error.

This is not about diverting hard-earned money from our pensioners towards subsidising green initiatives – that is the realm of charity and government work. In defined benefit schemes, our assets are pooled, so it is impossible to accurately reflect the investment opinions of all of our members, and indeed many members may also believe ESG factors can be safely ignored when making investments. So this also cannot be about applying personal opinions to ethically grey areas.

What this should be about is making consistently good choices for the longevity of your investment portfolio, for making sure that you are not a forced seller when an industry becomes unviable. And I find it unsurprising that companies which think about and support the planet, the environment in which all companies trade, are so often aligned with investment successes. As pension trustees we may plan to invest for 50 years or more, so we have to consider which businesses are still going to be operating in that environment. This is about making sure that our returns are sustainable in the very long term.

This is about making sure that health charities are not exposed to tobacco, making sure that animal charities aren't exposed to palm oil, making sure that no-one need be exposed to slavery in the supply chain or chemical weapons.

This is about investing in responsibly-designed assets, which do not lose value when new environmental regulations are announced. This is about avoiding assets that will struggle when carbon trading is banned or funds that are forced to sell off stocks due to slavery scandals.

This is foremost about giving pensioners their promised pay, and at the same time as maintaining a world for them to spend that money in.

Everything may taste a bit like responsible investing at the moment, certainly there are many positive and negative stories going around. Hopefully, though, that is not because ESG factors are simply the flavour of the month, easily discarded by consultants when the next talking point arrives. Instead, it is hopefully a sign that ESG factors are becoming such a vital component of our professional and personal lives that it cannot be ignored any longer. If we do focus on making improvements, then maybe the next time David Attenborough narrates the woes of the world, perhaps we can rest a little easier knowing our collective pension pots are doing some of the heavy lifting to help make the world a better place.

Written by PTL client director, Dan Richards

Summary

- The government's Dormant Assets Scheme is set to be expanded to enable forgotten pension money to be used for good causes, social investments and environmental initiatives. During the pandemic, the Dormant Assets Scheme's funds have been used to help charities, social enterprises and people in need of financial support.
- While the pensions industry may be keen to participate in principle, there are some practicalities to overcome. These include concerns about how to accurately define 'dormant' funds, given that pension funds are long-term saving vehicles.
- By investing in the UK economy, pension scheme money is already working to support UK companies and industries, with an increasing focus on environmental, social and governance factors, helping the economy to grow in a fairer and more sustainable manner.

Pensions for the greater good

The government's Dormant Assets Scheme will now be able to include untouched pension funds to invest in 'building back better'. Louise Farrand considers the practicalities of this for the industry and its expected level of take-up, as well as the other ways pensions money is helping reinvigorate the UK economy

As the UK government helps the economy to recover from the devastation wreaked by the Covid-19 pandemic, it is looking to the pensions industry to help.

The government's Dormant Assets Scheme is set to be expanded to include the insurance, pensions, investment and wealth management, and securities sectors. The scheme is founded on a simple, benevolent concept, that untouched, forgotten money is put into a fund, which is then used for good causes, social investments and environmental initiatives.

During the pandemic, the scheme's funds have also been used to help social enterprises and people in need of financial support. Expanding the scheme could free up £800 million, the government estimates.

Participating in the scheme is voluntary, and the 800-million-pound question is: How widely will the pensions industry participate?

Overcoming the hurdles

On first glance, joining in sounds like a no-brainer, but the logistics of getting involved are more complicated than they appear. While the providers that *Pensions Age* interviewed sounded keen to participate in principle, the Pensions and Lifetime Savings Association (PLSA)'s policy lead for defined contribution (DC), Alyshia Harrington-Clark, says she has heard some "healthy scepticism about its extension to pensions".

Why? The first barrier is establishing a clear definition of dormancy in the context of pensions. "It is difficult to know when an asset is genuinely dormant in pensions," says Harrington-Clark.

She uses DC as an example. "The way inertia has been harnessed powerfully to drive pension saving in a DC auto-enrolment (AE) context is a bit counter to the idea of, if people leave their money alone and forget about it, that money should be allocated elsewhere."

The government is aware of this issue and, in the response to its consultation, says: "In light of consultation responses, and having carried out a full assessment of the impact and feasibility of the industry's proposal, the government is considering options whereby certain pension products may be included in specific and tightly prescribed circumstances. In particular, we will be examining the potential overlap with products that are used for AE, such as group personal pensions, and may be minded to exclude these from the scope of the scheme."

Another issue is how to treat pensions assets that are invested. The priority is to reunite dormant assets with their owners; the money is only passed

on to the scheme if attempts to reunite it with its owners have been successful. Even once assets have been given to the scheme, owners of dormant assets always have the right to reclaim them. What if their money had been invested, and then disinvested when it was moved into the Dormant Assets Scheme? How would the owner be compensated for the loss of investment returns?

Thankfully, from its consultation response, it looks as though the government will seek to avoid these sorts of messy problems by only including pensions products that crystallise to cash. However, the PLSA remains concerned that the complexities of trying to establish truly dormant assets in a pensions context could prove problematic in practice.

"Customer perception is also a key issue," adds Phoenix heritage customer director, Sam Buckle. "Work is required to persuade customers and market commentators that money will only be transferred to the scheme once all attempts to contact a customer have been exhausted. In addition, people must have clarity that they will always have a contractual right to their money at any point in the future."

Despite these challenges, the industry seems relatively keen to participate. "There seems to be quite a lot of general support," says Aegon head of pensions, Kate Smith. "It is always worth exploring how pensions can be used for the greater good."

Smith adds: "I think the industry will participate, but there are quite a lot of things going on. It might not happen immediately, but you might see gradual movement. Maybe the government needs to give more details about how you participate."

Other ways to help UK plc

Using the pensions industry's dormant assets is one way the government is seeking to reinvigorate the UK economy as it emerges from the Covid-19 crisis. With its trillions of pounds under management, what else can the pensions industry do to help?

"Pension schemes are already doing an enormous amount to support all of our wealth," Harrington-Clark points out. After all, pension schemes invest in the UK economy, meaning that their money is already working to support

UK companies and industries. Some are even investing in the pharmaceutical companies that are developing Covid-19 vaccines.

Buckle adds: "Many pension companies are increasing their exposure to environmental, social and governance investments. These factors not only help the economy to grow, they also help the economy to grow in a fairer and more sustainable manner."

Pension schemes are also boosting the economy in other ways. "Pensioners' pensions are still being paid," says Harrington-Clark. "Private pensions are a source of income that haven't been impacted by Covid-19, and so you could argue again that all those people who are supposedly going out and buying wallpaper and conservatories, quite a few of them could be benefitting from their pension savings."

Venturing into new areas

Some areas of the economy have historically been mostly off-limits to pension scheme investors. Investing in higher-risk areas like venture capital and start-ups is usually seen as too risky for pension schemes, whose priority must be to achieve stable returns for members.

"Pension funds do invest some money in venture capital-type vehicles, but this tends to be a small allocation for a number of reasons," says PTL managing director, Richard Butcher. "One reason is clearly the level of risk these investment types represent; the hit rate is relatively low and of course we have to be cautious investors."

Illiquid investments, such as infrastructure, are another area which UK pension schemes struggle to access. Most defined benefit (DB) schemes are planning for an end goal, whether that is buyout or wind-up. But infrastructure by definition has to be a very long-term investment, explains Butcher. "If the investment is illiquid for 20 years and you have a buyout plan for 10 years' time, you are not going to be investing in infrastructure."

Meanwhile: "In DC pension schemes, we tend to be used to daily dealing and that is what the regulator expects us to do now," says Butcher.

The government is keen to help schemes to invest in a wider range of investment opportunities, says Butcher. "It is something that is clearly on the mind of the regulators and legislators and something that is challenging trustees because we want assets that give us growth and most traditional forms of assets – there is limited growth."

In short, while the will is there, technical difficulties remain a barrier for schemes. "Scale *[in DC]* will make it easier," predicts Butcher.

Sackers senior partner, Ian Pittaway, agrees with Butcher. "Clearly a big debate we are going to be having is about patient capital and investing in the economy. I would say that although trustees are starting to talk about those, it is a long way from happening."

Supportive partners

DB schemes can also support the UK economy by behaving sensitively towards their sponsors, suggests Pittaway. After all, it's in nobody's interests if the demands of a pension scheme contribute to the collapse of its sponsoring employer.

Pittaway says: "I think obviously a lot of schemes are under pressure funding-wise because of the pandemic, and investments have been a bit volatile. Schemes need to be imaginative and collaborative with their sponsors. It is not just a question of saying, 'Hey, there's a deficit, we need more money.' Schemes will need to be more sensitive."

Instead of issuing unrealistic demands, schemes could align themselves with the fortunes of the employer and take a longer-term view, suggests Pittaway. Many expect airlines and hospitality to experience high levels of demand as people celebrate a return to normality. "Perhaps schemes could build in contributions at a lower level and make provisions for them to rachet up when we get through this time."

As the UK economy recovers from Covid-19, it is right that the UK government should think creatively about ways to boost its prospects. But where pensions are concerned, the first priority must be looking after members' best interests.

As Pittaway says: "In the final analysis, trustees have to find the benefits for members, that is their primary duty. They are not there to make the world a better place. But if you can reconcile those two objectives – achieving a capital return while doing good for the country – that is a magic combination."

Written by Louise Farrand, a freelance journalist

Summary

• Increasing ESG regulations on schemes, such as the Statement of Investment Principles and the Task Force on Climate-related Financial Disclosures, will likely lead to a rise in ESG enquiries from scheme members.

• A clear message, without jargon, is vital when communicating ESG matters to members, by possibly focusing on the engagement part of the story, rather than divestment, to avoid creating complexity around messages.

• With DC self-select options, it is not just about making ESG funds available but also explaining to members why it is important for them to look at the ESG options and what they should consider.

Enticing engagement through ESG action

Stephanie Baxter considers how schemes can, and should, communicate ESG efforts to members

Much has been said and written about why environmental, social and governance (ESG) is a great engagement tool to encourage saving and drive greater interest in pensions. Survey after survey has shown that members increasingly care about where their money is invested and want it to be 'doing some good'.

Apart from the very big pension funds, most schemes' provision of information to members on ESG has been limited. This is expected to

change quite rapidly as they face more stringent regulatory requirements around responsible investment and look to demonstrate to members how they are acting on ESG. But how can schemes and providers best communicate their ESG efforts to savers, and to what level?

Regulations that came into force in 2019 require trustees to demonstrate ESG considerations in their Statements of Investment Principles. Since last October, they have to had to issue 'implementation statements' setting out how these considerations have been followed during the year.

"We haven't had many of those implementation statements yet because the law only came in October 2020, so there hasn't been a lot of open trustee dialogue with members around how they are implementing ESG strategies," says Sackers partner, Stuart O'Brien.

The Pension Schemes Bill will bring in powers to introduce climate change regulations – including requirements for pension schemes to have net-zero carbon emissions by 2050, and to adopt and report against the recommendations of the Task Force on Climate-related Financial Disclosures.

"I hope that trustees will go beyond the black letter of the law in terms of disclosures, and actually think more carefully about what would be good communication with members, not just what meets statutory requirements," says O'Brien.

He predicts that, as the amount of disclosure required from trustees increases, this will probably lead to a rise in the number of enquiries from members. Some of that will be driven by consumer charities and civil society groups, which are increasingly promoting divestment from fossil fuel giants, for example.

"That could prompt a member to scratch beneath the surface and say to the pension scheme, 'You claim to have a weighted average carbon intensity of X and have a target to reduce it to Y, and are reporting that you are moving towards that target – but I've had a look and you're still investing in companies that are mining thermal coal'," says O'Brien.

Divestment vs engagement

Trustees should first of all be clear and comfortable about their investment approach to ESG. Then, for the purposes of disclosures and engagement with members, they need to have a really clear message and narrative.

"If schemes have a divestment strategy, they need to make sure they are really clear as to why that financially fits within the overall strategy," says O'Brien.

Some public-sector funds, such as Universities Superannuation Scheme (USS), have experienced lobbying from their membership about divesting from fossil fuels over the years.

LCP investment partner, Ian Gamon, says: "USS looked very carefully at what they could do, and came back last year with quite significant announcements about divesting from thermal coal and tobacco – but they had to be very careful in signposting it as a financial decision.

"One of the dangers of communicating to members is that if you do not position it very carefully, there is a risk that you're then in breach of fiduciary duty and you then face difficult questions about whether you're investing in members' best interests."

In publishing the legal advice it had received, USS was very transparent to its members. Gamon says being transparent and open is a good way forward for schemes.

Quietroom senior writer, Caroline Hopper, suggests focusing on the engagement part of the story rather than divestment to avoid creating complexity around messages.

After working on the Make My Money Matter campaign last year, she says people mistakenly confused the campaign for a divestment campaign. She explains: "It's not that the Make My Money Matter campaign had confusing messages, but because it's just so much for people to understand. This happened to me when I first looked at my pension investments around five years ago."

Quietroom has been trying to help various pension schemes "really tell the story of engagement, why that's really powerful and how using investor influence makes massive companies improve how they tackle the climate crisis", Hopper says.

This involves taking something powerful and emotive, and talking about how the scheme is influencing companies to do something.

As Aon's UK head of responsible investment, Tim Manuel, says: "If the scheme is investing in funds that are thinking about sustainability in a positive way, and if you're communicating about the positive stories that come from it, then the negative aspects of divestment don't become an issue."

Overcoming the challenges

Communicating ESG to members is a challenge because most members are not investment experts. For example, how do you explain factor investing to members and convert it into numbers that will be interesting and exciting for people who are not experienced in investment lingo?

LCP DC partner, Mark Smith, says first of all, it is better to use the term 'responsible investment' rather than ESG which "takes a lot of explaining".

He adds: "From a communications perspective, we look at how we can honestly say something on behalf of trustees in a way that converts it back into what it really means. At the moment, the biggest schemes tend to tilt into ESG slowly – so each year they might move some developed equities into a climate tilt. This is quite a decent amount of real change if you can measure it and then communicate that to members."

Schemes could consider match up messaging about the pension fund's strategy with the employer's messaging, according to Aon investment principal, Christopher Inman.

"There will be messaging from the corporate around sustainability practices, targets and objectives – but then you look at the pension scheme and there's nothing there *[in terms of messaging]*. It's about thinking of the themes that you want to communicate and then linking them up with company communications as far as possible.

"For example, when employees' annual benefits selection comes round, and one of their benefits is being able to lease electric cars as part of their benefits package, we can tie that with the some of the companies and technologies that the pension scheme is invested in."

Self-select options

DC schemes could also use communications to highlight the range of ESG funds that members can self-select. One challenge is that self-select ESG funds are all called different things, which can be confusing for the member, according to Gallagher director of retirement communications, Karen Bolan.

She says: "We always advocate simplicity above everything else, so quite often what we will do with clients is rename the funds. For a member, it's not really that important that they understand all of the underlying things in the fund. It's about simply labelling it something nice, friendly and simple that shows it is an ESG fund."

Gallagher has developed a carbon footprint modelling tool for some clients in Australia to provide a way to engage people, help them to understand what their carbon footprint is, and show them what they can do to positively impact it by, for example, investing in self-select ESG funds.

Bolan says the firm "does not subscribe to the Kevin Costner 'build it and they will come' philosophy for anything".

She explains: "You have to drive people – so using marketing techniques and getting people to interact with the information that's online. You need to do something to drive their interest so they will go and look at it – so it's not just about making ESG funds available. Also, explain why it is important for them to look at the ESG options, what they should consider, and then give them good, simple information."

There are many ways for pension schemes to communicate their ESG efforts to members in an innovative and helpful way. If this encourages members to be more interested in pensions and understand more about them, it can only be a good thing.

Written by Stephanie Baxter, a freelance journalist

Engaging for a greener future

Andrew Parry explains why active managers are well placed to support the energy sector's lower carbon transition

It is no secret that price-competitive renewables, advances in technology, changing social norms and increased regulation are colliding with economic difficulties and taking their toll on oil, gas and coal company profits. The sector's woes are such that, despite short-term bumps, as of the end of 2020, energy stocks accounted for less than 3 per cent of the S&P 500, down from over 16 per cent in 2008.

The spectre of stranded assets is also becoming more apparent, with asset impairment charges increasing across the fossil-fuel industry, and giving rise to the new concept of stranded liabilities. Specifically, this is the cost of retiring long-lived oil and gas infrastructure. Expanding production of the feedstock for plastics could prove another misallocation of capital, as changing attitudes to single-use plastics could translate into this 'growth opportunity' becoming an oversupplied or even declining market.

As a result, many fund managers are increasingly avoiding the energy sector on concerns over potential permanent capital impairment. Asset owners, however, recognise that as universal owners of the market they have a stake in encouraging a successful energy transition to renewables. Simply put, they view it as short-sighted and misguided to eschew the industry entirely.

While some asset owners have divested from fossil fuels – recognising that rising concern for the environment is linked to poor financial returns – some continue to invest in the hope of driving change through engagement. Active managers, drawn by seemingly low valuations, are engaging alongside them, with the combined weight of their collective voices leading to better reporting and some shift in strategy towards redirecting a growing proportion of capital expenditure to renewables. The challenge remains whether the changes being supported by engagement will be sufficient to avoid fossil-fuel stocks becoming 'value traps'.

Active managers have distinct advantages – the most obvious being that, through selectivity, they have far fewer securities to cover than a passive manager. Furthermore, traditional active managers can embed engagement opportunities into their due diligence analysis of stocks before purchase. Finally, the continuous feedback loop between company management teams and active managers provides greater insight into the quality of corporate governance, a perspective that makes for better-informed decisions when it comes to proxy-voting judgements. In our view, this should make active managers more informed voters of proxies, with the ultimate sanction of selling if change is not forthcoming and client capital is at risk.

Climate risk management promises increasingly to lead active managers to put fossil-fuel assets in a 'why bother?' bucket. For universal owners, however, achieving alignment with climate outcomes delivers different conclusions, as they are focused on managing long-term systemic risk associated with owning the market. Without the sanction of divestment, there is a danger that perpetual engagement leads to mere token action, such as committing to a 2050 net-zero carbon target, while failing to commit to absolute emission reductions and key interim milestones.

The recent and rapid growth of both active and passive environmental, social and governance (ESG) and sustainable assets has been accompanied by a rise in active engagement and proxy voting. This new-found investor activism only promises to grow as we emerge from our current Covid-19 environment. The increasing adoption of Task Force on Climate-related Financial Disclosures (TCFD) reporting, and the commitment to net-zero targets and absolute emission-reduction targets by a few companies, alongside accelerated investment in renewables, is evidence that fossil-fuel companies are responding to pressure, both economic and from shareholders.

The question remains whether the industry can remain relevant in a rapidly changing world. While denying access to capital can be a powerful force, the energy industry is inextricably interwoven with geopolitics, which is why avoidance, divestment and engagement are the sharpest arrows in the quiver for active investors as we aim towards achieving cleaner energy for tomorrow.

Written by Newton head of sustainable investment, Andrew Parry

Going green

In January, the Barclays Bank UK Retirement Fund (UKRF) announced the integration of environmental, social and governance (ESG) factors and climate risk into its £1.3 billion Diversified Growth Fund (DGF). Jack Gray speaks to UKRF CIO, Tony Broccardo, on why the fund made the changes and how it will be affected

The DGF, managed by BlackRock's Factor Based Strategies Group, is the main building block within the default option of the UKRF defined contribution (DC) scheme. Its integration of ESG factors and climate risk aims to reflect the trustee's responsible investment policy, and introduces explicit focus and application of ESG factors into investment decisions to try and better manage risks, including climate change, and generate sustainable, long-term returns for members.

What ESG-related changes have been made to the UKRF's DGF?

There is compelling evidence that sustainable business practices lead to better investment decisions, mitigate risks, and, ultimately, create better outcomes for members. This is a belief that is firmly held by both the trustee and the investment management team of the UKRF. Hence, as our aim is to deliver the best possible overall outcomes for members, we are committed to taking action and the recent DGF changes reflect the implementation of this belief.

What we have done with the DGF, therefore, is to introduce enhanced ESG characteristics as additional investment criteria that will be used to screen investments. The screening process will identify material ESG risks and future growth opportunities. For example, it will reduce exposure to companies with high carbon emissions, or excessive executive pay and limited diversity and inclusion, while increasing investments in assets that conserve natural resources and businesses that integrate with communities in which they operate.

Why did you decide to integrate ESG and climate risk into the fund?

We made this change because we think it will have a positive impact on members' retirement savings in the long term. We expect that investments with improved ESG characteristics will face fewer risks and perform better in the long term compared to investments with weaker ESG characteristics and less focus on sustainable long-term practices.

Responsible investments have been on our radar for some time, as the UKRF signed the Principles for Responsible Investment (PRI) in 2015. In our view, ESG-related considerations are clear and present investment risks, and it has long been our view that these factors should not be afterthoughts, but rather actively considered in both strategic and day-to-day investment decisions. The changes to the DGF are an example of the progress we have made integrating the UKRF responsible investment policy into investment practices. We will continue integrating responsible investment considerations within the fund's strategic and day-to-day management processes and decision making, aiming for improved risk-adjusted returns over time.

What impact do you expect the integration will have on the fund's long-term performance?

We expect this integration to both reduce forward looking investment risks – through enhanced protection against ESG risks including climate change – and also lead to better investment returns and, hence, better risk-adjusted outcomes for members in the long term.

Market participants have become increasingly aware of and sensitive to ESG risks, and that will adversely affect assets and businesses with relatively weaker ESG characteristics and unclear plans to improve the sustainable aspects of their operating model.

How will this change the day-to-day management of the fund and trustee activities?

The DGF is a diversified multi-asset fund with wide-ranging underlying investments (multi-asset class, rather than equity focused only). The overall expected return and risk targets for the fund remain broadly unchanged, along with other key investment restrictions and guidelines under which we operate on a day-to-day basis. The focus of the investment process and portfolio construction on top-down macro risk factors (economic, inflation, real rates, credit, emerging and liquidity) is also preserved.

What changes is the bottom-up selection of the underlying investment assets, where ESG characteristics now sit alongside other investment criteria, such as market capitalisation, country, sector and currency, that are used when making decisions within the DGF portfolio. The DGF manager, BlackRock, will screen investments to identify material ESG risks, as well as future growth opportunities and be able to position portfolios accordingly. It will also continue to proactively engage with the entities and markets in which it invests on behalf of the trustee on a range of issues including voting, transparency on ESG risks, climate change and the transition to a lower carbon economy.

Do you see the move as part of a larger movement towards more ESG-friendly investments and, if so, what impact do you see it having on the investment landscape as a whole?
Absolutely. There are a huge number of macro-level debates underway in this space – and those are likely to intensify this year with COP26 and the increasing policy and regulatory focus on ESG and sustainability around the world.

The trustee and the investment team are actively involved in these debates, and collaborate with other asset owners (through the Institutional Investors Group on Climate Change, for instance) and our underlying investment managers to progress such considerations and contribute to the definition of best practice across ESG investments and sustainability. We see such idea sharing and contribution to emerging investment management frameworks as a key part of our fiduciary responsibility in managing the UKRF for the long-term benefit of members.

For our part, we are integrating ESG factors throughout the investment processes, while also focusing on active ownership, collaboration and appropriate disclosure. The changes to the DGF are part of that process, but it is not the only measure we have taken. Over the past few years, we have re-positioned some existing investments of the UKRF defined benefit (DB) scheme and established exposure in several new investments that have positive effects from an ESG perspective and clear focus on climate risk mitigation, including renewable energy and infrastructure.

Alongside the ESG and climate-related changes, are there any voting and stewardship-related changes planned?
Exercising voting rights is an important mechanism in the equity space and we are keen to use those voting rights and apply the principles of the UK Stewardship Code.

We are also building our active engagement on the credit side. This is important in the context of the DGF, a complex multi-asset fund, but also the DB scheme of the UKRF. With £35 billion in DB assets and a significant exposure in traded and private credit investments, we are committed to extending our stewardship and engagement responsibilities to material and long-term strategic holdings for the DB scheme. As such, the UKRF recently appointed EoS at Federated Hermes as a dedicated engagement specialist to maximise our influence as an active owner through proactive engagement (and voting, where applicable) with investee entities, regulators and markets within our DB scheme.

Written by Jack Gray

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Secure income assets: Lifting the lid on ESG integration – *As demand for investments in the private market continues to grow, there is an ever-increasing interest in considering environmental, social and governance (ESG) factors to promote greater transparency, for better risk management and to aim to deliver long-term value* **p38**

Ahead of the game – *Duncan Ferris explores what is driving the rise of ESG and why it could be important for schemes to stay one step ahead of both members and regulators* **p41**

ESG focus:

Making a real difference

LGIM Real Assets head of ESG, Shuen Chan

Legal & General Investment Management

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Secure income assets: Lifting the lid on ESG integration

As demand for investments in the private market continues to grow, there is an ever-increasing interest in considering environmental, social and governance (ESG) factors to promote greater transparency, for better risk management and to aim to deliver long-term value

Integration of the principles of responsible investing in public equity and credit portfolios is increasingly improving – despite the myriad ways of doing so – as ESG data becomes more standardised and transparent. Private assets, however, could appear by definition to present challenges to responsible investors, due to the different nature of that market.

This question is of growing importance as allocations increase, amid the continued hunt for yield, and in the face of growing regulatory pressure. At the same time, ever greater numbers of asset owners seek to deliver positive change through generating sustainable returns.

In this paper, the latest in a series on responsible investing, we look at how long-term investors can incorporate ESG analysis to optimise portfolio risk within secure income assets – infrastructure debt, private corporate debt and real estate debt. We also offer real-world examples and consider future developments in this exciting and under-explored area.

Private credit and equity versus public markets: Key differences

Through their voting rights, equity investors can influence company policy, operations and decisions. As owners, they have a degree of influence over the day-to-day management of their assets.

Indeed, in our Real Assets business, our UK real estate equity portfolio has become a market leader by placing sustainability and ESG as a core part of our asset and investment management process. We have achieved this through setting ambitious environmental, climate and social targets to improve the operational efficiency of our assets and promoting the social value of the communities where our assets are based.

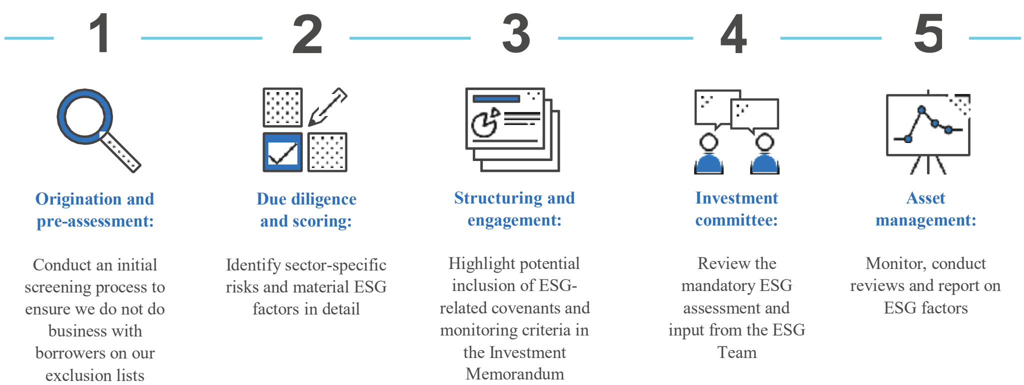
But for secure income assets, also known as private credit, investors' influence is limited by virtue of being a creditor (lender) rather than a shareholder (or owner). These debt investments tend to have a long time horizon – often of 10 years or more – while their more illiquid nature means that exiting them before the intended time horizon can be difficult.

As a result, we believe it is just as crucial for secure-income investors to assess a company or project's ESG credentials as part of their investment process to ensure that they are comfortable with such long-term exposures.

ESG integration in practice

Long-term investors, in our view, have a responsibility to protect client capital through integrating ESG considerations

This approach is reflected in five key steps:



The value of an investment and any income taken from it is not guaranteed and can go down as well as up; you may not get back the amount you originally invested.

into investment processes. We believe this leads to better risk management and will drive the long-term value over the next several decades.

For example, investors can minimise long-term risks by avoiding borrowers who do not maintain their social licence to operate, or avoiding energy assets which may become obsolete in a decarbonising world.

Within LGIM Real Assets, we seek to ensure the E, S and G are fully considered as part of the wider decision-making process with regard to all investments in private credit. We do this by taking both a top-down and bottom-up approach to assessing ESG risks, which enables us to mitigate downside risks on financial performance.

We conduct research to analyse long-term ESG trends and their implications for the markets in which we operate; the findings inform our views on sector allocation and asset selection. Meanwhile, we also conduct ESG assessments of individual assets, analysing performance against key metrics to flag and address potential risks – and highlight opportunities - by identifying the issues that are, in our view, the most material to our assets across the investment lifecycle.

Looking ahead, we believe there are plenty of reasons to be excited about opportunities for investments with strong ESG profiles in private credit and to have real world impact.

Renewable energy

As renewable energy becomes a greater proportion of our energy mix, it continues to attract support from the government and from private investors. With increasingly ambitious climate change targets, the number and scale of projects has been increasing.

We have lent to three of the world's largest offshore wind farms that together produce enough energy to power more than two million UK households, and we have funded a collection of solar projects.[1] We expect wind and solar projects to remain an important part of our pipeline. Looking further ahead, as our energy system continues to decarbonise, we expect more opportunities to invest in next-generation clean infrastructure such as hydrogen networks and heat pumps.

Social – affordable housing

The UK continues to suffer from a shortage of affordable housing, with 1.3 million households on local authority waiting lists. Private capital will be a key role in ensuring this gap is closed. For example, we recently made a £100 million long-term loan to Bromford Housing Group, the largest provider of affordable homes across Central and South West England.

As a strategic partner of Homes England, Bromford has a key part to play in providing social and affordable housing; this partnership should be able to deliver 12,000 new affordable homes by 2028. These homes will serve the communities in which Bromford operates, as well as delivering both real economic growth and social value for the UK.

Two case studies

Accepted: A private placement in a sustainability-linked loan for a renewable energy operator

The borrower is a state-owned company and one of the largest electricity generators in Iceland.

The company has committed to becoming carbon neutral by 2025 and is targeting becoming carbon negative by 2030. We provided a loan earlier this year where the coupon is linked to meeting certain CO2 sequestration targets.

The borrower achieves carbon sequestration targets to offset its carbon emissions by afforestation (planting trees), re-vegetation and wetland restoration.

Declined: Airline financing

This transaction, which we declined on ESG grounds in the first half of this year, was based on the financing of mid-life aircraft (with an average age of 12.3 years) which are less fuel efficient than newer models. The use of proceeds from the transaction was intended to allow the company to buy out aircraft, thereby reducing financing costs and moving away from a business model whereby it primarily leased to an ownership fleet. However, there was no intention to improve and modernise the airline's fleet. In our view, the airline's market positioning as a mid-life carrier reflected a lack of ESG integration within the company's strategy.

Smart/low-carbon grids

In addition to more visible clean-energy projects, such as wind turbines and solar panels, we are also looking for opportunities in interconnectors and Offshore Transmission Owners (OFTOs). These are key parts of the system for transmitting the energy back to homes and businesses, and to different countries. Renewable energy output is less predictable than fossil fuels, and interconnectors enable countries to import power to maintain a constant supply and create the greenest, most cost-efficient energy mix possible.

We see this area as a potential opportunity, as these projects tend to be large in scale and international in reach, requiring financing from a broad base of banks and institutional investors. What's more, the assets are a crucial element in bringing low-carbon energy to life; the technology is already established, the need to integrate new energy projects is growing and the infrastructure will be in place for many years to come.

What does the future have in store?

The quantity and quality of ESG data available to investors in public markets has multiplied over recent years. In the private credit space, that journey is just beginning. Due to the diverse nature of the asset class, there is currently no market standard for ESG management and disclosure.

We are championing several initiatives, working with industry bodies and borrowers to improve the comparability of datasets and consistency of reporting. For example, in the UK, 1.6 million households, accounting for 3.8 million people, are in need of social housing, which is 500,000 more than recorded on official waiting lists, according to the National Housing Federation. To promote greater disclosure and more transparent ESG standards in the UK social housing sector, we have been involved in the development of an industry-wide framework. This new Sustainability Reporting Standard for the social housing sector was launched at the beginning of November 2020. The standard covers 12 ESG themes and 48 quantitative and qualitative metrics, including affordability and security, building safety, climate change and governance. We believe this voluntary standard will help to unlock more sustainable investor capital to deliver more affordable and sustainable homes for our communities.

We are also committed to a number of recognised reporting frameworks and guidelines, including the UN Principles for Responsible Investment, the Task Force on Climate Related Financial Disclosure, the Paris Agreement on Climate Change and the Social Value Portal.

In addition, we anticipate greater focus across the industry on the economic and societal implications of climate change. At LGIM Real Assets, we have set an ambitious commitment to achieve a net-zero carbon target in our real estate equity portfolio by 2050.

Sustainable outcomes

By supporting transparency, data availability and disclosures, we aim to improve ESG standards across the private credit market. This should facilitate further qualitative and quantitative ESG analysis of the asset class, leading to better and more sustainable outcomes for investors, in our view.

More broadly, as the world faces multiple crises – from the pandemic to climate change – we believe that now more than ever before is the time for responsible investing, regardless of asset class.

Still, we have shown that rather than being an obstacle, the private nature of secure income assets in fact means that many are naturally aligned with ESG objectives by virtue of their purpose and function, from clean energy.

Written by LGIM Real Assets head of ESG, Shuen Chan

In association with Legal & General Investment Management

[1]. Source: LGIM Real Assets, 2020. Please note, these assets are examples of investments that our real assets teams made, and may not be held by LGIM in the future.

Ahead of the game

Duncan Ferris explores what is driving the rise of ESG and why it could be important for schemes to stay one step ahead of both members and regulators

Considering environmental, social and governance (ESG) factors has never been so fashionable. Climate consciousness is hot right now, with President Biden having realigned the United States with the Paris Agreement, and major companies such as LGIM setting out their own climate pledges. This is not a fad, and pension schemes might be wise to stay ahead of the curve.

Engagement

It is perhaps first worth noting that ESG integration can have some unexpected positive side effects. Staying connected with members should always be a key concern for pension schemes, but it is even more relevant than usual as the industry mulls issues exasperated by disenfranchised savers, such as small pots. But one connection trustees might not have made is the way in which ESG integration can be used to pique member interest.

Sackers partner, Stuart O'Brien, says: "Ultimately if members feel that their money is doing something useful and that they can relate to, then they may be more inclined to pay attention to that letter headed 'your pension' rather than just throw it unread into a drawer."

KPMG head of consumer markets, leisure and retail, Linda Ellett, agrees, pointing out that the firm's research found a quarter of customers "consider ESG factors when making purchase decisions, therefore communicating with consumers on how their pension investments can also support ESG will engage them in an emotional and more effective way".

However, O'Brien cautions that trustees must "bear in mind the limitations on member engagement". He warns: "The law is quite restrictive in terms of the extent to which trustees can base investment decisions on non-financial factors and member ethical or moral viewpoints. So, trustees should proceed with care on things like member surveys. But certainly, trustees shouldn't take the law's restrictions as a licence for a lack of transparency and accountability."

Beyond consumers

Consumer interest in ESG is on the rise, but it is worth considering what drives the topic's prevalence, as that will prepare trustees for how to shape their response.

Ellett explains: "As consumer brands and retailers share their ESG activities with their customers, through advertising, product labelling and bold public statements, the ESG agenda has risen up in the consumer mind, and an increasing number of individuals want to play their part in making a difference."

The Investing and Saving Alliance technical policy director, Jeffrey Mushens, says that "governments and regulators are keen to ensure that investors in financial products as well as trustees and members of pensions schemes understand and can meaningfully disclose to beneficiaries on the ESG-ness of their investments".

Pensions and Lifetime Savings Association director of policy, Joe Dabrowski, points to factors including "campaigners such as Greta Thunberg and David Attenborough", but notes that regulatory effects, including "in the Pension Schemes Bill, alongside the government's recent consultation and publication of a TCFD roadmap", are also having a major impact.

Regulation

As readers will be aware, current ESG standards for UK pension funds require trustees to disclose details regarding their ESG considerations following changes by the Department for Work and Pensions. Given the way the tide is turning, it seems likely measures will become more stringent, though this gives pension funds a real chance to make a difference.

Ellett comments: "Whilst consumers are expressing preferences relating to ESG credentials of products and services, the role of investors in driving business changes cannot be understated. Pension schemes are major investors and whilst 80 per cent of companies worldwide now report on sustainability, reporting only drives change if investors are require it."

As such, it seems key that trustees ensure that they are ahead of the curve on ESG, so that when new tighter regulations come in their funds are already prepared to meet them.

Dabrowski concludes: "As society continues to challenge the way we live our lives, pension schemes need to be prepared to meet members expectations as they grow and evolve."

Written by Duncan Ferris

In association with Legal & General Investment Management

Summary
• The signing of the UK-EU Trade and Cooperation Agreement does not mean trustees' Brexit duties are over.
• Even if trustees have had Brexit on their risk registers for some time, they are in a better position now to identify the main risks to keep an eye on.
• There are key areas that trustees can and should be looking at right now and into 2021, all against a backdrop of the Covid-19 environment.

Brexit: Crossing the finishing line

Francesca Fabrizi discovers that, while the Brexit transition period is over, there is still plenty that pension schemes need to do to keep on top of the changes

It's hard to believe that we would long for the days when Brexit was our biggest problem. Pre-Covid, the 'how', 'why' and 'when' of Brexit dominated the headlines, with trustees having to second guess how it would all play out and what it would mean for their schemes.

Now it's finally here, Brexit's potential impact also needs to be considered against a backdrop of a coronavirus-ridden world, where some scheme sponsors that were once deemed unbreakable may sadly be on their knees, and investments that were once booming are looking decidedly questionable.

The first thing to note in all of this, according to Aries Insight managing director, Ian Neale, is that while we have come a long way with Brexit, having had the signing of the UK-EU Trade and Cooperation Agreement (TCA), some sectors are still partly in the dark when it comes to Brexit: "The fact that financial services hardly feature at all in the TCA means that the pre-Brexit uncertainty

continues, for example for pension scheme providers, asset managers and other parties which have, up to this year, had operations in the EU – they no longer have passporting rights.

"UK pension schemes may come under pressure from members resident in EU states to pay pensions into new accounts in banks in EU states, where previously they might have declined requests to do so, following closure of many overseas accounts by UK banks," he says.

Added to this, trustees of schemes that were previously authorised and approved to operate cross-border await guidance from The Pensions Regulator (TPR) on how they should manage the cross-border aspects of their schemes for the post-transition period, continues Neale. These are just a few of the many issues that still need to be ironed out.

Sackers associate director, Nigel Cayless, agrees that, despite its length, the TCA is light on provisions in relation to financial services and investment. The undertakings made in this area are high level and are intended to "secure continued market access", "ensure financial stability, market integrity" and "protect investors and consumers", he explains. "The aim of the UK and the EU is to put a Memorandum of Understanding, establishing a framework for regulatory cooperation on financial services, in place by March 2021, so this will be an area to watch," he adds.

State Street Global Advisors head of policy research, Elliot Hentov, concurs that, although the divorce bill has been signed, the Brexit saga did not end with 2020, with many issues still very much alive, for example in relation to the UK economy.

"Right now, the knock-on effects of Brexit mean that the UK economy is like a car driving with the handbrake on. While the financial services sector has been preparing for a number of years for a hard Brexit, we're now seeing it morph into a siloed issue, with defined areas of the industry, such as European clearing, derivatives trading and others, facing unique challenges thrown up as a result of Brexit and the uncertainty it engenders."

Mercer's chief actuary, Charles Cowling, also warns that schemes need to consider any potential weakness in sterling, "as a result of a perception or reality as to whether the impact of Brexit is good or bad, as well as the potential impact on inflation and interest rates – this is all to do with the strength of the economy and are financial issues trustees need to consider, but are still to be played out."

Better late than never

Despite the uncertainty that prevails, there is still a lot pension schemes can and should be doing now and in the coming months to ensure their schemes are managing Brexit effectively.

"Before going into the detail of what schemes should be doing around Brexit, though, it's important to highlight that schemes should already be looking at this", argues PTL managing director, Richard Butcher. "Brexit may not have a direct impact on many pension schemes. It may well, however, have an indirect impact on a number of areas that trustees ought to be aware of. If schemes are just looking at this now, they are probably a bit late in the day."

BESTrustees' president, Alan Pickering, agrees that this should already be on pension trustees' agendas: "Pension schemes do not operate in a vacuum. They are part of the remuneration package and therefore will be subject to change if employers' businesses are impacted by Brexit in respect of those who they employ, the territories in which those employees work and the broader impact of Brexit on our economy," he warns.

"All trustees have risk registers. Brexit should already be on that register. Saying that, we can now be more specific in identifying likely risks, thereby allowing us to manage, mitigate or avoid any risks that have a negative potential," he adds.

So, whether you are a trustee who is fully aware of the risks that come with Brexit, or whether you have some work to do on getting up to scratch, there are a number of areas schemes need to keep an eye on; and, importantly, says DLA partner, Matthew Swynnerton, trustees should be prepared to answer any Brexit-related queries from concerned members, now that the transition period has ended.

Covenant review and sponsor strength

First off, the sponsor covenant is a key component in any Brexit assessment. If a scheme's employer group trades heavily with European markets, or if the employer is owned by a European entity and/or the scheme has a European parent company guarantee, then trustees should consider a covenant review, advises Swynnerton. "This would also be helpful in cases where business is likely to move away from the UK. The strength of the employer covenant would inform future investment and funding decisions and it is important to bear in mind that some sectors have been impacted more than others by changing economic conditions," he warns.

Linked to this, he says, trustees should keep in mind sponsors' ability to support their schemes as a result of the economic impact of Brexit. Ensuring that sponsors are able to financially support schemes in the medium to long term is important given that financial markets will be impacted, as well as any general corporate activity that took place across borders. As Swynnerton highlights, this will require schemes to take a look at investment risk, covenant strength, funding and the maturing of the scheme to create plans on how to manage reliance on the employer. "It is also advisable that trustees ask sponsors how they are planning to prepare for any Brexit-related impacts," he says.

Butcher agrees that if you are dealing with a business that is very reliant on overseas trade into Europe or trade out

of Europe, then Brexit is going to have an impact on the covenant, "and the scale of that impact could be everything from relatively trivial to capable of killing off the sponsor", he warns. "You therefore need to address that appropriately."

Investment factors

No experienced trustee will be surprised to learn that market volatility as a result of Brexit can lead to changes in the value of scheme assets and investment returns, especially in the short term. However, says Swynnerton, even though trustees are likely to already be aware of such issues and factored them into risk assessments, reassessing whether risk factors have changed may be worthwhile, taking appropriate financial advice to deal with any issues revealed.

Looking at DB and DC in turn, Swynnerton comments: "For DB schemes, arrangements are long term in nature so the hope and expectation must be that material changes would in time revert to the norm. For DC, careful communication with members may be advisable to potentially ward against knee-jerk reactions. Default arrangements should be reviewed and those approaching retirement might perhaps be warned to consider their position (particularly where their investments are heavily return-seeking oriented)," he says.

Cayless agrees that, like any significant economic event, the impact of Brexit will be an important factor for trustees to consider in both the short and long term. "In particular, we recommend that trustees consider, with their investment advisers, the timing implications of any large-scale fund or investment switches over the next few weeks and months. In addition, they should check with their investment advisers that there will be no impact on their scheme's ability to access European investment funds."

Processing issues

Another area that schemes need to look at closely is the processing of pension payments. "What happens if you have pensions in Europe? What happens if you have staff in Europe? What about the impact of Brexit on the secondment rules? What about the impact of Brexit on paying payrolls to overseas countries?" asks Butcher. "The problem with Brexit is, although the TCA was 1,200 pages long, it contained remarkably little detail. So a lot of the devil is going to come out in the detail in due course and when it comes down to it, we might find things don't work as well as we want them to. Who knows, we might find that European pension payments are being bounced back."

Cowling agrees that, on the operational side, "trustees need to ensure pensions continue on smoothly, especially for members who are of outside of the UK in Europe. There may not be many, but for those few, trustees need to ensure that getting their payments won't be interrupted as it will be a big deal for these individuals if there are any issues".

More specifically, explains Cayless, in the run-up to the end of the Brexit transition period, there were reports that customers of UK banks living in Europe had been informed that their current accounts would be closed after the end of the transition period.

"Although it is not a trustee's responsibility to find out whether the accounts of their EU-based pensioners are going to be closed, they may wish to check what their administrator's processes will be if an account closes and a payment to it is not accepted," he suggests. If a pensioner's UK bank account is closed, he continues, they will need to provide details for a different account – the account they choose may be an overseas one. "In such a case, for example, trustees may wish to check if the administrator will still pay the pension in sterling (meaning the pensioner takes the risk in terms of changes to conversion rates/ any additional charges for making an overseas payment). Trustees may also wish to include a short paragraph making pensioners aware of this matter in forthcoming member communications," concludes Cayless.

Legislation and scheme rules

The impact of Brexit on UK pensions legislation has, at least in the short term, been limited, explains Swynnerton; but in the long term is an area to watch.

Previous EU-based legislation has been retained and incorporated into UK law, including pieces like the GDPR and IORP, while other notable areas of pensions law derived from the EU include equality, scheme funding, the Pension Protection Fund (PPF) as well as many member protections, he explains. "Over the longer term, we can expect a divergence from EU principles, as the influence of the Court of Justice of the European Union (CJEU) caselaw and Brussels-generated legislation lessens, and the UK government amends pensions legislation in line with its own policy development on these issues. It is therefore important to keep up-to-date with any changes," he adds.

In terms of scheme rules, many pension schemes have incorporated EU legislation by specific reference and so these references also need to be updated, says Swynnerton.

Overseas guarantee

One area that will not be relevant for all schemes, but for others absolutely essential, is the impact of Brexit on an overseas guarantee. Swynnerton explains: "For those schemes with English law funding guarantees given by a company incorporated in an EU Member State (or in Switzerland, Norway or Iceland), it's essential to monitor whether the UK manages to sign treaties broadly maintaining the current status quo in relation to cross-border disputes."

The UK is in negotiations on this

matter and since there is not yet a conclusion, there are a number of potential scenarios that could ensue.

Cayless advises therefore that pension schemes supported by guarantees from EU-based guarantors should consider seeking legal advice from local lawyers on the enforceability of the guarantee in the relevant EU country. "Subject to how the guarantee is worded, it may be necessary to adjust the jurisdiction clause in the guarantee. Ultimately, it is likely that the UK will enter into an agreement with all EU Member States to provide reciprocal arrangements for the enforcement of court judgments, but it may be a while before such agreements are signed and become binding," he says.

Data protection

Data protection and transfers of personal data between the UK and the EU is another area pension schemes will need to watch, highlights Cayless. It is worth noting that there is a further transition period in relation to data protection of up to six months. He explains: "This is intended to allow an adequacy decision to be agreed and adopted. In the meantime, pension scheme trustees should ascertain whether any such transfers of personal data take place in relation to their scheme and, if they do, ensure the relevant agreements with their service providers will allow for them to continue on and from 1 July 2021 were an adequacy decision not to be given."

Cross-border pension schemes

TPR has previously published guidance on the issue of cross-border pension schemes in the event of a no-deal Brexit, says Swynnerton, and the law that governed cross-border pension scheme arrangements in the transition period expired on 1 January 2021.

Cayless adds: "We are expecting TPR to publish revised guidance shortly on how trustees of schemes that were previously authorised and approved to operate cross-border should manage the cross-border aspects of their schemes for the post-transition period. Until the regulator issues its revised guidance, it has advised that affected trustees should check with the relevant authority in the EU host member state in which their scheme operates."

There are only around 40 schemes of this nature in total, says Swynnerton, in total so whilst not a key consideration, it is important for those trustees that do handle cross-border schemes," he stresses.

The PPF

The PPF is a creature of EU legislation, however, argues Swynnerton, it is too well-established to be dismantled. Saying that, he adds, "in time, the compensation payable may change – i.e. without the underpinning EU legislation preventing the UK government tinkering with the amount payable per member, albeit presumably at the PPF's request".

Pension schemes with EU-based sponsoring employers, however, should consider taking advice on how their scheme's eligibility for the PPF might be impacted and whether there are any actions they should be taking to protect their members, warns Cayless. "The PPF has given some comfort and confirmed that employers based in the EU will be treated in the same way as non-EU overseas employers always have been. This means that UK courts will have discretion as to whether to accept jurisdiction and grant a winding-up order (enabling PPF entry). This means access to the PPF remains possible for schemes with EU sponsors, but will be more uncertain than it used to be," he warns.

Into 2021

All in all, while UK pension schemes already have their hands full with the heavy weight of Covid-19, as well as the Pension Schemes Bill, which will also be keeping them awake at night, Brexit certainly isn't something they can tick off their 'to do' list anytime soon.

As Pickering recommends: "Well-governed schemes should have robust business plans in place, as well as rapid response mechanisms should it seem likely that such plans might be blown off course. The combination of Brexit and Covid-19 is unprecedented and trustees will need to meet much more frequently than normal as they take stock of the effects of these issues on their employer and the pension arrangements which that employer sponsors.

"We must ensure that we have a robust approach to business as usual which can be fine-tuned to whatever changes await us as 2021 evolves," he concludes.

TPR has published useful guidance on what trustees should be considering in relation to Brexit, covering areas such as investment, employer covenant and administration. This remains relevant despite the transition period having ended. Visit https://www.thepensionsregulator.gov.uk/en/prepare-your-pension-scheme-for-brexit

Written by Fancesca Fabrizi

Treating the cause – not the symptom

Financial Services Compensation Scheme (FSCS) chief executive, Caroline Rainbird, discusses with Sophie Smith the importance of ensuring consumers make informed decisions

What impact do you expect the pandemic to have on savers, and on claims to FSCS?
Consumers should feel reassured if they have purchased an FSCS-protected product through an FCA-regulated firm.

This is our highest-ever year for claims so far. We are working very closely with the regulators – the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) – to prepare for what could be coming down the line so that we can respond appropriately and issue guidance to help consumers make good financial choices. We have not yet seen the impact of the pandemic in terms of claims; however, we are prepared for the worst and hoping for the best.

What concerns are there emerging around the increase of pension scams amid the pandemic?
We are very aware that, across the industry, there has sadly been an increase in the number and sophistication of scams since lockdown last March, particularly in relation to pensions. The FCA issued over 1,000 warnings about scam firms in 2020 alone, which is already 80 per cent higher than 2019.

In any period of uncertainty, you often see a rise in scam activity. People offer consumers free pensions reviews, use highly-pressured sales tactics and guarantee better returns than where their pensions are currently.

That is why we are very focused on highlighting how consumers should approach this subject, making sure that they are aware of scams. Last year we partnered with the FCA, Money & Pensions Service (Maps), the Pension Protection Fund, The Pensions Ombudsman and The Pensions Regulator to create a guide to support pension savers.

In this period of uncertainty, it is especially important that consumers know where to go, what to look for, what FSCS protection covers and that we are there when customers need us the most. We hope this guidance will help people to understand that their pensions are protected.

This also ties in with our 'Questions' approach, which we launched in September to prevent people from making rushed decisions about their pension, to advise them to get independent guidance or advice, and to be aware of scams.

A lot of our work involves raising our profile and helping people to understand the importance of financial education. Money is a taboo subject, particularly in our culture. People are reluctant to talk about money, ask questions or realise the importance of having conversations around pensions early enough to be able to make informed choices. Yes, we pay compensation; that is what we are here for. But we are also here to guide where we can, to highlight scams and to highlight some of the right questions to ask.

FSCS pensions questions for consumers are:
1. Does FSCS protect my pension?
2. How much of my pension pot is protected?
3. Is my defined benefits pension protected by FSCS?
4. Am I still protected if I buy an annuity?
5. What if I buy other products with my pension pot?
6. What would happen to my pension if something happened to your business?
7. If I transfer money across from an existing pension, will that also be protected?

How does FSCS hope to use increased awareness to improve consumer outcomes, and how do you hope to continue raising awareness and educate savers?
We are committed to protecting consumers from pension scams, many of which occur online. The best that we

– and anyone in the regulatory family – can do is raise awareness as much as possible. When you start a journey with a particular product our *Covid-19 and your Pension* guide can help ensure you ask the right questions.

We want people to make good, informed decisions so that they not only have good outcomes, but also have the confidence to purchase other financial products. This means it is important for us, where we can, to highlight other organisations where people can go and become better informed. It is about working with pension providers, for example, to raise awareness of our protection.

We have also seen the impact and benefit of highlighting the FSCS logo on protected products. We mostly see it on the deposit side, and we are hoping it can be rolled out more widely across the pensions industry so that people can understand there is protection for the right product. Some firms already use our logo, but there is a long way to go.

I think the current environment has made many people want to look at the different financial products and services they have. For those able to save, this may be the first time they have seriously considered a pension, an investment or speaking to an independent financial adviser. We want them to feel confident and comfortable when they make these important decisions.

There has been criticism over rising levy costs associated with FSCS. Can you tell us a bit more about the levy and whether this could look to be reduced in future?

Without levy payers' funding and support, we could not do the crucial work we do to get people back on track. The industry is one of our key stakeholders and I am very aware of its concerns about the rising trends in compensation costs, the increasing levies and the impact this may have upon our levy payers.

We recognise that every penny we pay out in compensation has to come from the industry. We are also very aware that the rising number of claims and every penny we pay in compensation is because somebody has had, regrettably, a poor outcome. We engage with the industry on a regular basis, but there is no simple answer to address this complex problem and it will require the participation of everyone in the financial services sector.

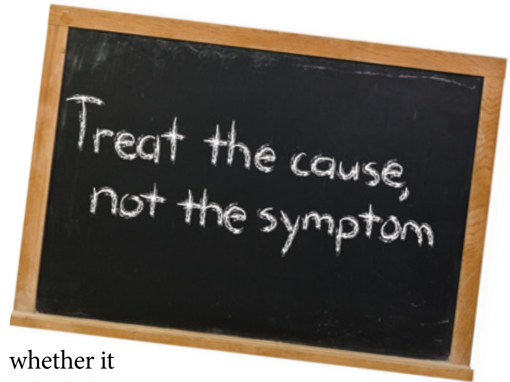
To minimise the elements of the levy that FSCS can control, we take a three-pronged approach. The first is our effort to continually innovate so that our management costs are as low as possible, which is shown, for example, by our like-for-like claims handling costs falling by 8 per cent in 2019/20. Secondly, we make recoveries wherever possible and if cost-effective, and have recovered over £280 million since the start of the 2015/16 financial year, which we were able to return to the levy payers.

And finally, under the 'Prevent' workstream in our five-year strategy, we collaborate with our regulatory and industry stakeholders to help prevent future failures and drive better outcomes for consumers, with a view to the longer term of helping to lower compensation costs and reduce the levy.

The overall levy increase is due in part to an ever-growing number of claims against self-invested personal pension (Sipp) operators. There is a year-on-year increase in the number of Sipp claims from just over 4,750 in 2017/18 to more than 7,300 in 2019/20 and the total amount of compensation stands at over £455 million.

FSCS continues to see claims from customers who have transferred from a defined benefit (DB) scheme into a private pension scheme. The FCA says that it is generally not in someone's best interests to transfer out of a DB pension scheme, which offers a guaranteed income for life. In general, our approach reflects that of the FCA's.

In my view, reducing the levy is about tackling the cause of poor outcomes,



whether it is bad players, scams, poor advice or a lack of financial education, the list goes on. We need to collectively come together to find solutions to address poor outcomes and not just focus on the symptom, which is rising levies.

By reducing the number of poor outcomes, we reduce the amount of compensation.

What do you think the pensions industry needs to do going forward to support better consumer outcomes?

The biggest thing we can do collectively is highlight to consumers the questions they should be asking about pensions, so they can make informed choices.

Anything we can do collectively around highlighting scams and fraud will also support better outcomes because the best way people can avoid scams and fraud is to be aware of them. Financial scams are becoming more sophisticated and appear more authentic and credible than ever. In challenging times such as this, there is always an increasing volume of scams and fraudulent behaviours. Therefore, while we do our bit to report and highlight scams, we would welcome opportunities to do this together as an industry.

The important thing for the pensions sector to do is to highlight the choices people can make, educating them as much as possible, and highlighting the pitfalls and potential pitfalls. Sadly, we will never prevent scammers, but if we all can make things harder for them, they might question whether it is worth doing what they do.

Written by Sophie Smith

Trusteeship focus:

Changing challenges

PwC head of pensions, Raj Mody, pensions director, Emma Morton, and risk transfer specialist, Nikhil Patel

How much is a trustee worth in 2021?

PwC considers what the year has in store for pension scheme trustees

There's no doubt the events of 2020 changed what people focus on. Everyone's experience will have been different. One common theme was an increased concern for an individual's wellbeing. As part of financial wellbeing, millions of people relied on the security of their pension. Some already had a pension in payment, some knew that it would be, one day. And, of course, it is pension scheme trustees at the heart of making sure this £2 trillion industry, already paying out £50 billion in pensions every year, delivers its commitments. Being a trustee of a pension scheme has never been easy.

What does 2021 have in store for trustees? Continued economic uncertainty, evolving regulation, and an increasing range of options available to manage pension schemes, all combine to make the role a complex one. The strain on the short-term ability of sponsoring employers to support pension schemes has increased in some cases. As a trustee, you are expected to understand and navigate through all of this, at pace, sometimes across multiple schemes, and typically when it is not even your full-time job.

The challenges, for the more than 5,000 pension schemes in the UK, will vary. But there will be a common set of skills that will allow trustees to go from good to great. Based on our experience of board and leadership effectiveness, here are the main ideas that trustee boards typically do not commit enough attention to:

• **Running an effective trustee board:** The move to virtual meetings in 2020 looks likely to continue for most of 2021. This means meeting craft is even more important. Trustees need to be in control of what is on their agendas, and in what order. Meeting packs, which are often more than 100 pages according to PwC's Trustee Question Time community, are often generated on auto-pilot by the eco-system surrounding trustees. Instead, they could be actively and purposefully commissioned by trustees. Trustees also need to be clear when they are required to make simple decisions, debate complex options, or just be made aware of developments for information purposes.

• **Challenging the status quo:** Too many times, trustees can defer to their advisers to make important decisions. The adage from politics – advisers advise and Ministers decide – applies just as much to pension trusteeship. Trustees should question why the adviser has reached their conclusion, and what process they followed. For example, did they rely on in-house benchmarking, which may not paint the whole picture? That's something the actuarial profession itself has recently highlighted. And is the adviser's range of options influenced by the range of their own business offerings, or personal experience?

• **Giving members the information they really need:** With economic uncertainty, some members may crave flexibility in benefits, while some want stability. Trustees must ensure the right information is available for members. The right information has to incorporate what's required by regulation, like it or not, but ideally should also include what's likely to be most useful to a layperson to help them take the right action. There is often a challenge to grab members' attention in the first place. The provision of at-retirement support is expected to grow over 2021 and beyond. Technology, such as fully personalised video 'mail merge' communications, will play a big part. Trustees will need to embrace the move to different ways of communicating with their membership.

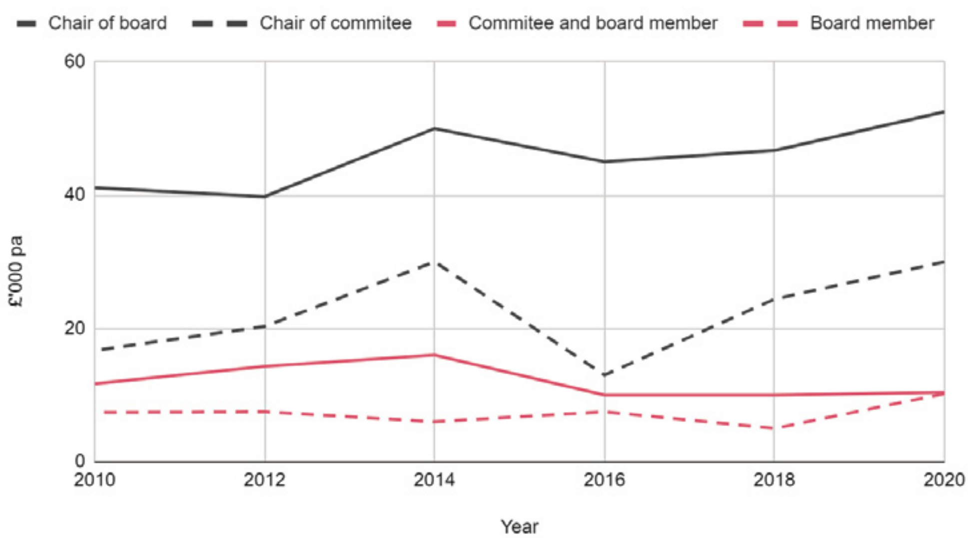
• **Truly understanding risk:** In the end, trustees could look at all their responsibilities through a risk lens. Good risk management is not just about a risk register, and looking at regular metrics for how the scheme is performing. It's much more than that. Many trustee boards would do well to go back to first principles, identify what their fundamental responsibilities and goals are, work out from there what risks really matter, and then identify how to manage and measure them. It's more than documents, dashboards and checklists. Risk management in a complex pensions context requires an intuitive ability to spot what's important, and take action on the right agenda items at the right time, without being unduly influenced by external timetables such as triennial actuarial reviews.

With more representation on boards by professional trustees, this has helped bring wider experience, and views from across a range of schemes and industries. We've also seen trustee training develop, and incorporate input from beyond the incumbent actuarial and investment consultants and managers. This helps trustees access different insights, along with an independent lens on new solutions outside of 'house views'.

What are all these skills worth? Are trustees being remunerated properly for the role they play?

PwC's latest *Trustee Pay Survey,* released in January, mostly shows a trend of gradually increasing trustee pay over the past 10 years. That feels right, but is it enough to compensate for a role that has become much more complex over the past decade?

Annual trustee pay (median), split by role



Our analysis shows that, on average, the chair of a trustee board is paid £54,000 a year. That is less than 25 per cent of the average pay of the chair of a major company board. The average pay of a trustee who is not the full board chair, but is likely to have additional responsibilities such as chairing a sub-committee, is £30,000 a year.

Trustee time commitment has also steadily increased over the past decade, from an average of 17 days a year in 2010 to 26 days in 2020. Most of this time is spent performing trustee duties outside of regular meetings. This can be outside of normal working hours for company-appointed trustees who are still in employment.

The increase in professional trustees has demonstrated the market's awareness of the need and benefits from improved quality of trustees. Non-professional trustees should welcome this. With the increased focus of the role of trustees, and governance of pension schemes, 2021 is a great year for all trustees to undertake a wholesale review of their arrangements. A diversity of experience across the board will help ensure that their strategy and effectiveness is fit for purpose for the next decade.

Some trustees may point to the challenges of doing an exercise like that during remote working, but trustees should not be deterred. We have seen fantastic engagement, and high-quality outputs, in some exceptionally well-run virtual meetings, enabled by user-friendly technology which replicates simple physical tools – flipcharts, sticky notes, breakout groups and the like. Our lives are not on hold, time still passes, and what we are experiencing is life as we now know it. Pension schemes are not on hold either, and their management needs to be better than ever before. Pension trustees may have been the unsung heroes to date, but will be more important – and visible – than ever before in delivering financial security to millions of people.

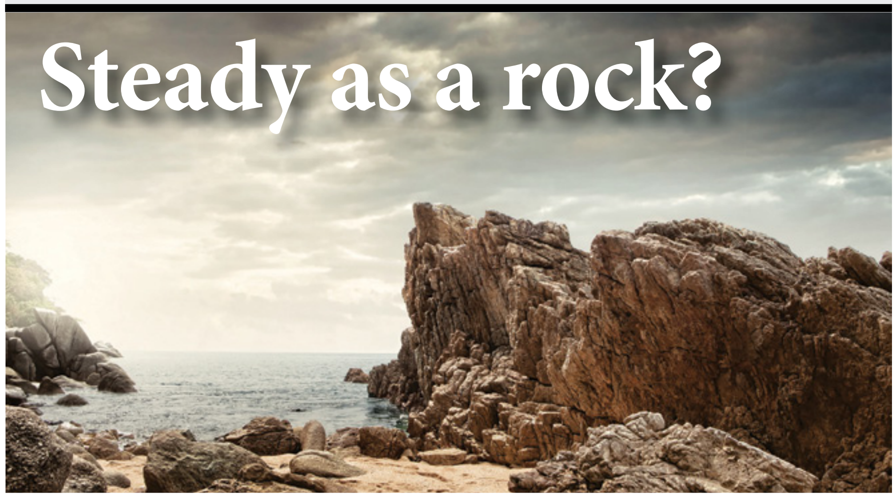
Written by PwC head of pensions, Raj Mody, pensions director, Emma Morton, and risk transfer specialist, Nikhil Patel

In association with pwc

Summary

• There has been a decrease in the number of pension trustee boards, due to wind-ups on the DB side, and, within DC, a move to master trusts.
• A drive for greater professionalism on pension trustee boards is being coupled with a desire for a greater diversity of people and backgrounds on the boards.
• Lay trustees still have a vital role to play within the changing pensions landscape.
• Each trustee is expected to be increasingly proactive on their board and to meet more regularly.

Steady as a rock?



Laura Blows considers how the trustee model is adapting to the structural changes within the pensions industry and the requirement for greater professionalism from trustees

The trustee model of employer-nominated, member-nominated and independent trustees on a board can be considered the bedrock of the pensions system itself, yet time and change are reshaping this foundation. But is it at risk of being eroded completely?

"It's true that in recent years the number of DB schemes closing and moving to buyout, coupled with the rise of *[DC]* master trusts, has had an impact on the number of pension schemes with boards of lay trustees," says AMNT co-chair, Janice Turner, although she notes that the government has reported receiving 1,818 applications to register new pension schemes for 2019-20.

Dalriada Trustees professional trustee, Adrian Kennett, also draws positive news from stats. "When the government introduced the requirement for full funding on wind-up of DB schemes in 2003 there was thought within the industry that the DB scheme universe probably had a lifespan of approximately 20 years. Today there are more assets within DB schemes than there were then – and wind-ups are occurring at the pace of about 1-2 per cent per annum," he says.

On the DC side, Kennett adds that "there is a clear movement away from employer trust-based DC provision, which is likely to accelerate under proposed legislation that will require schemes to demonstrate and evidence an effective system of governance".

These shifts on both the DB and DC have caused the nature of trusteeship to change dramatically, PMI head of technical, Tim Middleton, states.

"The Pensions Regulator's (TPR) demands and pressure to achieve wind-up are likely to result in fewer trustees and a growing role for those performing the role professionally. DB schemes may also be subject to consolidation and an increasing number of sponsors are moving to the sole trusteeship role as governance becomes more complicated and difficult. The increasingly complicated nature of trusteeship has also been a driver towards the growth of professional trusteeship."

Increasing professionalism

These 'complications' include there being fewer active members within the trust-based scheme population, meaning a smaller pool of willing/easily accessible 'volunteers', the complexity of governance requirements and investment vehicles, and the greater regulatory engagement in scheme governance. Press coverage of problems within a company's pension scheme or of a corporate failure in which the pension deficit played a part may also add to this reluctance.

To take on these challenges, trustees have to have a wide skillset, as while they can take advice, they ultimately remain legally accountable for the decisions they make. "They therefore need to have a deep understanding across a range of disciplines – including actuarial, investment, covenant, accounting, administration, data security, communications, legal and payroll," Kennett says.

The requirement for these skillsets did initially create a push towards greater professionalism to make the trustee model more efficient, PTL client director, Richard Butcher, states. However, since then it has 'fragmented', he says, as there is now "the realisation that professional trustees have brought professionalism to the table but not the diversity that is needed, creating a drive back towards employer/employee-nominated trustees".

Lay trustees

Middleton agrees that there is a growing awareness of the need for diversity on boards in order to accommodate different governance perspectives and to avoid groupthink. Therefore, "in spite of the drive towards professionalism, there is still a vital role for lay trustees, as the presence of member-nominated trustees (MNTs) on a trustee board – a statutory requirement established by the Pensions Act 1995 – ensures that members' views are adequately represented".

MNTs on a trustee board instils greater confidence on the part of scheme members in the knowledge that MNTs have 'skin in the game', Turner says.

"If there was a move away from the lay trustee model it would risk a growing disconnect between scheme and member, and could undermine trust in the scheme. We would be particularly concerned about moves towards sole trusteeship and away from requirements for MNTs," she adds.

While there have been reports of difficulties at some schemes in recruiting volunteers to be appointed to the board of trustees, Turner stresses that removing the trustee board model is not the solution: "The solution is to consider how the scheme currently goes about recruitment of new trustees. Other pension schemes have no problem at all recruiting new trustees, and those in workplaces with active trades unions often take advantage of the unions' commitment to workplace pensions and get union assistance in bringing new trustees forward."

This desire for greater diversity may be creating a conflict with the other aim for increasing trustee standards, Butcher warns."By increasing standards we are describing the 'optimal' trustee, but 'sub optimal' people as potential trustees may bring out new skills and angles to the board," he explains, adding that "we have to be careful that we do not end up with an environment that will scare of MNTs or trustees from a non-pension background".

Figures from an AMNT survey of August 2020 may back this, as 46 per cent noted a real struggle in finding new MNTs, although 38 per cent said that they had no issues. Only 10 per cent were below the age of 54 though.

However, MNTs are exceptionally aware of the necessity of ongoing training and development in relation to their role, Turner says. For instance, AMNT's August 2020 survey of its members found that 90 per cent of respondents thought that there should be a compulsory qualification for all trustees (both lay and specialist).

Turner states: "A growing number of MNTs (including me) are holders of the Pensions Management Institute's Level 3 award in pensions trusteeship, which is the level of knowledge required for professional trustees. Many lay trustees are also interested in attaining the new 'soft skills' requirement that has been brought in for professional trustees.

"It has been argued that multi-employer schemes require trustees to have a greater level of trustee knowledge and understanding and this has been put forward as a reason to remove the requirement for MNTs. But the growing number of lay trustees qualified to the level equivalent to professional shows that complexity of schemes is not an argument against lay trusteeship."

Working styles

It is not just lay trustees that are responding to this drive for greater professionalism. According to Kennett: "Professional trusteeship firms are starting to understand that trusteeship is a career, not a path to semi-retirement."

While change is occurring, more need to be done to change those trustees who are 'passive' at meetings, being akin to non-executive directors that are 'hands-off' the day-to-day management, PwC head of pensions, Raj Mody, says.

"Because of the arrival of full-time professional trustees, we are seeing a shift from the non-exec model of trustee to a more active role," he says. "This means there are a lot of changes in meetings. We are moving from a passive model, with trustees simply receiving meeting packs from their advisers, to an on-demand approach of trustees determining what they want to do for each meeting. There is now more proactive control from trustees, with less focus on 'set pieces' such as the triennial valuation, and the agenda more driven by topics they need to focus on at the time, such as the overall strategy and execution of it."

A consequence of that is trustees have to scrutinise the information they receive much more critically, Mody adds. "There is a need for trustees to understand the advice much more deeply."

However, a common frustration between trustees and sponsors is 'information asymmetry', where both parties have differing levels of information – for example the trustee board may only have a benchmark from a single source advisory firm but the sponsor may have more broader information, "so challenge your advisers, look for wider sources of data, and work out what you are not being told", Mody advises.

He expects to see smaller trustee boards where each trustee has a more active set of roles and responsibilities, resulting in faster decision-making due to sub-committees working inbetween quarterly meetings.

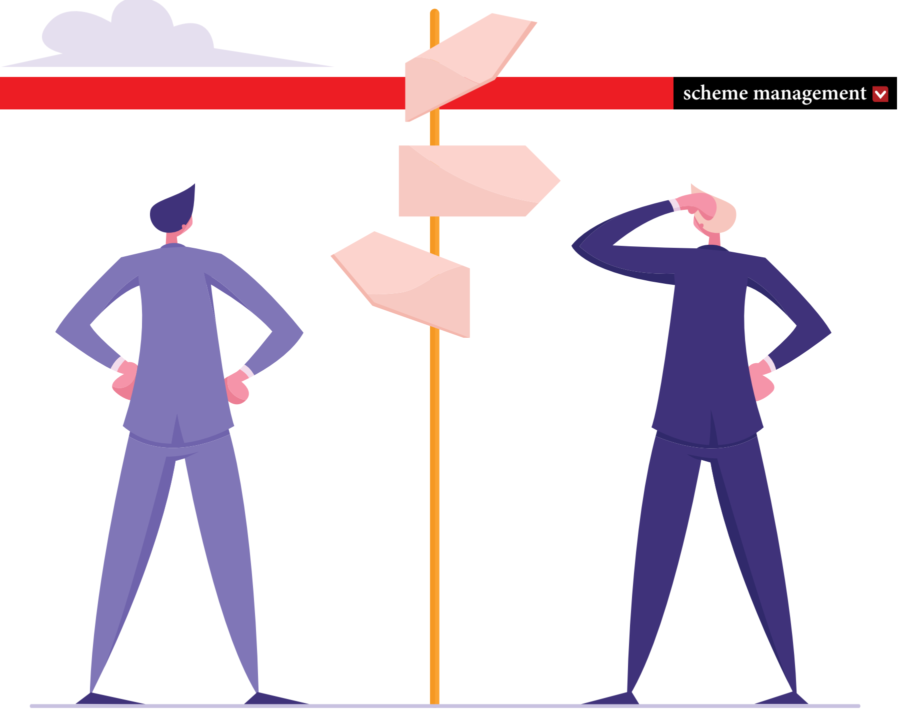
The trustee model may be changing, but "whilst there is increasing pressure on trustees to become more professional in their outlook, there remains a steady flow of people prepared to commit themselves to a vital role", Middleton says.

"There remains a strong consensus that the trust-based model remains the best option for ensuring the highest governance standards. Trusteeship have responsibilities recognised by law, and their independence from the scheme sponsor permits them to ensure that members' interests remain paramount.

"Whilst the role of trustees may be subject to change, they remain central to ensuring that the highest standards of governance are achieved."

Written by Laura Blows

In association with pwc



Making good choices

A majority of DB schemes may be closed to new members or future accrual, but these schemes will still need to appoint new advisers and service providers for decades to come. David Adams looks at how trustees can find the right firms and individuals to fill these roles and deliver the best value services to scheme members

Summary
- Every DB scheme is different, but there are some principles that can guide the selection of new advisers and providers, including aligning the scope of services and expertise required with the aims of the scheme.
- Efforts should be made to ensure that the selection is not overly influenced by a slick presentation.
- Third-party support may be helpful in determining when a new appointment is needed, how wide the search should be, shortlisting and assessing operational and technical capabilities prior to a selection decision.
- Within budgetary constraints, value is more important than price.
- Do not underestimate the amount of work and resources required for an effective selection process.

Every defined benefit (DB) scheme is different, but there are some principles that can be applied to the process of selecting any new adviser or key service provider. Above all, says Capital Cranfield head of sole trusteeship, Harus Rai, who has also worked as an independent trustee for 12 years, the process must be aligned with the needs of the scheme. "Why are you looking to review the provider?" he asks. "Is this process going to add value to the members and beneficiaries?"

A majority of DB schemes are on the smaller side; about 60 per cent hold assets of less than £100 million, including 40 per cent that hold less than £20 million. Smaller schemes are more constrained in terms of the resources they are able to dedicate to adviser/provider selection processes, but the expense and effort entailed in finding and appointing new advisers and providers can deliver significant benefits.

Regular benchmarking can help determine when a change is needed. PwC pensions director, Emma Morton, admits this is not always straightforward – it can be difficult to compare like with like when it comes to administrators' offerings, for example – but suggests asking other advisers, or the trustees of other schemes, for informal assistance and advice when trying to assess the quality of the service the scheme is receiving.

Trustees need to think strategically about what a change of provider or adviser should bring to the governance and operation of the scheme. "Think not just about what you need now, but what might fit for the next five years," says Independent Trustee Services (ITS) director of governance services, John Lovell.

The next decision is how widely to cast the net. A third party can play a useful role in helping to decide who to approach and how to compile a shortlist of candidates – a lawyer, consultant, independent professional trustee, or a procurement firm, hired on a project basis.

Smaller schemes are more likely to consider using bundled services than are larger schemes, but the scheme's requirements and practical capabilities of a provider should be driving this decision. "If you bundle services it can be more efficient, because the interfaces between service lines are managed by the provider," says Pi Pension Trustees associate and independent trustee, Lynn Pointon. "But how joined up are the service lines within a business? There's no big advantage if the administration and actuarial services are completely separate, for example."

Diverse advisers

Morton suggests that trustees should also consider how diverse a set of advisers the scheme will have. "There's a lot of conversation around making sure you've got diverse views and experience on the trustee board, but I'm not seeing that so much when it comes to appointing advisers," she says. "Look at the board to identify where the gaps are. You don't want everyone to be looking at things from the same perspective."

Lovell suggests trustees might use a 'pre-qualification' stage, where they consult an external expert who knows the market and/or by sending a questionnaire to potential candidates in order to decide which should actually receive the RFP document, which should be based on the scheme's requirements. He says trustees should be "totally open and transparent about the services you want and any complexities you may have in your model, so people are aware of that and can quote appropriately".

He says providers should also be asked to provide transparency. "At shortlist, get their terms and conditions, looking at things like liability caps – their liability when service is poor – termination provision and indemnity clauses. Use that part of the process to negotiate some key terms while you've got some competitive tension."

Identifying and mitigating potential conflicts of interest is also important. Again, external expertise may be helpful, says Buck UK managing director, David Piltz. "They're not always required, but in scenarios such as potential conflicts third-party evaluators provide a good degree of comfort and independence," he explains.

Once the shortlist is complete, trustees need to investigate the capabilities, working methods and culture of candidates, ideally before the formal presentation stage, in order to avoid the decision being overly influenced by a slick presentation.

"Have conversations with them, get them in front of the trustees, get them into a training session," says Hymans Robertson partner, Patrick Bloomfield. "Try and get lay trustees along to conference sessions or webinars hosted by the firms. It all helps to build up a picture."

Muse Advisory director, Barry Mack, suggests organising a mock trustee meeting, where candidates might be asked how they would respond to a scenario the scheme has experienced or might experience. "That can be a good way to test out who you want to work with; seeing how they would react in a certain set of circumstances," he says. He thinks it would be a good idea for the whole trustee board to get involved, as a way to get buy-in from the whole board for the eventual selection decision.

In many cases it will be necessary to try to interrogate claims made for a provider's technology, but Bloomfield warns trustees to be realistic about their own technical expertise. Again, turning to external expertise may be useful here.

Value, not cost

There is also the question of cost. It is important to be clear about exactly what the trustees would expect to be included in the price. Make it clear to candidates if cost is a very important issue, but for most advisory and provider roles pricing is not usually the key differentiator.

"Cost should not be a barrier to value," says Rai. "You have to ask, 'If we're going to pay a little bit more, is that going to add value for the members?' If you can justify it, go for the one that adds the most value."

References can also inform selection decisions. Bloomfield recommends asking for a referee who can describe how a candidate performed when something went wrong. But in many cases the most important issue is the compatibility of a candidate firm and the trustees on a personal and cultural basis.

Lovell says trustees should ensure they actually meet the people they will have to work with, not just salespeople and client relationship managers. "You can't do site visits at the moment, but you can do this through a Teams or Zoom call," he says.

Piltz recommends setting up at least one informal meeting before the presentation. "Meet them on their own, so they feel comfortable about speaking freely," he says.

When it comes to the final, more formal phase of the process, Aon principal, William Parry, suggests that some sort of scorecard may be useful. "You can overcomplicate this, but having an idea about how important are fees, how important is performance, how important is the level of resource within their modelling team, if you're appointing an actuary – if you do that first you'll stay truer to your own priorities and beliefs, rather than being swayed by the smartest suit," he says.

Lovell agrees, but adds: "Don't be a slave to that – does this provider fit with your ways of working?"

Rai recalls an occasion when he and fellow trustees of a £300 million DB scheme were selecting a new actuary and there was little to choose between the last couple of candidates. "I remember my co-trustee said, 'If we had to go into a fight, who would we want on our side?' It was a subtle way to differentiate between them. We were able to say it would be this person – and we were proved right.

"So that's about trusting your gut. But it's only once you've made an appointment and you're working with them and build that personal relationship that you really start to see how well it works."

One last element to remember is the need to provide feedback to unsuccessful firms. As Piltz says, taking the time to do this reflects well on the scheme and its sponsor. It also ultimately contributes to the effectiveness of every service provider or adviser.

But above all, says Lovell, never underestimate the amount of work required to complete the selection process properly and get maximum value out of a new appointment. "There's more work to this than meets the eye," he warns. "Preparation is key."

Written by David Adams, a freelance journalist

Filling the gap

Summary
- Financial advisers have increasingly moved to online services due to Covid-19's social distancing.
- There is a capacity crunch, both with the number of advisers available and the number of people willing/able to access advice.
- Reputational issues, a lack of awareness, cost and confidence in their own decision-making abilities can be attributed to the low take-up of financial advice.
- The FCA's investment pathways will be of use to those approaching retirement that do not take advice, but are not a substitute for financial advice.
- Increased use of technology and hybrid models between guidance and holistic financial advice will shape the future of the sector.

As the financial advice industry settles into the sector's changes caused by the Covid upheaval, Laura Blows discovers how the pandemic has further highlighted the 'advice gap' and the developments required to ensure greater access to advice

Over four million UK adults accessed financial advice in the past 12 months, states the FCA's *Evaluation of the impact of the Retail Distribution Review [RDR] and the Financial Advice Market Review* report – an increase from the 3.1 million who did so in 2017.

This rise is not surprising, given the volatile financial circumstances generated by the Covid-19 pandemic over the past year.

"At the start of the pandemic last March, call volumes leapt by a third as people concerned about their financial position sought advice," OpenMoney advice team lead, Will Lenehan, says. "They levelled off over the second half of last year but so far in 2021, we have seen a 100 per cent increase in calls with our advisers as customers look to implement new savings strategies in the new year."

Yet the Personal Finance Society sees more of a mixed bag for its members. Almost 40 per cent of financial advisers reported a decrease in the number of new clients trying to engage their services since the beginning of the coronavirus pandemic, a survey of 128 Personal Finance Society members conducted in October finds, compared to three out of 10 who had seen an increase in the number of new clients wanting their help following the outbreak of coronavirus.

For those that were accessing advice, they – and their advisers – quickly had to get used to a new mode of communication in 2020.

"Advice has traditionally been a very face-to-face business, a holistic process talking to consumers about their needs and wants. So that has been a challenge for advisers, both with lockdown and not being in the office," former ABI senior policy adviser, Matt Burrell, says.

However, Aegon pensions director, Steven Cameron, notes that advisers quickly adapted to servicing clients through video calls, and "their cost-effectiveness means this will probably carry on post-pandemic".

While they may be receiving advice in a different way now from when the FCA's report gathered its data pre-pandemic, the association's report finds that 56 per cent of consumers reported being satisfied with the advice they had received (up from 48 per cent in 2017).

"Pension and tax rules can be complex and scammers can prey on the unwary. Events such as the pandemic are a reminder that the world can be volatile and professional advisers help prepare people for the uncertain future, including putting in place important documents such as Powers of Attorney and wills," Just Group group communications director, Stephen Lowe, says.

Capacity crunch

But not all people wanting to access the benefits of advice are able to do so.

According to the FCA's review, there are over 5,000 advice firms and 27,000 regulated professionals advising on retail investments and pensions.

However, 60 per cent of advisers

surveyed in Octopus Investments' recent *Bridging the Gap* report say they had turned away prospective new clients in the past 12 months.

It also found that 37 per cent of advisers are servicing 'somewhat more' clients than five years ago, and 11 per cent 'much more', with 28 per cent saying the same amount.

Of the 18 per cent who are servicing 'somewhat fewer' clients and 7 per cent 'much fewer', the main reason was the amount of admin involved not allowing time for new clients (48 per cent of respondents), with 38 per cent saying they were focusing on their higher-value clients.

So the pandemic may well have had advisers' hands full with existing clients.

"Advice firms are geared towards giving ongoing advice to clients, so they are prioritising the stable, ongoing relationships with annual reviews and advice for their existing client base," Charted Insurance Institute director of policy and public affairs, Matthew Connell, says, "especially in a situation where making new relationships over Zoom etc is more of a challenge than maintaining existing relationships."

The sector is already operating at full capacity, he adds; it is fully occupied serving its existing client base. "This should not be criticised but should be celebrated that people are being very well served by the adviser community."

"However, there is an issue around capacity," Connell concedes, as "the size of the adviser market is roughly the same since 2012 when RDR was introduced and had already slightly shrunk just before the implementation of RDR, so capacity is an issue. There are a cohort of retirees with much more complicated needs but the number of advisers not really different from before pension freedoms."

The average adviser has worked in the profession for just over 26 years, with a third having done so for more than 30 years, "so, it's hardly surprising that many are looking to retire in the next few years", the Octopus survey finds.

Twenty-nine per cent of advisers surveyed said they plan to retire before 2025, with a further 33 per cent expecting to retire before 2030.

New recruits seem unlikely to fill the gap in time.

"It takes a long time to train someone to be an effective adviser as there is not just the technical side but also being able to relate to clients and put them at ease," Connell explains.

The Octopus survey finds that only 22 per cent of university students surveyed had considered a career in financial advice. Forty-five per cent of those who had not considered it said they were not interested in a career in financial services.

As well as being a barrier to entering the industry, the poor reputation of financial services, with negative press coverage such as in the wake of the British Steel Pension Scheme or with contingent charging (which has recently been stopped however), may also be putting people off from accessing financial advice.

"When asked what first comes to mind when hearing the term 'financial advice', 'expensive', 'untrustworthy' and 'scam' were among the most frequent responses, Lenehan says of OpenMoney's *UK Advice Gap 2020* research, "with negative perceptions outweighing the positive, despite the fact that the vast majority of those who had taken financial advice in the past had had a good experience".

Consumer sentiment

Recent survey findings from Pimfa, the trade association for the wealth management and financial advice industry, show 90 per cent of consumers have never taken paid-for financial advice and 79 per cent of those who had not taken advice had no intention of doing so in the future.

While it attributes some of this to a lack of awareness of the benefits or need for advice, (arguably over-) confidence is another reason, with 62 per cent of consumers believing they did not need help managing their money.

These findings are backed up by the FCA's research, which finds that the most common reason given for not seeking full regulated advice was that people do not think they need it (67 per cent of consumers).

"However, we have found that people are the least confident about making retirement and investment decisions, so there is a disjoin with people thinking they do not need advice and when approaching retirement needing advice more than ever," Cameron says.

Quite often people assume they will not benefit from advice based on the savings they have, as they think their options are limited and they've done some initial reading online, Standard Life retirement advice specialist, John Tait, explains.

"They can also assume that advice is really expensive and that it is not worthwhile based on their retirement savings."

However, the issue is more complex than just cost, as even use of the free, impartial and independent Pension Wise guidance service remains far lower than it should be, Lowe states.

Indeed, OpenMoney's research finds 20.9 million UK adults who would potentially benefit from advice are unaware of free advice services or unable to access them, an increase of 1.1 million over the last year.

Investment pathways

For those not wanting/able to take advice, this month sees the launch of the FCA's investment pathways framework – four different plans designed to help customers reach one of four distinct retirement objectives.

Commenting at the time of their launch, LV= savings and retirement director, David Stevens, said: "Investment pathways are a sensible option for pension savers approaching retirement with straightforward needs and particularly, for example, where the customer doesn't have access to an advice service. The FCA investment pathways framework provides pragmatic and sensible simplifications to help customers understand their options and make their choices with both more clarity and less risk."

The FCA wants to encourage people without advisers to make an active decision rather than defaulting into cash or an unsuitable or high-charging fund, Lowe states.

"They are designed to be a backstop when other interventions have failed. Advisers will need to consider the availability of investment pathways when making recommendations and may find them suitable in a modest number of very straightforward cases. But they are a blunt tool and we don't see pathways competing against advisers who can tailor plans much more effectively," he says.

By simplifying pension decisions down to a limited number of routes, many people could miss out on an alternative solution which may be a better option for them. "Investment pathways just add another layer of confusion for many people and are a poor substitute for regulated financial advice," Lenehan warns.

Poor substitute or not, 33 per cent of advisers think they will reduce adviser demand, Aegon finds. However, 44 per cent of advisers believe investment pathways will have no effect on demand, and 11 per cent believe they will actually increase demand.

Future technology

There is certainly scope for a middle ground between the investment pathways and 'full' advice.

This month Pimfa called for fundamental reform of, and wider consumer access to, professional financial and investment advice, with suggestions including the creation of new lower cost advice services to provide effective financial advice to a wider market and provision of a regulatory framework to support such a simplified advice service.

In November 2020, the ABI also called for a fundamental rethink of the regulatory environment to facilitate new forms of advice and guidance so it is fit for purpose for the next 15 years. It recommended changes to shift the advice and guidance boundary and to enable customers to get advice that it is simpler and more affordable, or guidance that offers more help.

"At the moment you have either got 'full-fat' advice on an ongoing advice basis or just guidance," Burrell explains. "We would like to see something fill the gap in between a premium service and nothing; what we can do to cater to these consumers that would currently never be in advisers' remit."

The average adviser customer has over £150,000 of assets under advice, the FCA report states, with the 90 per cent of the market dominated by holistic advice.

Yet polling commissioned by the ABI found four times as many people wanted one-off financial advice (46 per cent) instead of the traditional model of ongoing fees (12 per cent).

The advice industry does offer a range of services, the FCA report acknowledges, from automated or robo-advice, to one-off specific advice, to ongoing face-to-face holistic advice, "but there is significant clustering around a few service types".

"Advice firms appear to face little competitive pressure to innovate and offer new, more affordable services, or to try to attract less wealthy consumers. Competition does not appear to be operating effectively in the interests of consumers," it adds.

The traditional adviser firm, building relationships through face-to-face and ongoing advice, is not likely to attract cost-sensitive 'Middle Britain' consumers with modest pensions, Lowe agrees. However, he expects automated advice and streamlined advice services to help with this over time as people become more comfortable using the technology.

The upcoming pensions dashboards, along with open banking "will change the game", Burrell predicts, as they will reduce the time taken on the 'admin' side, "allowing advisers to focus on the interpersonal parts that actually add value for the client".

Advisers are also expecting technology to play a greater role in their future work. Octopus research finds 76 per cent of advisers believe a hybrid model will be the future, with 74 per cent also saying that accessing financial advice online will become a key channel for younger clients to seek financial advice.

Covid impact

The move to online services as a result of the pandemic may help advisers adapt to the potential changes ahead.

"As time has gone on, advisers are still comfortable talking about finances over video calls," Connell says, "so there is more awareness that they can develop new relationships in this way, even with social distancing and lockdown."

In August 2020, *The Financial Reporter* reported on research from FundsNetwork that 55 per cent of advisers predict an increase in demand for financial advice within the next five years, as clients seek support in navigating challenges and economic uncertainty in the wake of Covid-19.

Skipton Building Society's January 2021 research backs this, finding that over 37 per cent of British adults wished they had sought financial advice in 2020 and almost 48 per cent say they are more likely to seek financial advice due to the pandemic.

"Technology is helping to extend the reach of financial advice into the 'Middle Britain' customer base so that greater numbers can benefit," Lowe says. "It is likely that the pandemic will increase people's use of – and confidence in – online solutions that give them a huge amount of control at modest cost."

Written by Laura Blows

Keeping it clean

Trustees were recently urged by the Institute and Faculty of Actuaries to consider their 'personal cyber hygiene' to mitigate the risk of cyber attacks. *Pensions Age* asks: What tips do you suggest to maintain 'cyber hygiene'?

Keep your systems up to date: Manufacturers release regular software updates that are often driven by weaknesses identified by security experts and criminals alike. The risk of putting off an update can therefore be pretty high, so set it running and go make a cup of tea.

Use a password manager: This can be as simple as using your browser or phone to generate and store secure passwords, through to bespoke software that manages your passwords securely. It can take the stress out of remembering extra-secure passwords.

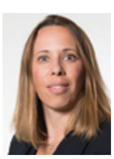
Set up multi-factor authentication (MFA): Many secure systems now offer MFA, essentially an extra log-in step where a code is sent to a location that you know is secure, often in the form of a text message to your phone. Anywhere that you are sharing secure data which belongs to other people should benefit from this extra layer of protection, and the systems these days really do issue the codes instantaneously.

PTL client director, Dan Richards

Good cyber hygiene is about proactively managing your security to resist cyber threats and online attacks. It is not simply a case of 'do it once' and you're protected but rather about creating a routine around protecting your systems. As part of this, you should ensure you are running anti-virus software and it is updating and update your device software. Setting applications, web browsers and operating systems to update automatically will help ensure you have the latest protection.

Also, make sure you are using different passwords for different systems and check if any of your accounts have been breached. There are websites that allow you to check for your own details. Attacks are automated and will take your account from one site and attempt to log into many other sites, escalating the problem. Check systems you access and where possible enable multi-factor authentication – this is where you need a username, password and another piece of information such as a unique code sent to your phone to log in. Make sure that any device that stores important data such as phones, laptops or USB keys are encrypted, and make back-ups of your critical information. By following good cyber hygiene, you reduce the likelihood of suffering a costly cyber-attack and should the worst happen be in a better position to recover quickly and successfully.

Quantum Advisory partner, Chris Heirene



Take small actions that, when combined, strengthen overall security.

Email: Use an email account for pension scheme duties that is separate to that which you use for other things.

Passwords: Current best practice guidance is that these should be passphrases and unique to avoid breaches of other passwords impacting on the scheme.

Information flows: Limit how much information moves about. For example, use trustee portals rather than emailing around member data or other documents.

Document destruction: When you are sent information, destroy it once it is no longer needed.

Device security: Keep up-to-date antivirus software, turn on multifactor authentication and apply patches or app updates as soon as they become available.

Social media footprint: Be alert to what information your social media interactions divulge.

Training: Take training on best practice standards, along with participating in fake phishing exercises – these can be invaluable.

Documentation: Establish guidelines that cover all of the above – that way, all trustees know how to protect the scheme.

Aon principal consultant, Vanessa-Jane Jaeger

Pensions history

Investment and the new Trustee Act

Speaking to the Institute of Bankers at The Bristol Centre on 14 February 1961, George Ross Goobey chose for his subject 'Investment and the new Trustee Act'.

He reminded his audience that, when these new proposals appeared in white paper form, there was a provision that a trustee who wished to take advantage of investing in equities must get advice (in writing or confirmed in writing) from a stockbroker, accountant or bank manager. The bill had altered this to "a person who is reasonably believed by the trustee to be qualified by his ability in and practical experience of financial matters". He felt that, whatever the final wording of the act, bank managers would be asked to advise trustees on the new problems that arose under this act. It was unfortunate that the act should have been delayed until the price of equities was so high that the financial pundits questioned the advisability of recommending trustees to take advantage of the new act.

Goobey continued: "Those of you who were present on the last occasion when I addressed you, will probably recall the graph which formed part of the basis of my prognostications and illustrated simply why I was then advocating equities rather than fixed interest securities. It is, as some of you will remember, a graph of the price of consols since 1790 and superimposed upon it is a graph of the trend of equity prices since 1860. As is inevitable, the fixed interest curve proceeds horizontally across the page with fluctuations from time to time caused by variations in money rates and changes in bank rate…. The point of this graph is to show what should be obvious to everyone but is, unfortunately, not accepted or acted upon, namely, that the trend of equities is in an upward direction."

The Trustee Investments Act 1961 received Royal Assent on 3 August 1961.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

F	N	L	T	O	L	M	S	L	W	S	A	R	N	X
I	I	B	S	P	A	A	C	K	O	S	R	A	T	R
J	E	N	E	I	G	Y	H	R	E	B	Y	C	S	P
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R	L	E	E	N	E	S	C	O	I	M	E	L	B	U
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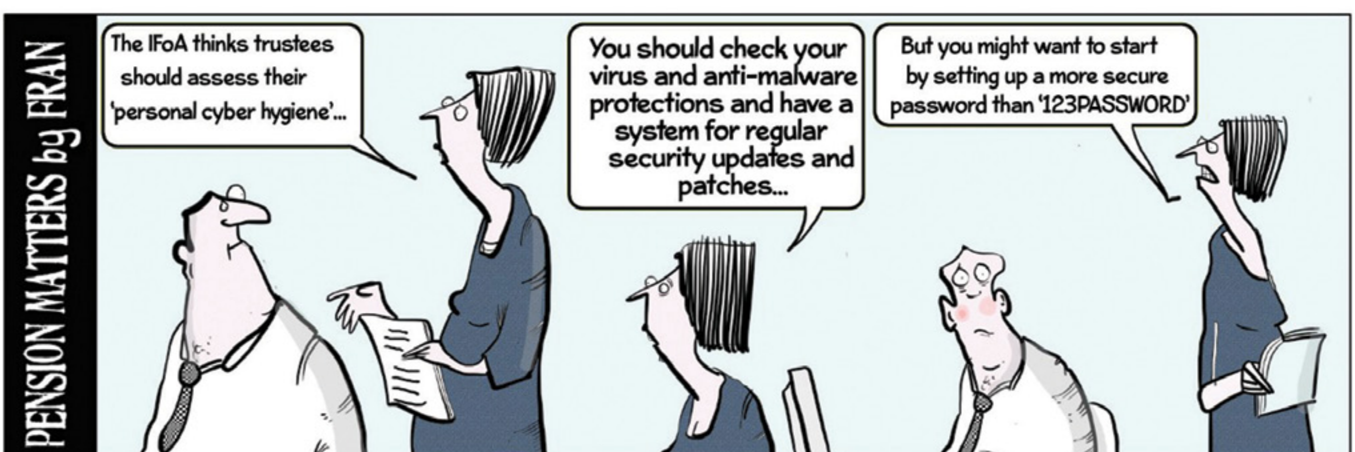
BREXIT
CYBER HYGIENE
DORMANT ASSETS
ESG
FINANCIAL ADVICE
PATHWAYS
PENSIONS BILL
PROVIDERS
REAL ASSETS
TRUSTEESHIP

I know that face...

Answer at bottom of page



I know that face... Answer: Pension Management Institute (PMI) president, Lesley Alexander.

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