Annuities
Recent market volatility has boosted the appeal of annuities

Liquidity
In the aftermath of the LDI crisis, renewed attention is being paid to collateral waterfalls

Communications
How the pensions industry can help savers making difficult financial decisions

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February 2023

PENSIONS Age

The leading pensions magazine

Scams focus 2023: *Interview with Pension Scams Industry Group chair, Margaret Snowdon*

Cryptocurrency: *The role that cryptocurrency could play in pension investments*

An own goal?

Could stringent regulation create a new set of problems for professional trustees?

Interview: Financial Services Compensation Scheme's CEO on the growing complexity of pension claims

Editorial Comment

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Quiddling. *Countdown*'s Dictionary Corner legend Susie Dent's Twitter Word of the Day, on the day I write this, means "busying oneself with trivial tasks as a way of avoiding the important ones".

It felt apt seeing her Tweet while I procrastinated on Twitter instead of writing this ed comment…

I'd have every sympathy for any trustees suddenly considering scrolling on Twitter a 'must-do' task to distract from the increasing workloads they face (although this attitude is just one of the reasons why I'm not a trustee!) With so many rules and regulations, choices *[the theme of this issue of Pensions Age]* and decisions to be made, it is little wonder that demand for the services of professional trustees is increasing. But professional trustees may face challenges from regulation themselves, as our cover feature on page 31 explores.

> **"It is vital that all these consultations and tweaks continue to build momentum"**

One person seemingly not hampered by decision paralysis is the Pensions Minister, Laura Trott. She has clearly chosen DC reform as one of her first goals, having recently announced a raft of measures in an effort to close the pensions inequality gap, aiming to create "fairer, more predictable, and better-run pensions" *[see page 10]*.

The measures include plans to extend collective defined contribution (CDC) to multi-employer schemes and possibly to decumulation-only, a call for evidence on small pots solutions, and a consultation on proposals for a new value for money framework.

These are great, and certainly not trivial, efforts to tackle the challenges faced by those saving in DC products – not least the contrast of a 'do-it-all-for-you' approach towards savers at the accumulation stage via auto-enrolment jarringly changing to 'now you figure it out yourself' once they reach retirement age.

However, the issues these proposals tackle, such as improving the capability for DC funds to invest in illiquid assets, are nothing new. They have long been discussed and debated by the industry. For instance, pot-follows-member was advocated by former Pensions Minister, Steve Webb, around a decade ago.

Reforms to DC structures have long been needed. But it is vital that all these consultations and tweaks continue to build momentum towards the most important goal: Ensuring savers achieve decent financial outcomes at retirement. It's time for action. No more quiddling.

Laura Blows, Editor

In memory: Matleena Lilja

It is with immense sadness that we announce the sudden passing of our dear friend and colleague, Matleena Lilja. An integral member of *Pensions Age*'s sister title, *European Pensions*, Matleena was the original and lead designer for the magazine, website, awards and events, creating the brand's beautiful and iconic look.

Having worked at *Pensions Age*'s and *European Pensions*' publisher, Perspective Publishing, for over 20 years, Matleena's creative flair and enthusiasm for her role as deputy manager of the design and production department was only eclipsed by the vibrancy, friendship and sheer fun she brought to the company.

Her joy for the sector she worked in was evident from the many pension industry friends she made through both *European Pensions*' and *Pensions Age*'s events.

Matleena was an immensely proud mother to her two teenage children, to whom she was whole-heartedly dedicated, a trait which shone through so clearly to anyone who knew her. Our thoughts and prayers are with her family at this difficult time.

Pensions Age and all at Perspective Publishing are heartbroken at the untimely loss of a much-loved member of our work family.

COVER FEATURE

Theme: Choices

31

An own goal?

Calls for tighter controls around professional trusteeship have resurfaced in recent months, but could stringent regulation create a new set of problems for the sector? Francesca Fabrizi explores

Features and columns

News, views & regulars

What does an inclusive pension scheme look like? 25

People's Partnership COO, Jo Palmer, discusses how the industry can improve the inclusivity of pension schemes

Are current roads into retirement delivering member value? 26

In *Pensions Age*'s latest video interview, Laura Blows explores HSBC Master Trust's recent report, *Converting pension pots into incomes*, with HSBC Retirement Services CEO, Alison Hatcher

PSIG interview: Industry guidance 28

The latest in its year-long scams focus sees *Pensions Age* speak to Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, about the group's key priorities and new guidance, and the latest challenges in the fight against fraud

The age of certainty 34

Recent market volatility has boosted the appeal of annuities as a guaranteed source of retirement income. Maggie Williams explores whether the trend is set to last

Continued on page 6

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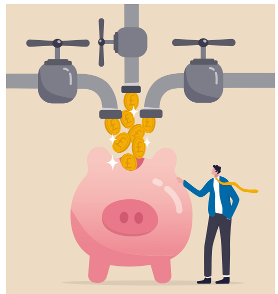
Features & columns

Continued from page 5



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Dateline - January 2022

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

5 January New research on the use of artificial intelligence and machine learning in actuarial modelling across pensions, life insurance, and wider fields in the UK was announced by the **Financial Reporting Council**.

6 January The Pensions Regulator (TPR) announced that executive director of regulatory policy, analysis and advice, David Fairs, will be leaving his position at the regulator in March 2023.

9 January The **Pension Protection Fund** (PPF) launched a consultation on its proposed changes to the assumptions it uses for certain valuations that provide an estimated price for bulk annuity providers in the buyout market. The proposals, if enacted, will update the valuation assumptions to reflect lower pricing in the bulk annuity market.

11 January The **Pensions Administration Standards Association** published additional guidance on pensions dashboards, aimed specifically at master trusts.

11 January The **Office for National Statistics (ONS)** confirmed plans to publish estimates on the proportion of pooled investment vehicles invested in LDI pooled funds by DB and hybrid pension schemes. The ONS announced the change amid increased demand for insight into the funded occupational pensions landscape following recent events, including the Bank of England's (BofE) intervention in UK gilts markets in autumn 2022.

12 January The cost of income tax relief on pension contributions in 2022/23 was estimated at £27bn, having passed the £50bn mark for the first time in 2021/22, according to the latest figures from the **ONS**. The update showed that national insurance contributions to, and benefits from, registered pension schemes provided £24.7bn of relief, representing an £8bn increase over the past five years, while income tax relief was estimated to have cost £26.9bn in 2021/22. This saw the total cost of pensions tax relief passed £50bn for the first time in 2021/22, reaching a total of £51.6bn.

12 January The **Government Actuary's Department (GAD)** weighed in on the ongoing LDI parliamentary inquiries, calling for increased visibility of the operational and governance risks associated with strategies such as LDI.

12 January The **BofE** completed the sale of the £19.3bn portfolio of temporary holdings of UK government bonds previously purchased on financial stability grounds in autumn 2022.

16 January BofE governor, Andrew Bailey, confirmed that LDI funds sold around £23bn of gilts during the BofE's 2022 gilt market interventions, highlighting pooled funds in particular as "forced sellers".

18 January The **University and College Union** (UCU) confirmed plans for over 70,000 staff at 150 universities to strike on 1 February in an ongoing dispute over pensions, pay and working conditions, with a further 17 days of strike action expected in February and March.

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

19 January A thematic review assessing the advice consumers are receiving on meeting their income needs in retirement was announced by the **Financial Conduct Authority (FCA).**

19 January The **FCA** defended its British Steel Pension Scheme (BSPS) redress scheme, after a legal challenge was made by a number of pension advisory firms who are members of the British Steel Action Group. The FCA said it viewed the legal challenge as an "attempt to delay the payment of redress that is due to some former BSPS members", stressing that it is "confident" that its decision to set up the redress scheme and will "vigorously" defend it.

19 January Concerns around a potential **state pension controversy** in the UK grew, with industry experts suggesting that there is a "strong likelihood" that the state pension age will be increased beyond age 67 earlier than currently planned.

23 January The **government** said it "remains committed" to implementing the 2017 auto-enrolment reforms in the "mid-2020s", although it has rejected calls to share a timetable for the implementation of such reforms.

26 January The DC market was subject to further concentration over the past year, data from **TPR** suggested, revealing that the total number of non-micro schemes, including hybrid schemes, fell by 67 per cent since 2012. However, the figures also revealed that despite an 11 per cent increase over the past year, average assets per member have fallen by 66 per cent since the beginning of 2012.

26 January The **government** confirmed that all automatic enrolment thresholds will remain at their 2022/23 levels in 2023/24.

27 January The **FCA** confirmed that it is looking into reports of firms making unsolicited offers to former BSPS members, warning that this could be a "deliberate attempt" to exclude former members from participating in its redress scheme.

27 January The **Pensions and Lifetime Savings Association** said that expanding the scope and level of automatic enrolment will be its top strategic policy objective in 2023, alongside six additional regulatory policy areas of focus.

30 January Pensions Minister, **Laura Trott**, announced a raft of new DC measures in an effort to close the pensions inequality gap, highlighting fairness, adequacy and predictability as the three key pillars behind the reforms.

31 January HMRC repaid a total of £45,026,065 in Q4 2022 to people who overpaid tax when they flexibly accessed their pensions, the latest government *Pension Schemes Newsletter* has revealed, pushing the total repayments for the year up to £134m.
According to analysis of HMRC's figures by AJ Bell, this means that savers have now reclaimed a total of £970m in overtaxation on pension withdrawals since pension freedoms were introduced in 2015. The repayments in Q4 marked an increase from the £33,088,782 repaid in Q3 2022, also marking a year-on-year increase from the £42,188,885 paid out in the same period in 2021, with AJ Bell's analysis suggesting that this was the highest Q4 figure on record.

News focus

DWP reveals raft of DC reforms in pension 'shake-up'

The Pensions Minister, Laura Trott, has announced a raft of new DC measures in an effort to close the pensions inequality gap, highlighting fairness, adequacy and predictability as the three key pillars behind the reforms. The measures include plans to extend collective DC, a call for evidence on small pots solutions, and plans for a value for money framework

The Pensions Minister, Laura Trott, has announced a raft of new DC measures in an effort to close the pensions inequality gap and to create "fairer, more predictable, and better-run pensions".

The measures include plans to extend collective DC (CDC) to multi-employer schemes, a call for evidence on small pots solutions, a consultation on proposals for a new value for money (VFM) framework, and confirmation of new regulations around illiquid investments.

The proposals were designed to help address the pension inequality gap, which the DWP said has risen since the decline of DB and the emergence of DC.

Announcing the reforms at the Pensions and Lifetime Savings Association (PLSA), Trott acknowledged the complexities surrounding pensions, explaining that the shifting pensions landscape has seen "increased risk and uncertainty compared to decades previously and often less adequacy".

While Trott emphasised the success of auto-enrolment from a coverage perspective, she clarified that there also needs to be a focus on "quality and outcomes".

She stated: "Having created a new generation of savers, it's only right that we help them maximise the value of their hard-earned retirement in later life.

"Alongside a record number of workplace pension savers and assets, there's more choice and more freedoms. But with more choice comes increased variability in terms of the retirement outcomes that schemes are delivering for savers. All savers deserve to be confident that their pension scheme is working hard on their behalf and on track to deliver fair and predictable outcomes – reassurance that the generations that proceeded them would have had from their DB pensions.

"When I talk about VFM, I don't just mean low costs. VFM means that savings are invested well, they are not being eroded by high charges and that schemes are helping members make the right decisions throughout their accumulation period. It will help to deliver long term value for hard-working savers, and it proposes giving the regulator the powers they need to tackle underperforming schemes."

Trott also emphasised that the measures are "just one part" of the DWP's wider reforms to the private pension sector, arguing that, together, these efforts "recognise and respond to a sector that has undergone significant change over the past few decades".

In particular, the call for evidence on addressing the deferred small pots problem is focused around two potential automated consolidation models: A default consolidator model, where each small deferred pot would be automatically transferred to a single scheme, and pot follows member, where deferred pots follow the worker and are added to their new active pot.

A second consultation, meanwhile, is looking at extending CDC pension schemes to accommodate multi-employer schemes, with Trott suggesting that there is "appetite for extending CDC provision".

Alongside this, the consultation is looking to gather views on the role of CDC in decumulation and particularly the potential for CDC decumulation-only products, including how these might work in practice with oversight by The Pensions Regulator (TPR).

Indeed, the consultation noted that while contract-based products might offer an alternative route for facilitating decumulation-only options for interested individuals, there has been little interest amongst potential providers to date.

In addition to this, the DWP revealed its proposed VFM framework, developed in partnership with TPR and the Financial Conduct Authority (FCA).

The framework outlines how schemes will be expected to provide savers with better value from their investments and a quality level of service, and includes key metrics, standards and data disclosures for DC pension schemes.

Commenting on the proposed framework, TPR executive director of regulatory policy, analysis and advice, David Fairs, added: "Ensuring every pound that savers put into their DC pension pot delivers value for money is vital to help people achieve the best possible retirement.

"The measures announced as part of this far-reaching reforms package deliver on our commitment to put savers at the heart of all we do. Our joint VFM framework will drive greater transparency and standardisation of reporting across the DC pensions market, allowing trustees to make more informed decisions and improve long term outcomes for savers. I urge the industry to take part in these important consultations."

Adding to this, FCA executive director of markets, Sarah Pritchard, stated: "Pensions are complex, and savers need to be able trust that their providers have the information they need to make the right choices. These proposals will help ensure that they take a wide ranging and long-term view – value for money is not just about costs and charges."

"We will continue to work with government, other regulators, and the industry to deliver long-term value and support savers in their retirement."

As a final step in the DC reforms, the DWP confirmed plans for new regulations designed to extend the investment opportunities of DC pension schemes to be brought into force by April 2023, subject to parliamentary approval.

"There is more that we can do to help. My plans for reform focus on three pillars: Fairness, adequacy and predictability"

The department previously consulted on new regulations and guidance that would require schemes to disclose and explain their policies on illiquid investment, as well as introduce an exemption for performance-based fees from the charge cap calculations for schemes that choose to incur performance-based fees.

The DWP confirmed that it will now be proceeding with these regulations, which are expected be brought into force by April 2023.

Industry organisations have broadly welcomed the government's proposed reforms, although commentators have emphasised the need to get the detail right, with some conflicting views, such as those around the best small pots solution, already emerging.

This was perhaps expected, as Trott stated at the PLSA's event that "there is disagreement amongst many people" in relation to the small pots issue, stressing that "this is why it is important that we do this last call for evidence", with the next steps dependent on industry feedback to the consultations.

Some concerns have also emerged around the proposed VFM framework, as experts warned that this can be a difficult concept to define.

"There's a balance to be struck – make the framework too rigid and you veer into a box-ticking exercise that risks stifling innovation, while keeping it too broad means schemes may not be sufficiently held to account," Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey, said.

Aegon head of pensions, Kate Smith, also warned that there is "still a lot of to work to do before the proposals become regulations and effective", including the development of benchmarks, how and where the VFM assessments are to be published and whether TPR will be given powers to force consistently poor value schemes to wind up.

Trott was asked about the potential for legislative change in this area when announcing the plans at the PLSA.

Whilst she did not commit either way, Trott agreed on the importance of TPR being given the powers needed to take action where needed.

"We're doing a consultation on this at the moment and we'll look at the responses to that, but I think it's important that the regulator has the power to be actually act," she stated. "This is not just something that is theoretical. Transparency is important but it will also lead to real action from the regulator when schemes are not doing what we need them to do."

Written by Sophie Smith

Regulatory work underway following gilt market volatility; focus on need for data continues

Parliamentary inquiries into the recent issues around liability-driven investment and DB pension schemes continued in January, as The Pensions Regulator, Bank of England and Financial Conduct Authority provided the Work and Pensions Committee and Treasury Committee on efforts to address the issues seen in autumn 2022, with further updates and guidance expected in March

Work following the gilt market volatility seen in autumn 2022 has continued at pace since the new year, as parliamentary inquiries quickly resumed their work looking into the issues faced by DB schemes around liability-driven investment (LDI)in September.

The Bank of England (BofE) also brought the market turmoil seen towards the end of 2023 back into focus in early January, announcing that it had completed the sale of the £19.3bn portfolio of temporary holdings of UK government bonds previously purchased on financial stability grounds.

Plans for the temporary and targeted purchases of index-linked and long-dated conventional UK government bonds were initially announced by BofE in September, in an effort to prevent a "self-reinforcing spiral", after gilt yields surged following the then-Chancellor's mini-Budget.

As part of this, BofE purchased a total of £19.3bn of gilts, of which £12.1bn were long-dated conventional gilts and £7.2bn were index-linked gilts.

BofE governor, Andrew Bailey, later confirmed to the Treasury Committee that LDI funds sold around £23bn of gilts during the 2022 gilt market interventions, with the current BofE profit from the sales estimated at around £3.8bn, which is passed on to HM Treasury.

"That doesn't tell you the loss, of course; that is the gross sale," he clarified, explaining that BofE is unable to provide figures on what the cost of the "fire sale of assets" was to pension funds, partly due to the "distinctive form of accounting" used by pension schemes.

However, industry experts since speculated that this would have resulted in a £4bn loss for pension schemes, with Pensions and Investment Research Consultants head of governance and finance analyst, Tim Bush, telling the Work and Pensions Committee (WPC): "If people were selling gilts cheaply to the BofE, and then buying them back high the BofE profit is the contra to their losses, at least on the bond side. I think we can come up with a number of about £4bn if that is the BofE's profit."

The broader regulatory response to the issues seen in 2022 have also continued, with the BofE confirming that it is midway through work to decide on the appropriate steady-state response to the gilt market volatility seen in autumn 2022, and is aiming to publish the framework in the second half of March.

Speaking at a WPC hearing, BofE executive director, financial stability strategy and risk, Sarah Breeden, suggested that while the guidance from The Pensions Regulator (TPR) and European regulators had been a "great interim step", it was a "holding measure".

In light of this, she argued that "what we need to do now is put all of that on a steady state basis", confirming that the BofE is currently working TPR and the fund regulators on this.

"The Financial Policy Committee is in the middle of discussing and deliberating on what the appropriate steady state response is", she stated, confirming that BofE is aiming to include this in its "first quarter round", which is currently expected "sometime around the second-half of March".

The Financial Conduct Authority (FCA) also confirmed plans to publish a statement on good practice in March.

Responding to a letter from the WPC, FCA chief executive, Nikhil Rathi, said that market participants should factor market conditions witnessed last autumn into their risk management considerations, acknowledging that "a wider horizon of scenarios that might be considered extreme but which may nonetheless prove plausible".

"The FCA will maintain a supervisory focus on ensuring firms identify and address their vulnerabilities in this regard," he added, confirming that the FCA is currently reviewing firms' operational contingency planning.

TPR also provided the WPC with updates on its collaboration with its regulatory partner, stressing that this will "stretch beyond monitoring resilience".

Responding to a letter from the WPC, TPR CEO, Charles Counsell, and executive director of regulatory policy, analysis and advice, David Fairs, also highlighted November's guidance as a "first step", with the focus now shifting to ensure the industry maintains resilience by adopting the approaches set out.

The regulator explained that this will require collaboration between the regulatory partners, confirming that it will continue to work with the FCA and overseas regulators to monitor resilience levels, and take action where necessary.

It stated: "TPR's ongoing collaboration with the BofE, FCA and overseas regulators will stretch beyond monitoring resilience against the recommended levels set out in our November 2022 guidance. We will collaborate with a view to ensuring that the financial buffers applied within LDI pooled funds remain suitable to evolving market conditions, and that schemes with segregated arrangements continue to adopt a similar approach to resilience as that applicable to their pooled counterparts. We will also look at the regulatory architecture and see what changes need to be made for more effective oversight and regulation."

Alongside this, the pair acknowledged that adequate monitoring of resilience will also require enhanced data collection, confirming that TPR is "actively considering how to expand its collection of data on LDI arrangements and consequent liquidity buffers".

"TPR's ongoing collaboration with the BofE, FCA and overseas regulators will stretch beyond monitoring resilience against the recommended levels set out in our guidance"

Although the letter clarified that " it is likely no single route will be the sole solution", it revealed that TPR is considering a potential notifiable events process, where schemes notify the regulator where they are unable to maintain a minimum buffer level.

It stated: "If we were to go down this route, schemes would be encouraged to comply on a voluntary basis until legislation was in place. We are discussing with the DWP the possibility of introducing a notifiable event to put this into effect. An amendment to legislation would be a matter for government."

When asked about these plans by the WPC, however, Breeden stressed that any notification would need to be "sufficiently early so that action can happen as a result of it, and not when it is too late".

However, Breeden agreed with the need for more data, confirming that pooled funds in particular are "absolutely" expected be "very much" part of BofE's exercise following the experience in September, having previously been highlighted as "forced sellers" amid the gilt market volatility.

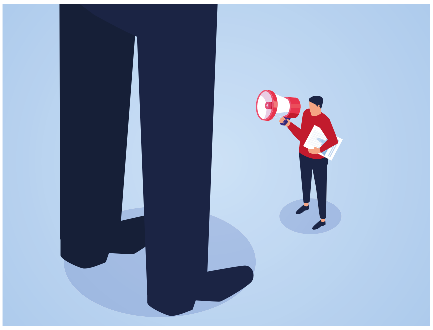
"I think it's really important that we are able to manage the systemic risks that come with LDI investment strategies, and what we saw in this period in September was that at the pooled funds were an important part of that stress, and therefore it will be important for us to have data on those if we are to be confident that financial stability risks are managed," she stated.

The need to focus on pooled funds was also highlighted by Bailey in his evidence to the Treasury Committee, as he explained that the work undertaken with TPR since 2018-19 focused on the 85 per cent of the LDI funds that are segregated, which may have left issues around the 15 per cent "relatively obscure".

The search for greater LDI data can also be seen more broadly though, as the Office for National Statistics recently confirmed plans to publish estimates on the proportion of pooled investment vehicles invested in LDI pooled funds by defined benefit and hybrid pension schemes. The ONS said it had made the change due to increased demand for insight into the UK funded occupational pensions landscape following the recent gilt market volatility.

The Government Actuary's Department also stressed the importance of data in its response to the WPC, as government actuary, Martin Clarke, stated: "TPR has the power to collect data from schemes for regulatory purposes and can therefore obtain good aggregate and specific data on the use of critical investment strategies such as leveraged LDI. A more systematic, regular and comprehensive collection of data on such strategies and the collateral and operational risk management approaches adopted by schemes of all sizes may now be considered appropriate."

Written by Sophie Smith



Govt stands by mid-2020s target for AE reforms

The government said it remains committed to implementing the 2017 auto-enrolment reforms in the mid-2020s, in its response to the Work and Pensions Committee, although it has rejected calls to share a timetable for the implementation of such reforms. Industry reaction has been poor, with commentators branding it "bleak", "disappointing" and "dangerous"

The government has said it "remains committed" to implementing the 2017 auto-enrolment (AE) reforms in the "mid-2020s", although it has rejected calls to share a timetable for the implementation of such reforms.

The Work and Pensions Committee (WPC) previously urged the government to consider boosting future saving rates "before it is too late" and to introduce legislation for the 2017 AE Review reforms "no later than the beginning of the next session of parliament".

While the government's response failed to outline a timetable for consultation, it emphasised that the government "remains committed" to the mid-2020s timeline, aiming to bring forward legislation at "a suitable opportunity and when parliamentary time allows".

"We remain committed to carrying out a consultation on the implementation of the review to ensure this works effectively for all parties," it added.

However, this may come at the cost of further reform, as while the WPC had suggested that the government give consideration to an increase in minimum contributions amid adequacy concerns, the DWP clarified that the 2017 reforms are the current priority.

It stated: "Current statutory contributions of 8 per cent on a band of earnings are unlikely to give all individuals the retirement to which they aspire. That is why, we remain committed to implementing the review measures, as a first step, to improve workplace pension coverage and savings levels. Taken together these measures support our policy goal of enabling low to medium earners to save more for their retirement. This remains our priority before looking at further changes."

The government's response also highlighted the potential impact of these reforms on multiple job holders, explaining that removing the lower earnings limit, for instance, is expected to help build financial resilience amongst multiple job holders, young people and lower earners.

"We remain committed to carrying out a consultation on the implementation of the *[2017 AE]* review to ensure this works effectively for all parties"

The government also disagreed with the committee's thinking in a number of other areas, such as the call for a new consensus on what an adequate income is in retirement, and calls to bring multiple jobholders within the scope or auto-enrolment, for example, by amending the PAYE coding notice system to add an instruction to auto-enrol.

Despite recommendations from the WPC, the government's response also confirmed that there are currently no plans to introduce automatic deductions into a pension through Making Tax Digital, while HM Treasury confirmed that HMRC is also not actively considering automatically enrolling the self-employed via the NICs system.

Industry experts have branded the government's response as "bleak", "disappointing", and potentially "dangerous".

Barnett Waddingham partner and head of DC, Mark Futcher, argued that while the cost-of-living crisis may make some hesitance to increase contributions rates "understandable", plans for future increases should be being put in place now.

"The government is well aware that we are heading towards a 'cost-of-retirement crisis,'" he stated. "Its refusal to commit to plans to increase higher minimum contribution rates in the future is dangerous.

Broadstone head of policy, David Brooks, also emphasised the need to be honest with pension savers about how much they need to save if minimum contributions are not to be increased.

"If the government isn't going to be increasing minimum contribution levels in the near-term; at the very least we need a change of rhetoric to demonstrate the importance and urgency of building up adequate pension savings," he stated.

Written by Sophie Smith

TPR issues guidance to support DC savers amid volatility

The Pensions Regulator has encouraged pension scheme trustees to support DC savers during the current economic volatility, following concerns that those in lifestyle funds may have seen a fall in their pension pot value amid the autumn 2022 gilt market volatility

The Pensions Regulator (TPR) issued guidance encouraging DC pension scheme trustees to support savers amid the cost-of-living crisis, following concerns that the value of some DC pots has fallen.

TPR emphasised the need for savers in so-called 'lifestyle' funds to understand whether the strategy they are in as they approach retirement is consistent with their plans on how they intend to access their retirement benefits.

Concerns around lifestyle funds were previously highlighted by industry experts, after analysis revealed that market volatility had seen falls in the average annuity-hedging fund, prompting broader concerns around the future of such lifestyling strategies.

TPR's statement therefore sets out how trustees should communicate with savers to help them understand what a fall in their DC pensions means for them, depending on their personal circumstances, and to avoid making hasty decisions that could lead to risks, including scams.

TPR executive director of regulatory policy, analysis and advice, David Fairs, commented: "Our guidance statement aims to ensure trustees are communicating properly with savers about their options, and to encourage them to seek free impartial guidance from MoneyHelper, and to ensure their current governance and investment structures are appropriate.

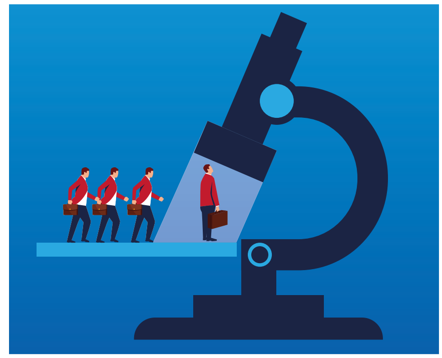
"There is no one-size-fits-all answer in these difficult times, and scheme specific circumstances are important. However, we expect all trustees to consider the issues raised in this statement and take appropriate action as part of their ongoing governance responsibilities."

Alongside this, the guidance statement reminded trustees that they should be reviewing governance structures investment advisers' remit, the characteristics of their scheme's saver profiles and their scheme's investment arrangements.

"There is no one-size-fits-all answer in these difficult times, and scheme-specific circumstances are important"

It also highlighted communication with savers as "vital" to ensure individuals have enough information to make informed decisions about their savings, and to avoid hasty decisions that could impact retirement outcomes or leave them vulnerable to scammers.

TPR also released it's latest *DC Trust* survey findings, which showed that the DC market has been subject to further concentration over the past year, as the total number of non-micro schemes, including hybrid schemes, has declined by 11 per cent. This means that the number of non-micro schemes, including hybrid schemes, has fallen by 67 per cent since the introduction of auto-enrolment (AE) in 2012, falling from 3,660 to 1,220.



Despite the concentration being seen in the DC market, TPR found that scheme memberships increased by 13 per cent over the past year, and 1069 per cent since the beginning of 2012.

However, the increase in membership meant that despite an increase in the reported asset values, average assets per member have fallen by two-thirds (66 per cent) since AE was introduced in 2012.

According to the regulator, reported asset values for non-micro schemes stood at £143bn for 2022/23, representing a £29bn or 26 per cent increase on the previous year, and a 546 per cent increase since the beginning of 2012.

However, while average assets per member increased since their lowest in 2020, rising 11 per cent over the past year, they have fallen by 66 per cent since the beginning of 2012.

Indeed, according to TPR, the average assets per membership at retirement this year was £5,000 in non-micro schemes, marking a 2 per cent decrease since the beginning of last year and 74 per cent decrease since the beginning of 2015.

In related news, TPR confirmed that Fairs will be leaving his role in March 2023 to pursue new challenges.

The regulator is therefore set for a full change, having previously announced that TPR chief executive, Charles Counsell, will also be stepping down from his role as CEO at the end of March 2023, with FCA executive director of governance, Nausicaa Delfas, named as his successor.

Written by Sophie Smith and Tom Dunstan

Retirement Living Standards costs up nearly 20%

The PLSA has completed its latest inflationary update of the Retirement Living Standards, revealing that the annual increase was "by far the largest" since the standards were established in 2019

Rising food and fuel prices have seen the Pensions and Lifetime Savings Association's (PLSA) minimum living standard increase by 19 per cent, compounding industry calls for the government to implement auto-enrolment reforms.

The increase was announced as part of an inflationary update of the PLSA's Retirement Living Standards (RLS), with the annual increase in what is needed to reach each living standard over the past year "by far the largest" since the standards were established in 2019.

People on the minimum lifestyle have seen the biggest percentage increase to the cost of their retirement following the update, with a higher proportion of their budget going towards the things that have risen the most in price, food and energy.

As a result, the cost of the minimum income standard, which is the same as the Joseph Rowntree Foundation's Minimum Income Standard, increased by 18 per cent for a single person, rising from £10,900 to £12,800, with a 19 per cent increase to £19,900, for a couple.

In light of this "disproportionate" increase, the PLSA highlighted the government's recent commitment to the state pension triple lock as especially important, noting that, based on the record 10.1 per cent increase expected, a couple who are each in receipt of a full new state pension would reach the minimum RLS.

The update found that the cost to achieve a moderate level has also increased by 12 per cent to £23,300 for a single retiree and by 11 per cent for a couple to £34,000.

The cost of living for a comfortable retirement, meanwhile, increased 11 per cent, to £37,300, for one person and 10 per cent, to £54,500, for a couple.

Although the PLSA acknowledged that higher interest rates are expected to help to alleviate the cost pressure as savers are able to get more attractive rates on

annuities, it argued that reforms around auto-enrolment are still needed.

PLSA director policy & advocacy, Nigel Peaple, stated: "The jump in the RLS underscores the need for the government to adopt the PLSA's recommendations on pensions set down in our recent report, *Five Steps to Better Pensions.*"

Written by Sophie Smith

NEWS IN BRIEF

The British Steel Pension Scheme (BSPS) completed its third pension buy-in policy with Legal & General (L&G) for £2bn, covering a further 30 per cent of scheme liabilities.

Isio agreed to acquire the UK pensions advisory business of Deloitte, Deloitte Total Reward and Benefits Limited for an undisclosed amount, subject to approval from the Financial Conduct Authority (FCA). The acquisition is expected to complete in spring 2023.

The **Tioxide Pension Fund** agreed a £430m buy-in with L&G Assurance Society, securing the benefits of around 2,700 retirees and deferred members.

The latest **National Local Government Pension Scheme Procurement Framework** launched, with a total of 12 legal firms appointed to the new Legal Services Framework.

Smart Pension launched three new fully sustainable lifestyle strategies: The Smart Sustainable Growth Core Fund, Smart Sustainable Growth Fund (the Smart Pension default fund) and Smart Sustainable Growth Plus Fund.

Altus Business Systems rebranded as **Equisoft**, while Altus Consulting, will retain its independent status and name.

Nest and **Cushon** invited fund managers to share views on ways in which the two pension schemes can invest in natural capital, taking an initial focus on forestry.

The **Wales Pension Partnership** has awarded Schroders Capital a £500m private equity mandate.

Railpen announced the acquisition of a Cambridgeshire solar project, Bracks solar farm, expanding its UK renewable assets portfolio.

Appointments, moves and mandates

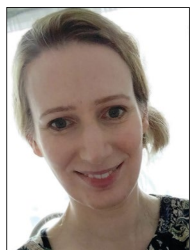

David Atkinson

The Pension Protection Fund (PPF) has appointed David Atkinson to its board as a non-executive director (NED). Atkinson has extensive finance and risk management experience, having previously spent 23 years at Goldman Sachs, including nine years as a managing director with regional responsibility. He is also a NED and board risk committee chair for Mizuho, and a NED at Hertfordshire Partnership University NHS Foundation Trust. Commenting on the appointment, PPF chair, Kate Jones, stated that Atkinson will help to support the PPF's "as we approach the next phase of our strategic plan and embrace the recommendations of the Department for Work and Pensions' recent review".

LifeSight has been appointed as master trust provider by science, technology and engineering solutions company, KBR, for its 6,400 UK defined contribution (DC) pension scheme members. As part of the project, KBR also gave employees from recently acquired organisations the option to transfer their DC pension provider to LifeSight at the same time. One such organisation – engineering systems consultancy, Frazer-Nash, which was acquired by KBR in October 2021 – has 800 UK DC pension scheme members. After a consultation process 95 per cent of Frazer-Nash employers opted to transfer their accrued funds into the UK master trust. In total, approximately £350m of KBR members' assets were transferred to LifeSight's care between July 2021 and September 2022 as part of an onboarding programme for each separate entity involved.


Emma Martin

Sackers has promoted Emma Martin to senior counsel. Martin, who focuses on defined contribution (DC) pensions, joined the firm in 2010 after qualification, and has experience with advising occupational pension schemes, master trusts, personal pension providers and IGCs on all areas of DC work. In particular, Martin's recent experience includes at-retirement projects for schemes looking at 'bolt on' arrangements with master trusts, master trust consolidation and large-scale DC investment change projects. She previously completed a secondment to the legal team at The Pensions Regulator in 2015, where she advised on DC policy matters.


Lizzy Holliday

Now Pensions has named Lizzy Holliday as director of public affairs and policy. Holliday will be responsible for leading the public affairs and policy strategy for the business, and brings a wealth of experience to the role, having worked in pensions policy for over 15 years. She joins from the Department for Work and Pensions (DWP), where she led on significant policy changes to private pensions. She also previously completed a secondment at the Pensions and Lifetime Savings Association (PLSA) in 2019, where she oversaw the delivery and implementation of the Retirement Living Standards, along with the PLSA's decumulation consultation and recommendations.


David Lane

TPT Retirement Solutions has appointed David Lane as CEO. Lane had been serving as interim CEO since June 2022 and, prior to this, held the post of chief operating officer from 2019. Lane joined TPT as chief finance officer in June 2013, having held finance, commercial and operational roles at board level in private and listed businesses spanning a range of industry sectors. During his career, Lane has held several trustee roles, including chair of trustees for the Stanley Tools UK Pension Scheme, and a member-nominated trustee for the Jacuzzi UK Retirement Benefits Scheme. He has a BA in Economics from York University and is a member of the Chartered Institute of Management Accountants. The appointment was welcomed by TPT chair of the trustees board, Joanna Matthews, who said: "Following his successful tenure as interim CEO, we are delighted to appoint David to the role permanently. His extensive experience and knowledge of the business will be invaluable in ensuring the continued success of TPT. David's leadership of the business will help to ensure we continue to deliver the best possible outcomes for our members and pension schemes." Lane was similarly positive about his appointment, saying: "TPT is a fantastic business and I'm delighted to lead it at a pivotal time for UK pensions. The pensions industry is evolving with new regulations such as the DB funding code, The Pensions Regulator considering professional trustee authorisation and the launch of the pensions dashboards. As we look to start a new chapter for TPT, we'll be reviewing our strategy and our services. This is an exciting time for TPT as we look to expand the business and build on our reputation as a leading master trust pension scheme."

Merseyside Pension Fund has announced the appointment of investment consultancy firm Redington as its strategic investment adviser. Redington has been appointed on a retained basis with an initial term of three years and will partner with the fund's investment team to support on all areas of investment strategy, with a particular emphasis on responsible investment (RI). One of Redington's first priorities, according to the pension fund, will be to help deliver a change programme over the next 12-24 months that encompasses delivery of a net-zero action plan and wider RI strategy; a full review of the fund's equity, fixed income and private market portfolios; and a wider review of its risk management arrangement. Another key objective is to consolidate the fund's strong funding position whilst continuing to meet its wider strategic objectives. The procurement was formally completed in October 2022 and reflected Redington's "expanding presence" in the Local Government Pension Scheme (LGPS) market. Redington head of LGPS, Jill Davys, commented on the appointment: "It's a pleasure to announce our newest client in the LGPS space, where we continue to witness increasing appetite for innovative solutions in investment strategy, risk management and sustainable investment. The team and I look forward to supporting them on that long-term journey, while helping to navigate current conditions in an increasingly complex investment landscape." Merseyside Pension Fund director of pensions, Peter Wallach, added: "Merseyside Pension Fund is at a critical juncture in its journey – as well as looking to consolidate a strong funding position we are undertaking a detailed change programme, reviewing all areas of investment strategy, including net zero."

Chris Rice

Chris Rice has been appointed as head of trustee services at **Broadstone**. Rice has been at Broadstone for the past two years as a senior actuarial director in the Bristol office. In his new role, Rice will lead Broadstone's dedicated trustee offering as part of its wider consulting and actuarial division. Broadstone head of consulting and actuarial, Nigel Jones, welcomed the appointment, commenting: "Chris has been an integral member of our team for the past two years and was instrumental in the development of both our Sirius software and SM&RT Insure proposition. His sector expertise will be invaluable in directly addressing the needs of trustees moving forward."

Geoff Winn

20-20 Trustees has announced the appointment of Geoff Winn as associate director. Winn, who will be linked to 20-20 Trustees' London office, joins from the Bank of England, where he worked as pensions manager for 12 years. Commenting of his appointment to the organisation, Winn stated: "I'm excited and appreciative to be joining 20-20 Trustees at this time, with so many changes and improvements to pensions governance in the pipeline. To be working together as a team, and with so many pensions professionals I'm looking forward to being inclusive and being listened to by colleagues, rather than being the sole person in pensions!"

Dave Barratt

XPS Pensions Group has appointed Dave Barratt as a senior consultant in its risk settlement team. Barratt joins XPS from Aon and has more than 15 years' specialist experience. In his new role, Barratt will focus on leading on buy-in and buyout transactions as well as helping clients with strategic endgame journey planning. The appointment was welcomed by XPS head of risk settlement, Steven Purves, who commented: "We are thrilled that Dave is joining XPS, and he will be an ideal addition to our growing team. He has impressive experience on both buy-in transactions and managing schemes through to full buyout, which will help us meet increasing demand from clients in this area."

Mark Jones

Legal & General (L&G) Retail has appointed Mark Jones as product and propositions director for its annuities offering. Jones initially joined L&G Retail in April 2018 as a product director, having previously held the role of product director at SunLife and head of protection at LV. His appointment was highlighted by L&G Retail as demonstration of its commitment to growing its annuity product proposition, after recent research from L&G found that nearly a million people are currently considering annuities for the first time to guarantee a set income in retirement, avoid market volatility and make the most of higher rates.

Diary: February 2023 and beyond

ABI Annual Conference

21 February 2023
155 Bishopsgate, London

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

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

Pensions Age Awards 2023

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

The Pensions Age Awards, celebrating their 10th successful year, aim to reward the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times The awards are open to any UK pension scheme or provider firm that serves UK pension schemes.

For more information, visit: pensionsage.com/awards

PLSA Investment Conference

6-8 June 2023
EICC, Edinburgh

The Pensions and Lifetime Savings Association's (PLSA) Investment Conference returns to Edinburgh for 2023. The three-day conference is open to CIOs, trustees, investment board members, pension managers, finance professionals and advisers, and will provide insight into the major trends and events affecting UK investors and markets, bringing the UK pensions investment chain together.

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

European Pensions Awards 2023

6 July 2023
London Marriott Hotel

The European Pensions Awards, now in their 16th year, were launched to give recognition to and honour the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds over the past year. The awards are free to enter and open to any pension fund or firm which serves European pension funds.

For more information, visit: europeanpensions.net/awards

Visit www.pensionsage.com for more diary listings

Month in numbers

£23bn

Liability-driven investment funds sold around £23bn of gilts during the Bank of England (BofE) 2022 gilt market interventions, BofE governor, Andrew Bailey, confirmed.

88%

Around 88 per cent of DB schemes do not have a endgame strategy with clear timeframes in place, research from Hymans Robertson revealed, prompting concerns that schemes could be "sleep walking into a de-facto buyout".

26,990

Data from The Pensions Regulator revealed that the total number of DC trust-based schemes has fallen to 26,990 following recent market concentration. Of these, 90 per cent, representing 21,580 schemes, identified themselves as a relevant small scheme (RSS) or an executive pension plan (EPP).This was alongside 36 authorised master trusts, which accounted for 23.7 million DC memberships, up from 270,000 at the beginning of 2012, and over £105.3bn in assets, excluding hybrid schemes.

VIEW FROM THE SPP: Time to re-open the investment toolbox?

Markets had a torrid 2022. Our analysis of the assets typically held in various DC glidepaths indicates that every major asset class, except cash, registered losses in 2022.

What should worry the industry most, however, is how investments typically held in later-stage portfolios such as gilts and corporate credit – which are seen as low risk 'consolidation' assets – weren't spared from the selloff, with many registering double-digit percentage losses. In fact, some typical near-retirement asset mixes have underperformed growth assets over the last selloff.

This sobering year should stir the DC industry to cast a wider net when it comes to investing member assets.

For growth assets, we see scope for more alternative products that help diversify sources of return including private market assets. For members seeking growth with lower volatility – an area that traditional diversified funds have struggled in recent times – we see scope for strategies used by other institutional investors such as trend following or market neutral, which have the potential to keep posting positive returns in down markets.

In pre-retirement portfolios we see scope for allocations to a more diverse mix of fixed income assets that can help cushion portfolios from volatility.

The post auto-enrolment market background has been kind to DC until this year. Expanding the DC investment toolbox is required to avoid re-inflicting the pain felt by members, particularly those on the verge of retirement.

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

SPP DC committee member, Dave Whitehair

A week in the life of: Pensions Dashboards Programme principal and Pensions Policy Institute director, Chris Curry

My work is currently divided between two important roles: Being senior responsible owner for the Pensions Dashboards Programme (PDP), tasked with delivering the technical infrastructure for dashboards; and director of the Pensions Policy Institute (PPI), an independent not-for-profit institute dedicated to informing the policy debate on pensions, retirement income and later life through research.

Monday

Every Monday morning I join a 20-30 minute stand-up meeting at PDP, where members of the senior leadership team talk about the areas of focus for the coming week. These short sessions are great for keeping everyone in the loop on what's happening across the programme, and gives me a chance to speak to the whole PDP team and field any questions.

I will often use the rest of Monday to hold weekly catch-up meetings with our partner organisations – the Department for Work and Pensions, The Pensions Regulator and the Financial Conduct Authority.

Tuesday

I may attend an external event for the pensions industry in the morning, or a different sector where they have an interest in pensions dashboards. One of my core roles at PDP is to represent the programme to industry and help to communicate developments in the delivery of dashboards. This also includes exploring in more detail what dashboards will mean going forwards, helping to demystify some of the more complex areas. These events are a fantastic opportunity to get to speak directly to trustees, administrators and more, who will be helping to make dashboards a reality.

In the afternoon, I might be chairing advisory groups at the PPI on upcoming pieces of research or preparing events to launch them. Recent highlights have included launching the UK Pensions Framework, and future work is likely to cover member engagement and the specific challenges facing low earners amongst various other topics.

Wednesday

I try to get to the Money and Pensions Service offices – where PDP is based – as much as I can. Home working has meant that a lot of our interactions with our colleagues tends to be online. Being in the office on a set day gives me a chance to catch up with members of the team face-to-face – and there can be an advantage to being able to walk over to someone else's desk to talk through an issue.

Thursday

My Thursday mornings are often dedicated to PPI work. This can involve governance, funding and finance meetings – as an independent not-for-profit institute, we are dependent on money from supporters and research sponsors to allow us to continue the important work that we do. So my time also gets devoted to how we raise money to continue our important work. Thursdays are also often the day when we work on the Pensions Data Project.

I also set aside an hour of my day, advertised to the whole PDP team, where I'm free for calls or short meetings with anyone.

Friday

The morning is often my chance to catch up with members of PDP's senior leadership team on a one-to-one basis, away from the other meetings or quick chats during the week. I can use this time to get an understanding of things that may have arisen, but also to get feedback on how they think things are going. I also send a Friday email out to both PDP and PPI teams, as a way to round off the week.

We put a lot of stress on having fewer meetings on Friday afternoon at PDP. This is firstly because it creates a dedicated slot to allow focus on getting through work without having to worry about that new feature of online working – back-to-back meetings. Secondly, it gives all of us that important time to wind down so that we're ready to relax, which, in my case, means taking the time to coach my son's football team over the weekend.

Soapbox: Pension saving? Why bother

Engaging savers with their pension is a never-ending challenge for the pensions industry, with the role of calculators and modellers often touted as an 'easy win' to help savers understand the value of their savings.

And this is clearly an area where support is needed, as research from the Department for Work and Pensions found that savers can't always understand the information on their pension and what it means for their retirement.

Yet even as a self-proclaimed pensions geek, I've found the experience of using pension calculators underwhelming, if not down-right discouraging.

Taking one standard calculator as an example, I input my details, selecting a modest income target, around the level of PLSA's minimum Retirement Living Standards, only to be shocked at the size of the estimated shortfall.

This isn't hundreds of pounds to try to make up, but 10s of thousands, with the calculator quickly prompting me to increase my monthly contributions or make top-up payments.

Increasing my contributions is simply not an option for myself at this time though, nor is it for many savers, and especially not to the 20 per cent that some calculators suggested I would need to be putting aside.

Being honest with savers about this shortfall is crucial, as Broadstone head of policy, David Brooks, recently argued that "if the government isn't going to be increasing minimum contribution levels in the near term, at the very least we need a change of rhetoric to demonstrate the importance and urgency of building up adequate pension savings".

But getting this communication right is going to be hugely challenging. No one wants to be told that they are going to struggle in retirement, even less so when they are already struggling in their daily life, and it seems likely that intergenerational tensions will get worse before they get better (particularly with further state pension debates likely on the horizon).

Amid all the doom and gloom at the moment, shining a light on the positive could be one way to help.

Indeed, former Pensions Minister, Ros Altmann, recently urged the pensions industry to focus on positive messaging, stating: "Scare stories about later-life penury are not the way to engender positive pension feelings: Every story about inadequate pension contributions is designed to encourage people to save more, yet often has the opposite effect."

Sadly, there may not always be an easy answer, and while budgeting and good advice can help, sometimes there really is nothing left to stretch at the end of the month.

Being honest with savers is important, but doomsday messaging won't help. If anything, it will just make savers ask, why bother?

Written by Sophie Smith

VIEW FROM THE ACA: DB Funding Code

Just before the year-end we welcomed the publication by the TPR of the proposed new DB Funding Code and the separate consultation on fast track and the TPR's regulatory approach.

The scale and ambition of the proposals is admirable, and we agree with the core principles laid out. However, a key test for the new code will be how it enables the continued smooth transition of DB schemes to their endgames without disrupting well-planned scheme-specific approaches or introducing new hurdles or compliance costs.

Within the detail of the code itself, it will also be important to closely examine the read across to DWP's regulations as, unusually, these are expected to continue to evolve this year. The ACA would like to see less prescription in DWP's final regulations, to ensure that TPR's vision for scheme-specific bespoke funding is viable in practice.

At a system wide level, the code does not set out to drive significant behavioural changes around LDI. However, it will be important in due course to examine the impact of the new code alongside any future regulatory steps in this area.

We look forward to working closely with TPR and responding to the consultation to help ensure that the new funding code delivers for all stakeholders – providing strong reassurance to members and trustees, but also clarity to sponsors on the cost of their pensions promises.

ACA chair, Steven Taylor

ACA
ASSOCIATION OF CONSULTING ACTUARIES

View from the AMNT: Gender pension gap

International Women's Day is set for 8 March. This is a global day celebrating the social, economic, cultural and political achievements of women. The day also marks a call for action for accelerating women's equality. The theme of this year's day is to 'embrace equity'.

The meaning of equity is to be fair and impartial. This covers a wide range of equality issues, including equality in pensions.

In two-thirds of industries, women have workplace pensions worth less than half as much as men. In manufacturing, wholesale, retail and services jobs, women aged 45-65 have less than one-fifth of the pension of their male colleagues.

There is a 10 per cent gender pay gap but a 43 per cent pension gap. This is the largest pension gap on record, with the average women in her mid-60s having a pension pot of £69,000 compared to a man at the same age with a pot of £205,800.

There are many reasons for the problem: The pay gap, women working part time, child caring and benefit deficiencies. Some need legislative change and some need engagement between unions and employers irrespective of the type of pension scheme within the workplace.

We had a woman's gender pay gap day in 2022 and now International Woman's Day in March – fine words, fine intentions, but what we certainly do not have is equity. What we need is action!

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

View from the PLSA: DB funding

DB funding has been relatively healthy in recent times. However, as 2022 drew to a close there was still time for one final consultation from TPR to come out that will have a significant impact on the future of defined benefit pensions.

This new 14-week consultation sets out that schemes will be expected to set a long-term objective and a journey plan to get there. It is expected that schemes will reduce reliance on their sponsoring employer as they reach maturity and it will require trustees to improve risk management and raise the bar for evidencing supportable risk taking.

From our initial viewing, the PLSA can state that we were pleased that the draft allows for the flexibility we have previously called for in determining technical provisions for schemes open to new entrants.

Overall, we support TPR's move away from using fast track as a benchmark, and of a truly bespoke approach to valuation submissions.

While we support ongoing dialogue between trustees and employers in developing funding and investment strategy, we remain concerned that the draft code shifts the fundamental ways in which strategy negotiations currently operate.

The proposals may give disproportionate weight to employers' preferences, which may not be aligned with trustees' objectives. We agree that the use of LDI should be wrapped into considerations of supportable risks that would naturally be laid out in journey plans.

We will continue to work closely with our membership – and indeed TPR – to determine what the on-the-ground implications of the detail will be.

PLSA director policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: TPR's new combined code

Now is the perfect time for trustees to take a step back and honestly assess how effective they are as The Pensions Regulator (TPR)'s new (combined) Code of Practice (the new code) comes into effect.

TPR believes that good governance is the bedrock of any well-run pension scheme. Most trustees juggle complex pensions issues with competing demands, so making best use of their valuable time is essential in ensuring that they are focusing the right amount of time and resource on strategic priorities.

Some trustees might think their time could be better spent focusing on other scheme issues. However, a periodic review of how the trustees operate collectively will be time well spent in demonstrating they have a well-run scheme. This is not about personal assessment but about how they work collectively – optimising the time they have together and how they collaborate with their advisers to achieve their strategic aims.

A well-structured trustee effectiveness review should identify any issues and provide trustees with an opportunity to understand the root-cause and take remedial action. Even small changes to the way trustees operate can have a significant impact on the quality and speed of their decision-making and ensure actions are being followed through to conclusion.

Under the new code schemes will need to have an effective system of governance in place. Taking time to assess their own effectiveness is pivotal in trustees gaining confidence they are operating effectively within a wider review of their systems of governance.

PMI president, Sara Cook

VIEW FROM TPR: DC consolidation

For several years, we and the DWP have been clear that trustees who cannot meet our expectations around governance should wind up and consolidate savers into a better run scheme.

This simple message has gathered pace with a joined-up drive to ensure savers are getting value for money for every pound they save. Plans for a value for money framework and pensions dashboards are just two major policy initiatives that are pushing towards one thing: Transparency.

Greater transparency and standardisation of reporting across the DC pensions market will allow trustees to make more informed decisions and improve long term outcomes for savers.

Encouragingly, our latest *DC Trust* report shows that DC consolidation continues to happen at an extraordinary pace.

Since the beginning of 2012, the total number of non-micro schemes and hybrid schemes has declined by 67 per cent from 3,660 to 1,230, while membership in non-micro schemes has increased by a staggering 1,069 per cent. Currently there are 26.4 million memberships in non-micro schemes and hybrid schemes, 98 per cent of which are in scheme with 5,000 or more members, which has increased from 51 per cent since the beginning of 2012. In the same period, memberships of non-hybrid DC master trusts have increased from 270,000 to just over 23.5 million this year.

It is clear that by making a clear and consistent case for consolidation, we and the DWP, working with the industry, have managed to significantly move the dial. Future policy reforms will ensure this trend continues, and I call on trustees to engage to ensure they are a success.

The Pensions Regulator head of policy, Louise Davey

VIEW FROM THE ABI: Ready to engage

The ABI and PLSA's Pay Your Pension Some Attention cross-industry campaign was the first of its kind and concluded in November last year with incredible results, beyond our expectations.

A fifth of the UK working population recalled seeing our campaign, and a staggering 91 per cent of them took action because of it. That included talking to someone about their pensions and looking at their pension or pension information online. Many of our sponsoring pension provider brands also saw an uptake in engagement from their members or customers, particularly on contact details, which are crucial to ensuring pots remain connected to their owners, and not part of the estimated c£27 billion lost in DC pensions.

Using grime MC artist Big Zuu to create a catchy pensions rap was bold and decidedly different to your average pension campaign. But we felt we needed to be different. Shaking up its image and introducing a fun 'ear worm', with a clear call to action, meant pensions got noticed, by audiences from the young up to the over 55s. You can see more on the campaign at www.pensionattention.co.uk.

This campaign is multi-year, and we're already busy preparing for our sequel, Season 2, which will be launched later this year. If you or your organisation would like to get involved in our mission to increase the UK's pension engagement, please do get in touch.

Association of British Insurers (ABI) manager, long-term savings policy, Hetty Hughes

VIEW FROM THE PPI: Sinking inflation

2022 has presented unprecedented levels of inflation under current monetary policy. It has predicated a cost-of-living crisis as wages, benefits and pensions lag behind increased prices.

2023 is forecast to deliver prices 5 per cent higher again. That is at least the consensus taken across a panel of independent forecasts from a number of financial institutions. This means inflation is set to increase by under half of 2022's experience, but remains two and a half times the target rate set by the government for the Bank of England. As the Bank of England may find this an impossible target for 2023, they may just have to settle for not feeling obligated to make an emergency intervention to shore up the balance sheets of defined benefit pension schemes.

The lag between inflation and any pension increases (state or private) that are linked to inflationary measures means this year pensioner incomes can be expected to recover against living costs and increase in real terms for 2023. State income, whether triple locked or CPI linked, is set to increase by 10.1 per cent, matching September's annual increase in CPI. This step up in state provision should mean that even where pensioners may have private income that may not increase so substantially (due to having capped increases or being a level benefit) they are still likely to have a real-terms increase in income this year.

So, while the current cost-of-living pressures may not be completely overcome, they should at least be relieved for many pensioners come April.

PPI head of modelling, Tim Pike

What does an inclusive pension scheme look like?

People's Partnership COO, Jo Palmer, discusses how the industry can improve the inclusivity of pension schemes

There's been much talk in the industry around inclusion and diversity and the make-up of the boards and governance committees that look after savers' money – and rightly so. However, inclusion goes further than that as it's also about the actual pension schemes available to savers.

Inclusion is described as, "…the fact or policy of providing equal opportunities and resources for people who might otherwise not get them…" [1]. The thing that resonates with me as relevant to pension schemes is the opportunity to access "…resources for people who might otherwise not get them".

The industry has already taken this on board in the shape of auto-enrolment. This has undoubtedly been a success in bringing more people into the workplace saving world, including those from previously under-served parts of our community – some of whom may be lower-earners and by-passed by the wider financial services market.

The challenge now is for providers to take on the mantle and be inclusive and accessible for all types of savers, for the benefit of all of society. Schemes need to support savers through the accumulation and decumulation phases. And they need to do it without expecting savers to be financial experts. Bombarding them with information and complex options that make it difficult for them to determine the best financial outcome simply isn't the answer.

Take, for example, the learnings from when Sweden rolled out its PPM top-up scheme in 2000. It encouraged savers to choose from a range of 456 funds. 66.8 per cent of savers chose to self-select and the outcomes for this group, on the whole, were materially worse than those who stayed with the default fund.[2]

That's not to say that there is no place for active fund self-selection as having funds that match beliefs and views such as Shariah and Ethical funds is a must. But having hundreds of funds to choose from, or the widest possible range of options can't in itself be an indicator of an inclusive scheme.

We need to focus on walking in our customers' shoes, understand what's important to them and how they want us to help them. According to our *New Choices, Big Decisions – 5 years on*' research[3], we found that many savers are sleepwalking into retirement. The study revealed that people nearing retirement want their provider to supply a safe, guided path into retirement – rather than the complex decisions with which they're now faced with. How do we ensure that savers from all walks of life get the support they need?

I believe support starts with engagement. We must make engagement as easy as possible and do it in a way the saver wants. For some savers, that means having people on the end of the phone. For others, it's a digital online experience they can check on the go, or having literature available in different languages and formats.

Being an inclusive pension also means having retirement options that are flexible and can adapt to the life events savers find themselves in. Not everyone will want an annuity. Likewise, some may choose to continue working and it's up to us as providers to make those options easy to understand.

Going forward, the industry needs to consider how workplace pensions are included in the wider landscape of retirement planning. The pensions dashboard project is a big step forward, and it's one we're strongly backing, but how do we help savers see the bigger picture? ISAs, equity release, State Pension, savings and inheritance can all impact how and when a member accesses their pension pot.

Professional advice has a role to play, but not everyone will seek it even when it's in their best interests. This is one of the reasons why we're investing in our digital proposition, to help savers make better informed choices in their retirement planning journey.

Throughout our 80-year history, we've developed products that help people and employers; from holiday stamp systems to affordable life insurance. And we now provide one of the largest workplace pensions in the UK, serving over six million members and more than 100,000 employers. And we will continue to do so because we want to help people build financial foundations for life, whoever they are.

Written by People's Partnership chief operating officer, Jo Palmer

People's Partnership

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HSBC

Are current roads into retirement delivering member value?

In *Pensions Age's* latest video interview, Laura Blows explores HSBC Master Trust's recent report, *Converting pension pots into incomes*, with HSBC Retirement Services CEO, Alison Hatcher

Please could you give an overview of the what the *Converting pension pots into incomes* report explores and why HSBC Retirement Services decided to undertake this research?
As a team we wanted to look at member value, particularly where we thought there were pockets that were potentially being lost. We spend so much time as an industry trying to retain value that we wanted to make sure that it is preserved going into retirement as well.

When we started to build our new master trust, we found that in certain areas, such as the transition into retirement, there was a lot of value being lost because of operational inefficiency, for example going in and out of multiple different funds, and also due to going from an institutional environment into a retail environment.

Finally, because of the decisions being made and maybe because of members not being supported in those decisions.

What we wanted to do was look deeper into those issues, understand what was causing them, and actually give them a quantitative approach so that we could, hopefully as an industry, all work together. The results showed us that not only was £1.7 billion being lost potentially at this transition point, but also, on an individual level, some members were losing up to 82 per cent of the first annual income they would have derived for retirement.

The report mentions regulation. What role does The Pensions Regulator (TPR) have in helping to protect members in retirement?
TPR's role, from an institutional perspective role, is make sure that they are protecting members, and then when members go into a retail environment, the Financial Conduct Authority (FCA) takes over. The pensions world is a very fragmented one with occupational pensions, retail funds, SIPPs, GPPs etc. However, from a member perspective, it's just one market, it's just savings.

Therefore, we're starting to see a lot of overlaps, such as the FCA working with TPR to make sure there are no issues where members might be at increased risk, so they can transition into retirement smoothly.

There's more work to be done in bringing the regulation together but I think there's also more work to be done in bringing the market together. The regulators could push their boundaries of responsibility a little bit but so could trustees, from a fiduciary duty perspective.

So it is not surprising that the report suggests the need for regulatory change to support members. What change would you like to see, and do you believe that this is something that is likely to occur?
We are in a complicated market right now. We have political instability and the regulators have very clear, defined, roles. So what we are trying to do in the report is say 'what is it that we could do as an industry'?

One of the suggestions was expanding auto-enrolment. For instance, instead of just having a pensions scheme that has to be set up because of auto-enrolment regulations, we could also expand that responsibility to a company, to say that they also have to offer some sort of decumulation offering.

From a company perspective it could be relatively cheap and simple to just signpost – so that you don't have to put it in place and own it – to an offering, such as a master trust.

You mentioned about the potential for reforming auto-enrolment so that it also looks at the retirement provision space. Please could you expand upon this?
An interesting expansion of the auto-enrolment rules would be to say along with having to offer an accumulation option, a decumulation option needs to be offered as well.

It would also be extremely cheap, easy and efficient from a company perspective. So we are not overburdening corporates, we are not creating a bigger governance burden but offering the best protection to members.

There are some short-term wins, just even if a trustee thought of a slightly bigger remit for their fiduciary offering. We see lots of trustees now offering signposting to master trusts. Not that master trusts are the answer to everything, but they do offer a lot of protection going to and through retirement, which allows members time to then think about what they want to do in the future and make the right and best decisions to have a better outcome.

"An interesting expansion of the auto-enrolment rules would be to say along with having to offer an accumulation option, a decumulation option needs to be offered as well"

How can the pensions industry help members through the point of retirement so they are not subject to the potential losses you highlight in your report?
I would like us to consider what value for member really means, as there is value for member at the accumulation stage but there's also looking at value for member for the longer term.

If you look at the definitions for value for member, decumulation, or future provision, is not excluded. We read the regulation from the point of view of the fact that it must only equate to services like investment and administration but we could also think of the service of decumulation.

From a trustee perspective, the saddest thing is that you are working so hard to create value in a very difficult world, sometimes for very small pots, and this money is so important to members. So it is sad for them to then be exposed to such a risk at the point of retirement – it is literally like a cliff edge for them as they have been given this pot of money and they are being told to go away and do whatever they want with it themselves.

They are not being supported with decision making, so they are very open to scams and they are very open to losing that money. Potentially the cost for the long term is that they could be running out of capital a lot quicker than others who are protected in a to-and-through mechanism.

So, I would love to see trustees think a little bit more broadly about this. But also companies – I would love to see companies challenge and consider what they are doing for decumulation. I would like to see the industry really start to have an open discussion about how it can work together to ensure members are protected.

And finally, what one thing do you think trustees should take away from HSBC Master Trust's research?
We've spoken to lots of trustees who are looking at how to preserve value going into retirement and that's the one thing we would love to see more conversation about in the industry. Looking at what can be done at the point of retirement to make sure that members are protected and signposted or helped to know what their options might be, in a very clear and concise way.

If you'd like to read HSBC's *Converting pension pots into incomes* report, email mastertrust@hsbc.com

These are edited highlights of HSBC Master Trust's discussion. To watch the interview in full, please visit pensionsage.com

Written by Laura Blows

In association with

HSBC

Margaret Snowdon

PSIG interview: Industry guidance

The latest in its year-long scams focus sees *Pensions Age* speak to Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, about the group's key priorities and new guidance, and the latest challenges in the fight against fraud

What are the key priorities for PSIG now, in terms of tackling pension scams?

PSIG's priority has always been to combat pension scams. Our core work has been setting out good practice for the industry to follow where members wish to transfer their pension from their current scheme to another. In the early 2010s it became clear to us that many transfers were deceptive and we needed action urgently to stop what could have been a disastrous loss of savings. Taking action after the event was too difficult and too late, so we focused on preventing savings getting into the wrong hands in the first place. The magnitude of scamming was surprising and our early research showed that billions was being lost to thieves. While the number of scams compared to the volume of transfers was low (we have always believed that about 5 per cent of transfers tend to show worrying signs), the overall losses were tragic for the victims.

We believe we have prevented many millions from disappearing into criminals' hands and our work has made it harder for scammers to operate, however, scammers are very determined and creative.

Another of our priorities was to argue for a legal structure that would protect trustees and providers who found worrying signs and wanted to stop those transfers, because we found that the law was not on our side – it was tilted towards the right to transfer regardless of circumstances.

We succeeded in getting regulatory change, but that change has become a sledgehammer where we really wanted a scalpel.

Our focus for 2023 is threefold: We will update our code to reflect evolving good practice, we will work to get fairer outcomes for victims of scams and further the development of a scams intelligence database for the industry, so we can share knowledge of dodgy dealings.

PSIG has provided a code of good practice for almost a decade now. Why has PSIG decided that it will also publish guidance and that now is the right time to do so?

PSIG started working on a code of good practice in 2014, publishing the first version in 2015. We thought that would be it, but we then realised we had to keep updating to reflect evolving scam tactics and to improve industry processes. We have therefore published various versions since then. We spent a long time supporting government and regulators to produce legislation that would support ceding schemes and make it easier to protect members and we were pleased that our red and amber flags approach was accepted, although with a number of tweaks. And thereby hangs a tale. We had been ready to produce a final version of the code to coincide with the publication of new transfers regulations in December 2021, but it immediately became clear that the Department for Work and Pensions' (DWP) policy intent had not been perfectly reflected in the wording of the regulations and we were in a bit of a quandary – reflect the letter of the law and effectively stop most transfers, or devise workarounds that would remove friction, but put risk back squarely on trustees and providers. As we represent the industry as a whole, we too had widely differing views on the best approach, with real challenge to find a safe and practical middle ground.

What we have done is instead of releasing a new version of the code, which remains valid, with all its resources, is to produce an interim guide that helps practitioners understand and navigate the complexity we have now, and wait for the expected review of the transfer regulation this summer. Hopefully, we will get some amendments that will make everything clear – we have suggested some fairly simple changes.

What are the main points from the upcoming PSIG interim guidance?
The main points from the PSIG interim guidance are the need to differentiate between statutory transfers that are impacted by the new regulations and discretionary transfers that are not. Statutory transfers require compliance with the two conditions set out in the regulations, while discretionary transfers rely on powers within the scheme rules and the proper exercise of those powers. Each requires adequate due diligence and each involves a degree of risk. It should also be noted that some schemes will not have a choice and may only be able to pay statutory transfers. Administrators therefore need to know what their scheme rules say.

The guidance also covers the use of clean lists, automated transfers and discharges.

Once the review of the regulations has been completed, PSIG will update the code documents.

How do you respond to those that say there's a difficulty balancing completing transfer requests in a reasonable time with protecting against potential scams? What would you suggest to any struggling?
That is the heart of the problem. We continue to believe that scams are a minority (circa 5 per cent) of transfers and the purpose of good due diligence is to help spot those scams and not to get in the way of straightforward transfers. The PSIG code has always focused on proportionate due diligence and carrying out that due diligence quickly and efficiently. The use of clean lists is a good way to speed up transfers to known destinations and most third-party administrators adopt this approach for trusted transfers. This allows more time to be spent on unusual transfers, where there is greater risk. Of course, the resource needed to maintain a robust and up-to-date list may be overkill for a scheme that carries out few transfers.

What must be avoided is back-end loading transfer processing until there is a deadline approaching and dealing with the matter becomes frustrating and stressful for everyone. PASA also stresses this in its *DB Transfers Guidance.*

One unfortunate side effect of the regulations is the broad definition of overseas investments as an amber flag. This drives some administrators to refer most transfers to MoneyHelper for guidance and this slows up the process, adding five or six weeks to the timeline and also tying up limited resources that would be better focused on serious scam risks. However, the regulations are clear and ignoring them in favour of a judgement call is a balance of risk tolerance and customer service. A change in the wording would be very helpful.

What are the other challenges/ barriers to being able to more effectively fight scams?
One of the biggest challenges is the ease with which scammers can reach customers. They use phone calls, emails, adverts on social media and direct mail. They look legitimate and often appeal to people right when they are vulnerable or want a change. Once people are sold on a transfer, they don't want to be put off by their current scheme and the scammers don't want to lose an opportunity they've worked on. It makes for confrontation where administrators are made out to be obstructive if they don't pay the transfer straightaway. We already have legislation outlawing cold calling, but little real progress has been made against online scamming. Of course, we have the added complication that some transfers might not be in a member's best interests, but they are not actually scams. Quality of advice is outside our remit.

On the flip side, what are the notable 'wins' that have occurred when tackling scams since the emergence of freedom and choice reforms?
Freedom and choice made accessing pension savings a bit easier. Not a bad thing in itself, but scammers took the opportunity to expand into investment scams. Since then there has been increased government and regulator focus on scams, raising awareness and introducing the ban on cold calling, working with PSIG on the Scams Pledge and various solutions. The PSIG Code has been recognised as instrumental in reducing pensions scams and the Pension Scams Industry Forum has helped share information on potential bad actors.

How well would you say the industry, government, regulators, and the members themselves, work together to prevent scams? How could this be improved?
DWP has been listening to the industry and Project Bloom has been renamed Pension Scams Action Group and revamped under TPR to focus on key strategic themes. PSIG is a partner, responsible for non-legislative solutions. FCA and TPR collaborate on ScamSmart campaigns to help ensure consumers know about the risks and tactics of scammers. All-round awareness has improved, but scammers still manage to get at savers. Action must be taken to curb online scamming and trustees and providers must be reassured that proportionate steps taken to protect members will be safe and appreciated. HMRC needs to accept that scams victims are indeed victims and reconsider its outdated policy on tax penalties.

Finally, what one message would you like the pensions industry to consider in the fight against scammers?
We all have a part to play in protecting our members from scams. Settle transfers quickly where you can and where you can't, help members understand your concerns.

Written by Laura Blows

An own goal?

Summary
- TPR recently stated there was a strong case for considering an authorisation regime for professional trustees.
- The current accreditation regime, which is voluntary, has seen solid take-up, yet some argue there is room for improvement.
- Potential dangers of over-regulating professional trustees include forcing good individuals out of the market.
- Protecting savers must remain front and foremost in any discussion around increasing regulation, says TPR.

Calls for tighter controls around professional trusteeship have resurfaced in recent months, but could further regulation create a new set of problems for the sector? Francesca Fabrizi explores

The liability-driven investment (LDI) turmoil of last year created huge waves across the industry, with fingers being pointed at anyone and anything with any part to play in the running of defined benefit (DB) pensions.

Professional trustees, whose role has become evermore essential, did not escape scrutiny, with a spotlight being shone on whether there should be tighter controls on those who carry this title.

Speaking in December at a session of the Work and Pensions Committee on DB schemes with LDI, The Pensions Regulator (TPR) chief executive, Charles Counsell, stated that TPR, for some time, has not only believed that all pension schemes should have a professional trustee sitting on the board, but argued that there was a strong case for the authorisation of professional trustees in order to increase governance. This would be a significant step further than the voluntary accreditation schemes on offer today from the Association of Professional Pension Trustees (APPT) and the Pensions Management Institute (PMI).

Counsell commented: "We have said for some time that we believe that schemes should have a professional trustee sitting on their board, but the reality is that the capacity of the professional trustee market does not match the number of schemes, so you cannot get there immediately."

He went on add that there was also an "open question" that needed to be considered on the matter. "There is no authorisation regime or regulation around professional trustees, and there is the question of whether there should be. To be fair, there is an accreditation process. Professional trustees can undertake that accreditation process, but we cannot force trustees to do it."

PMI director of policy and external affairs, Tim Middleton, was quick to respond, suggesting that formal authorisation would represent a "sea-change in managing scheme governance standards", in that it would in effect constitute a 'licence to practice' for professional trustees.

He went on, however, to say that the PMI would "fully support TPR in whatever regulatory model it ultimately chooses to adopt".

Similarly, APPT chair and Capital Cranfield managing director, Harus Rai, offered support on the basis that any new regime was in the interests of members: "The view across the APPT, and I would hope across the professional trustee market, is that no one wants regulation for regulation's sake, but it's difficult to argue against anything that is going to raise scheme governance, that is going to achieve better member outcomes.

"So if the DWP ever does decide to go down this route, I imagine there would be an initial consultation, which we would look at and comment on. If it adds value, we will say it adds value. If it doesn't, we'll call it out, and outline the reasons why and potential changes to it."

So was it an aspirational comment from Counsell, or are there any concrete plans behind the words?

Speaking to *Pensions Age*, Counsell re-affirmed that TPR believes there are important questions to ask about how to best ensure that professional trustees meet stringent standards.

"An authorisation regime might well help to achieve this, but more work needs to be done to understand the challenges that exist.

"These include how authorisation would change governance and the make-up of trustees; the impact on member-nominated trustees; and improvements in equality and diversity; as well as how we define what a professional trustee is and what role sole professional trustees play."

Ultimately, he adds, any authorisation regime would require new legislation, which is a matter for government.

In response, a DWP spokesperson concurs that improving trusteeship will be a continuing area of focus for them going forward: "As part of our ongoing efforts to support and improve trustees' knowledge and understanding, the DWP is working with TPR and others to refresh the definition of what a professional trustee is; looking into the possibility of a formal professional trustee accreditation; and considering further ways to both support trustees and ensure fairness to members by making sure they are getting the best returns possible.

Current regime

In 2017, the Professional Trustee Standards Working Group (PTSWG) was established following TPR's 21st century trusteeship and governance discussion paper. The PTSWG's remit was to establish a set of standards for professional trustees and to put forward a system by which professional trustees could be accredited to demonstrate their ongoing adoption of, and continuing assessment against, the standards. In March 2019, those standards were published and, in 2020, both PMI and APPT launched their accreditation programmes.

Two key points about the current accreditation regime and standards are important to stress, argues Rai. First, that they are not set in stone, and second, that accreditation is voluntary, although this has not meant low take up.

"When the standards were put in place, the intention was always that they would evolve over time. They need to evolve according to how the market moves," says Rai.

"Also, at the moment, the standards are voluntary. There are still however approximately 460 accredited trustees to date across both the APPT and the PMI – professional trustees who have voluntarily decided to take them up. That in itself shows they are a success. We would like to be in a situation where anyone who's acting as a professional trustee, be it a sole trader or someone who represents a firm, meets those standards as the barest minimum."

In order to further understand just how successful and indeed useful the current regime is, the APPT is currently involved in a workstream, alongside other bodies, looking at why a scheme should appoint an accredited professional trustee rather than a non-accredited one.

Rai explains: "We are in the very early stages, but we will be looking at the benefits of accreditation from four viewpoints: the member/saver; the employer; other trustees; and the adviser.

"We will be asking why anyone in any of these capacities should appoint an accredited professional trustee over a non-accredited professional trustee. We're not saying that every scheme should have a professional trustee, because that's an individual choice based on the needs of the scheme, but where they do decide they want one, why should they look at an accredited trustee over a non-accredited trustee?"

Dangers of over-regulation

Any arguments for tighter regulation are always rebutted with arguments against, and the pensions industry needs to ensure it only adds more regulation for the right reasons, says 20-20 Trustees trustee director, Stuart Walters.

"On the one hand, trustees hold the assets of the pension scheme for its beneficiaries, so it is a very important and trusting role that comes with big responsibilities. It goes without saying that trustees should be held accountable for their actions."

But, he adds, it is also important to establish what we are trying to protect against. "Is it fraud, poor decision-making leading to poor member outcomes, lack of skills, knowledge etc.?

"Accreditation proves that trustees meet a general standard of quality. We need to understand what authorisation is going to give the consumer beyond this?"

Is there a danger, also, that the professional trustee market becomes over-regulated, to the extent that we lose good people or prevent good candidates coming forward, at a time when having competent and experienced people in the role is more important than ever?

Walters fears this may be the case: "Inevitably, some professional trustees will leave the professional trustee industry. Smaller professional trustee firms and sole traders may struggle with the increased costs of extra regulation and authorisation. The key will be the barrier and costs to entry."

BESTrustees president, Alan

Pickering, raises concerns about the potential impact on diversity: "I am a great believer in the advantages of having diverse trustee boards. Anyone who is interested in being appointed should explain why they are suitable based on experience and qualifications. In many instances, experience maybe more relevant than qualifications. As we move towards the DB endgame and DC empowerment, trustees will be able to leverage the experience of their day jobs even though technical pension qualifications may not be part of their portfolio. If someone puts themselves forward as a professional trustee, the potential client maybe influenced by their qualifications or authorisation. Neither of these attributes should be obligatory. The pursuit of diversity should not be undermined by prescriptive regulation."

Rai agrees there's always potential downsides to regulation, "because, like anything, when regulation is put in place, it becomes an issue of compliance and with that comes potential extra cost. Let's take a sole trader as an example; if because of the extra regulation, the cost of operating becomes disproportionate to them, they could fall out of the market".

However, he argues, if the regulations were to go even further and state that every single DB scheme had to have a professional trustee, then that would mean a lot of extra work to go around, explaining: "You could then see lots of firms trying to recruit trustees. You could also see a lot of new firms suddenly being established because there would be a potential source of new business.

"So the impact could be manifold. It could create opportunities, it could bring people into the market, it could lead to some people leaving the market, but ultimately it comes back to the most important question – how is it going to affect each individual scheme and, even more importantly, how is it going to affect the members underneath it? Again, if regulation is going to add value, then it's difficult to argue against it."

A different focus

Zedra Governance director, Colin Richardson, takes a different view on the regulation debate arguing that, while there may be room for improvement with the current accreditation regime, perhaps a greater focus should be on further developing existing accredited professional trustees to ensure they have

> **"We already hold professional trustees to a higher standard than other trustees, and we support the existing trustee accreditation"**

the in-depth levels of knowledge they require for a role that is becoming more complex every year.

He states: "The accreditation options that exist via the PMI and APPT are a start, but they could arguably be more robust. The larger issue is the future training of the professional trustees who are already accredited. We have training through our professional trustee firms, and we gain experience through our work in all the situations we face.

"In addition, we get all sorts of information and guidance from TPR and other organisations. But the thing about professional trusteeship is it's so wide-ranging. We're dealing with funding, investments, administration, legal issues, negotiations with employers, corporate restructuring, buyouts, cybersecurity, GDPR and more."

Most professional trustees, he adds, have come from one particular discipline, yet need to be knowledgeable in dealing with that breadth of issues "and sometimes all within the same meeting".

"So it seems to me that an effective way to make professional trustees continually improve would be to refine the current Continuing Professional Development (CPD) requirement, to make it more effective."

Richardson suggests something akin to TPR's current toolkit, but on a more enhanced level. Something, he says, that would ensure or assess how professional trustees are keeping up to date with everything and maintaining a certain level of knowledge. "This would be quite a project, but it could be addressed using an enhanced series of modules or toolkits – a real-time, evolving toolkit such that all trustees have to cover in some detail new emerging areas and revisit periodically existing areas."

Looking ahead

However the professional trustee market evolves in the coming years, what's key in all of this, stresses Counsell, is that any changes must benefit the saver: "Our focus is firmly on protecting savers by working with key partners and the industry to ensure savers get value for money from schemes, and that trustees meet our expectations around knowledge and understanding, and governance.

"We already hold professional trustees to a higher standard than other trustees, something that is recognised in our enforcement policy, and we support the existing trustee accreditation programme, which is a strong indicator of the knowledge and understanding we expect from any trustee."

Written by Francesca Fabrizi

The age of certainty

Recent market volatility has boosted the appeal of annuities as a guaranteed source of retirement income. Maggie Williams explores whether the trend is set to last

Summary
• Annuity rates hit a 14-year high in late 2022, pushing up rates by around 40 per cent.
• Market volatility has made the certainty of annuities more attractive for retirees.
• There is still a significant gap between best and worst rates so shopping around is important.
• Annuities will continue to play an important part in DC saver's long-term plans.

What a difference a year makes. Annuity rates hit a 14-year high in December 2022, a stark comparison to the poor value that they offered just 12 months earlier.

Before the introduction of freedom and choice in April 2015, almost all DC pensions were converted into annuities. But newer flexible options such as drawdown, coupled with historically low annuity rates until this year, constrained the fortunes of the annuity market.

But last year showed a more positive picture. Financial Conduct Authority figures showed sales of annuities rose 13 per cent in 2021/22 compared to 2020/21. And research from Legal & General Retail found that close to a million (990,000) over-55s who are still working are considering an annuity for the first time as they prepare for retirement. Could annuities see a longer-term resurgence?

"Incomes remain around 40 per cent higher than they were a year ago, although annuity rates have now come down a bit from the heady heights they hit after the mini-Budget in October 2022," says Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey.

October's market chaos also brought home the impact of fluctuating asset values on scheme members' retirement prospects, says Just Group group communications director, Stephen Lowe. "Recent economic and political events have been a sharp reminder that asset prices both rise and fall and no retiree should be risking money they can't afford to lose."

Legal & General Retail Retirement managing director, Lorna Shah, adds that its research found drivers other than market performance are increasing interest in annuities: "People were also drawn to annuities by the stability a guaranteed income offers, as they felt it made it easier to plan their finances (78 per cent) and lessened the impact of market volatility on their money (36 per cent). This is unlikely to change in 2023," says Shah.

Building awareness

However, Shah says that L&G's findings also shone light on knowledge gaps surrounding annuities, risking retirees opting for an 'either/or' approach between annuities and drawdown. "But the decumulation journey can take many years and people's needs can change multiple times over this period."

Wealth at Work director, Jonathan Watts-Lay, agrees. "The key priority is to make sure that people understand the choices available to them at retirement, and that an annuity is one of many options. It's also important to make the connection between those options and investment choices. Automatically lifestyling people into bonds might not be appropriate if they change their mind and want to stay invested."

As part of a range of retirement options, annuities have the obvious advantage of offering a predictable income for life, especially if they are index-linked. "No-one has come up with a rival solution to the problem of guaranteeing retirees don't run out of money during their lifetime. That suggests annuities are here to stay, with some good reasons to think the immediate future is positive," says Lowe. But that consistency of income can give less flexibility in tax arrangements than using drawdown, and it's not possible to pass on an annuity after death in the same way as an investment portfolio.

Morrissey argues the importance of recognising that retirees' needs will change over time. "It's also worth making people aware that they are under no obligation to annuitise all at once – annuitising in slices throughout retirement means you can keep the remainder invested and you can also get better rates as you age."

Future directions

The next decade will see more people retire with the bulk of their pension in DC savings. Trends will also show how DC retirees' income needs change over time in retirement, how well their pension pots are able to support those changes, and where gaps exist both in guidance/advice and retirement product portfolios. That could help to shape future innovation in annuity design, as well as associated advice.

Aviva workplace pension policy manager, Dale Critchley, says that at present he is seeing interest in annuities increase across all age groups – from the beginning of retirement, through to older saves who want to convert a drawdown fund into a guaranteed income. "We are increasingly seeing annuity products used to provide a baseline fixed income, with customers investing the rest of their fund in drawdown."

"We're likely to see greater innovation and flexibility as the annuity market evolves over the long term, to meet members' changing retirement needs," says Legal and General Investment Management (LGIM) co-head of DC, Stuart Murphy. "For instance, we're seeing fixed-term annuities becoming increasingly popular to help bridge the gap for those finishing work before they reach the state pension age – or, for the current generation, the point at which any defined benefit schemes they have access to begin to deliver an income."

He adds that LGIM sees "significant potential for later life annuities – allowing members to spend more flexibly in the early years of their retirement, before locking in a guaranteed level of income further down the line".

"The combination of the flexibility of drawdown with the certainty of annuities can meet people's needs in a wide range of circumstances – it's just a question of getting the blend right, which is why professional advice and guidance is so important. Solutions that tried to deliver both haven't been successful probably due to the extra cost and complexity for little extra benefit," adds Lowe.

The right product, at the right time

Although annuity rates have risen across the board in the last year, there remain significant differences between the best and worst paying products. Research by Just Group in October 2022 found a 16 per cent difference between the highest and lowest Guaranteed Income for Life (GIfL) annuity based on a healthy 65-year-old. This equated to a difference of £505 per year.

"Shopping around is key to getting the best deal from an annuity," emphasises Morrissey. "Other important messages can include helping people get the best type of annuity for their needs. Are they married? Do they need a joint life annuity? Do they have a medical condition that qualifies them for an enhancement? These things can have a huge impact on how much income someone receives."

Last year's boost in awareness and improvements in value may prompt more people to take a look at annuities, as part of a toolkit of retirement options. But making sure scheme members choose the right product for their needs, at the right point of their lives and get the best rates available in the market still means equipping members with access to good quality information and support for their evolving decision making.

Written by Maggie Williams, a freelance journalist

GOAL! Four essential tips for choosing an annuity

Guarantees: "Check whether an existing pension has any valuable guarantees that would be lost if they transferred it elsewhere," says Critchley. "These are usually referred to as a Guaranteed Annuity Rate (GAR). It is important to understand when these guarantees take effect, for example, at what age and date."

Open market option: Taking a pension to a different provider on the open market can improve a member's income. "Different providers offer different rates so the use of annuity comparison tools is important," says Morrissey. MoneyHelper, from the Money and Pensions Service, has a free comparison tool. An annuity bureau or comparison tool can't say if an annuity is the right option, but they can help find the provider who offers the best rate.

Advice and guidance: Help members to access financial advice or guidance to understand whether an annuity is an appropriate option for them, or might be in the future. Watts-Lay says this means thinking of annuities as part of a wider retirement planning picture. "Retirees need to take a holistic view and understand the pros and cons of different approaches, rather than looking at annuities in isolation."

Lifestyle: Answering lifestyle questions and fully disclosing medical conditions is vital to helping members get the best possible rate. "Without these, a saver is unlikely to obtain the best rate," cautions Critchley.

Strengthening the safety net

Caroline Rainbird

Financial Services Compensation Scheme CEO, Caroline Rainbird, chats to Sophie Smith about the plans to review its compensation limit, the growing complexity of pension claims, and the key aims for the FSCS in 2023

The Financial Services Compensation Scheme (FSCS) recently welcomed Financial Conduct Authority (FCA)'s plans to review the compensation limit for pension claims. Can you tell us a bit more about why you feel a review is needed?

We believe the current compensation limits remain appropriate for most financial products and activities covered by FSCS protection. However, we have actively called for a review of the compensation limit for pensions because year-on-year we are seeing rising levels of uncompensated loss among pension customers. Uncompensated loss is where the money we can return to customers is less than the total amount they lost due to FSCS's £85,000 compensation limit.

For pension advice claims, including pension transfers, the rise in uncompensated loss has been greater than any other claim type. In fact, almost 1,400 pension advice claims were above FSCS's limit of £85,000 in 2021/22. This figure has risen steadily over the past six years, resulting in over £450 million of uncompensated loss.

When it comes to pensions compensation, we would like to see a reduction in the gap between FSCS's £85,000 limit and the amount that the Financial Ombudsman Service (FOS) can tell a business to pay, which is currently £375,000. Someone who has lost, say, £200,000 from their pension is able to get it all back from the FOS if the company responsible for their loss is still trading. Contrast this with someone else who has lost the same amount but can only recover £85,000 because the company they were dealing with has gone out of business. This is having a huge impact on customers, and we are hearing heartbreaking stories from people who have lost significant amounts of money, often when they are at, or close to, retirement and unable to recoup these losses.

FSCS previously said that handling claims in areas such as pension transfers is growing "ever-more complex", predicting a continuation of this trend in 2023. How do you plan to deal with this growing complexity?

Over the past few years, the number of relatively straightforward claims we've received like those relating to PPI have reduced, with more complex pensions claims increasing. These more complicated claims take much longer to process, and require much more evidence and documentation from customers, which all must be worked through before we can make a decision.

In order to address this, we are investing in our people and systems, with a three-year plan to enhance our claims handling capabilities so we can effectively look ahead, plan for the future and deal with the changing claims landscape. Our aim is to bring in specialist resources where necessary, but also to develop our own in-house capabilities in vital areas such as data, insight and policy.

We are also committed to investing in technology, finding and developing new, innovative ways to process claims, such as our new data lake and search tool. The data lake is a large pool of unstructured data, which our tool can search and highlight keywords within the documents. This reduces the manual handling time for each claim. It means our expert claims handlers only need to review the specific pages or files that have been identified, to ensure the findings are accurate. It also reduces the overall time a customer waits for a decision as we spend less time requesting and chasing information from third parties.

Technology is also allowing us to increasingly be able to proactively analyse and assess the entire data set from a failed firm, without even needing to involve individual customers. This means that for some firms, customers may no longer have to make a claim and compensation can be paid to them automatically.

Looking more broadly, what future trends do you expect in the pension claims space in 2023, and does FSCS have any further work to share in the pension area for 2023?

We are estimating that there will be a 40 per cent reduction in self-invested personal pension (SIPP) advice claims decisions over the next year, with no large advice firm failures expected in 2023/24.

However, as I mentioned, handling claims in areas such as pension transfers and SIPP operator failure is growing ever-more complex, and we expect this will continue. The sharp increase over recent years in overall compensation costs has been driven primarily by claims arising from the two Financial Conduct Authority investment-related funding classes – Life Distribution and Investment Intermediation (LDII) and Investment Provision. With this in mind, we are expecting an increase in compensation paid for complex pension claims decisions in 2023.

And it is important to remember that while it is difficult to predict the future, we do know that it is the actions that firms take now that will result in the claims we receive in the future. This is due to the inherent lag in the system, with around 80 per cent of people who need to bring claims to us not realising they had been given unsuitable advice until at least five years after the event. That is why it is the joint responsibility of our industry to help reduce consumer harm in the future, preferably by preventing harm happening in the first place. This is the best way to improve outcomes for consumers, increasing consumer confidence, reducing uncompensated losses (as there are reduced losses) and preventing the emotional loss associated with financial harm, which can also be devastating.

The FCA recently confirmed its plans for the BSPS redress scheme, alongside a consultation on plans to extend its temporary asset retention rules. What impact do you expect this redress scheme to have on the FSCS, and are you able to share any further updates on the FSCS's financial estimates for the scheme?

The proposed extension to the asset retention measures will hopefully reduce the number of relevant firms that become insolvent. This would increase the availability of assets of firms that do become insolvent. If this happens it would be more likely that these firms will be able to meet their liabilities or, if necessary, have an orderly winddown. This would reduce some of the impact on both consumers and FSCS levy payers.

Now the final rules for the BSPS redress scheme are in place we will be able to share the expected impact in our next *Outlook* publication, which is due to be published in the spring.

In such a fast-moving environment we are constantly reviewing our forecasts and are committed to regularly publishing updates for the industry.

The FSCS has previously taken steps to raise awareness of FSCS pension protections. What impact do you this work has had on savers, and does FSCS have any plans to expand on this work in the year ahead?

Last year we published some research that looked at consumer trends, attitudes and behaviours towards pensions and SIPPs. It highlighted the confusion for consumers and lack of engagement surrounding pensions, which can be very complex products.

In the past year we have launched a new TV and radio advertising campaign designed to increase public awareness and understanding of the protection FSCS can offer when pension advisers and providers fail. The campaign has been very successful in helping us increase the number of people visiting our website to learn more about protection and check whether their pension is protected by using our Pension Protection Checker tool.

In recent years, consumers are being asked to make more sophisticated financial decisions, particularly about their retirement savings. This means it is more important than ever that they do their homework. They can start by using the Pension Protection Checker on our website or speak with their provider or adviser before they invest.

We will continue to promote the protection that FSCS provides using a variety of tools including our series of questions people should ask their pensions provider or adviser, our podcast episode and the information on our website. We will also continue our work with regulatory partners, the financial services industry, and other key stakeholders to help raise awareness of our protection and help people make informed decisions about their pensions.

Written by Sophie Smith

Support in difficult times

With the cost-of-living crisis pushing some people to reduce or stop pension contributions, David Adams looks at the financial choices facing some pension savers and at how employers, trustees, the pensions industry and policymakers can help

Times are hard. Even if there have been some slightly more optimistic (or less pessimistic) predictions about the UK economy in recent weeks, 2023 is going to be tough. Many public and some private sector workers are striking, in large part because their pay has failed to keep pace with inflation. The most recent Office for Budget Responsibility (OBR) forecasts predict a recession that will last most of the year and a 7 per cent fall in household incomes during the next two years.

The crisis has already had some impact on pension saving: Research published by the Pensions Management Institute (PMI) in late 2022 found that 13 per cent of respondents had reduced pension contributions, another 20 per cent were considering doing so and 7 per cent had stopped contributions altogether.

The latter choice could be an act of financial self-harm, as even a temporary gap in contributions can make a significant difference to retirement income. Pensions and Lifetime Savings Association (PLSA) deputy director, Joe Dabrowski, says the organisation intends to gather more data on behaviour around contributions shortly. He says its most recent behavioural data, from autumn 2022, did not indicate any major move away from retirement saving, but did show increases in people accessing

Summary

- There is some evidence that the cost-of-living crisis is leading some workers to reduce or stop pension contributions.
- There is also some evidence that the crisis is influencing some older workers' financial decisions as they approach retirement.
- Pension consolidation may be a useful step for some workers to help them plan for retirement.
- It is vital that efforts are made by employers, to ensure people understand the potential long-term consequences of stopping contributions, either temporarily or permanently; and/or of decisions made about accessing pensions before returning to the workforce.
- Employers, trustees, pension providers and policymakers all have roles to play in helping people take decisions to safeguard their financial futures, benefitting individuals but ultimately also the economy and society as a whole.

pension pots early; and in scheme members making enquiries about their pensions.

"So, it's a stable picture at the moment, but we are conscious that if the current situation continues there is potential for those numbers to tick upwards," he concludes.

People's Partnership group director of policy and external affairs, Philip Brown, quotes research that its master trust, The People's Pension, commissioned from YouGov in November 2022, which showed 2 per cent of respondents had stopped paying into a pension during the previous six months. A further 4 per cent said they would consider pausing retirement saving during the next year; while another 4 per cent would consider reducing contributions.

But it also found that 7 per cent were considering increasing contributions; and much larger numbers were cutting back on spending in other areas, with 39 per cent eating out less often; and 21 per cent spending less on holidays.

"So there are choices being made around outgoings, but not in the pensions area, at the moment," says Brown. "But it does depend on how l protracted the cost-of-living crisis becomes. The longer it goes on, the harder it is going to be to maintain pension contributions."

Damaging consequences

Anyone who does choose to pause or stop contributions needs to understand the possible consequences.

"If you stop or reduce your pension contributions it's not just your money that you're missing out on, but the money contributed by your employer and tax relief from the government," says Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey. "That can make a massive difference to how much you end up with in retirement."

Financial education, guidance and advice provider Wealth at Work runs sessions for its clients' employees to help them understand the full context of a decision to reduce pension contributions, says director, Jonathan Watts-Lay.

This might involve helping individuals review other areas of spending, such as mobile or broadband contracts, or insurances, which they might be able to buy more cheaply; reviewing direct debits, for services they might not use; and perhaps also making savings on grocery shopping.

"We have to be pragmatic here. People who are taking *[the choice to cut pension contributions]* are not doing so lightly – they're doing it because they have to. But once things start to get better it's important that people increase their contributions again"

"If somebody has gone through all those things and cutting pension contributions is all they've got left then they are going to do that – but at least they should understand the full implications of doing so," says Watts-Lay.

Brown says any People's Pension member wanting to reduce or stop their contributions would be signposted to the government's MoneyHelper service. "If an individual really is at crisis point, they shouldn't be afraid to speak to MoneyHelper, or to speak to their pension scheme," he says. "We're all there to help."

Morrissey agrees. "We have to be pragmatic here. People who are taking this choice are not doing so lightly – they're doing it because they have to," she says. "But once things start to get better it's important that people increase their contributions again." She suggests most should do this before an auto-enrolment pension system automatically re-enrols them after three years.

Choices facing older workers

Older workers approaching retirement also face important choices. The PMI research suggested that 70 per cent of all respondents think the current crisis will mean they have to defer retirement, typically for three years. More than one in four – 28 per cent – think they will never be able to retire. The PMI's research also revealed that 17 per cent of respondents aged 55 or over had exercised their freedom to access pension pots to meet short-term financial needs.

For Watts-Lay, the important considerations for these groups are an understanding of how much they can or should save in a pension and when they will 'fully' retire. Again, he emphasises the need to consider the broader context: Investigating how much they will receive from their state pension and other possible sources of income, how long they might expect to live; and how their outgoings might fall in retirement.

Some older workers who have retired have since return to the workforce, often at least in part through economic necessity. One issue they need to be aware of is the Money Purchase Annual Allowance rules, which apply to anyone who has accessed any withdrawal to their pension beyond their tax-free lump sum. This restricts any future pension contributions they might make to no more than £4,000 per year.

Dabrowski also highlights the issue of trying to ensure people who are feeling desperate remain vigilant against the threat of scammers – a big focus for the PLSA, The Pensions Regulator and *Pensions Age* *[see our latest scams focus article on page 28]*. "Clearly, when people are more vulnerable, they may be more vulnerable to scams offering a quick fix," he warns.

Another choice that might help some people to secure a more comfortable retirement would be to trace and consolidate old pension pots. The Pensions Policy Institute estimates there may be 2.8 million lost pension pots in the UK, worth a collective £26.6 billion.

Morrissey suggests that pension consolidation could be particularly helpful to people in the latter part of their working life who are starting to plan retirement. "You've got to make sure there are no guaranteed annuities that you might be losing out on and that you're not incurring extra fees, but if you are aware of those things this is something that can have a positive impact," she says.

She thinks that it would be helpful if there were more widespread awareness of the government's Pension Tracing Service; and that pension providers or employers could do more to encourage people to look for missing pensions and consider the benefits of consolidation.

Morrissey also highlights the value of employers giving employees a 'nudge' every few months to see if they might restart paused contributions, or increase contributions. Nudges could also be linked to events such as a pay rise, or payment of a bonus.

Small changes to avoid big problems

There are also helpful changes policymakers could make. PensionBee director of public affairs, Rebecca O'Connor, points to the three-year gap between someone opting out of an auto-enrolment pension and them being automatically re-enrolled.

"Perhaps that could be brought down to a year, assuming that people just need help now and the best thing would be for them to re-enrol sooner rather than later," she suggests. She also thinks that, in the context of the government wanting to encourage older people back into the workplace, the £4,000 Money Purchase Annual Allowance "needs to be looked at urgently".

Overall, says Dabrowski, the aim of any support that trustees, providers and employers can offer employees and scheme members during this crisis should be to help that person "make an informed choice" in relation to their long-term financial interests. "They need access to information that is free and unbiased," he says.

"It's about taking steps to ensure that the impact of people not making contributions is as small as possible," says Morrissey. "Good information at well-timed points can have a huge impact on peoples' retirement outcomes."

O'Connor sums up the long-term threat for individuals, but also ultimately for policymakers and society in general: "We don't want the legacy of the cost-of-living crisis to be misery in retirement."

Written by David Adams, a freelance journalist

Reflections on a brand Zuu approach to pensions engagement

With the first-ever pensions engagement season coming to a close, the PLSA head of media relations, and member of the campaign team, Mark Smith, examines what the industry can learn from the unique campaign

"Grime and pensions – they don't get mentioned in the same sentence," rapper and Bafta-award winning TV chef Big Zuu beamed in his first interview to promote the pensions industry's new Pay Your Pension Some Attention campaign.

In case it somehow passed you by, this unexpected collaboration arose from the industry's recognition that more should be done to address the fact that savers' confidence and understanding of their pension remains too low. Over half the public struggle to find their pension information and only 20 per cent are confident they are saving enough for retirement.

With the backing of 13 of the best-known brands in the pensions industry, we concluded that traditional approaches had only limited success, and what was needed was a bold new strategy.

We gave Big Zuu 24 hours to compose a track urging listeners to 'Pay Your Pension Some Attention', and, with a brash red, yellow and black colour scheme, sought to use a combination of digital and social media channels, out of home and display ads on billboards, websites and in newspapers to bring the catchy song to a new audience.

Signs of success

Big Zuu reached millions of people via TikTok, Instagram, Facebook and Twitter and millions more via the video billboards at train stations across the UK, not to mention the national newspaper and broadcast coverage earned from our novel collaboration including with the BBC, *ITV News*, *The Times* and *Financial Times*. Zuu has been an energetic and enthusiastic ambassador, especially in sharing his personal experience with engaging with his pension for the first time.

In an awareness survey after the engagement season, 19 per cent of respondents said they could recall seeing the campaign – a very strong figure for a campaign of this scale. Of those, a staggering 91 per cent took action as a result, saying they either spoke about pensions, looked for additional information or engaged with their own pension after seeing it.

There is good evidence in the analytics that by coming together under a single, brand-agnostic umbrella to promote a single, simple and memorable message, we demonstrated the power of collective action when it comes to increasing engagement.

We successfully showed savers that learning pensions basics is easy and with small steps, like updating personal details, they can gain confidence in their pension saving.

Lessons for future campaigns

The campaign team is already looking to the next iteration and has identified areas where we can have an even bigger impact or do things a bit differently.

For starters, the campaign met an enormous amount of misfortune with the launch day PR activity halted on the sad news of the passing of Her Majesty the Queen. Activity was not restarted again until after the mourning period. There was also political turmoil, with a change in Prime Minister and a double change in Pensions Minister during the engagement season acting as a huge distraction.

Turning to the things we can control; we recognise that it takes time to build a brand. Future efforts will therefore likely continue with the Pay Your Pension Some Attention brand and slogan. We will also give the industry more material and campaign assets to share through their own channels to widen the reach and breadth of activity.

We will also be looking for additional organisations to join as sponsors of the campaign.

Those involved from the PLSA and the ABI have been immensely proud to work on this project; the first of its kind to bring the industry together, and are already looking forward to the first creative meeting of 2023.

Written by PLSA head of media relations, Mark Smith

Cascading assets

As DB schemes assess their investment portfolios' overall liquidity in the lingering aftermath of the LDI crisis, renewed attention is being paid to collateral waterfalls

Summary

• To avoid a repeat of the 2022 liability-driven investment (LDI) crisis, attention has been turned to revisiting collateral buffers and governance arrangements within DB schemes.

• Calls are being made for trustees to either comprehensively review their collateral waterfalls or set up completely new ones. During the crisis many collateral waterfalls did not necessarily deliver the outcomes that they were expected to.

• As part of that process some portfolio restructuring may well have to take place in 2023, as well as further changes to decision-making processes within DB schemes.

With the dust now settled on the liability-driven investment (LDI) crisis sparked by Kwasi Kwarteng's ill-fated mini-Budget of September 2022, a familiar resolution has echoed its way through trustee meeting rooms: Never again.

In order to meet this collective promise and prevent a similar liquidity emergency, attention has been turned to revisiting collateral buffers and governance arrangements within defined benefit (DB) schemes. Prior to 2022, a DB liquidity programme was designed and checked to ensure that a scheme always had enough liquidity to pay out its immediate obligations, whether that be payroll, transfer values or any collateral call generated by its investment or hedging strategies. Today, however, liquidity scrutiny is firmly centred on the need to create, or reassess, collateral waterfalls within an LDI context.

As a subset of an overall liquidity programme, most DB schemes running LDI plans would be expected to have a collateral waterfall in place, which is effectively a pre-agreed strategy that lists which assets should be sold – and which particular order – to meet cash needs. And as LCP investment team partner, Steve Hodder, explains, collateral waterfalls are often set up directly with a scheme's LDI manager, with all components including cash, bonds and other assets, being managed by that very manager. The problem post-2022, however, is whether or not these are any longer fit for purpose.

In a recent note on the topic, Hymans Robertson co-head of trustee DB investment, Elaine Torry, wrote that revising collateral waterfalls was expected to be a key priority for DB custodians in 2023. She identified a number of areas needing scrutiny, including factoring in the speed and impact of volatility when selling assets; reviewing hedging levels; and checking if proper management systems are in place to oversee new collateral requirements.

Torry's proposals follow on from one of the discoveries that came to light during the gilt crisis surrounding liquidity management. For a number of DB funds, prior to September 2022 it had not pre-agreed by trustees and third parties as to where to go to get liquidity – and what level of permission was needed to pull the trigger.

In Dalriada Trustees professional trustee, Paul Brine's, assessment, liquidity needs to be considered "in the round", which includes addressing how "perfect storm" events will be dealt with. This means working through what a scheme's governance process is to generate liquidity. "As the pension scheme move forwards, the risk mantra should change from 'I won't provide for this event because it is very unlikely', to 'Regardless of whether I think this event is going to happen, what will I do, if it does?'," he says.

"The collateral waterfall maybe better defined as a liquidity waterfall," says Brine. "You need liquidity (for any purpose): Where can you get it from, who can access it, where is the cash going to reside (so it can be used) and what are the triggers to access additional layers and take more aggressive action? How are those actions controlled and monitored by trustees and can some items be delegated?"

"The old world of high hedging, low volatility returns and high liquidity has been replaced by tighter monetary conditions and lower levels of leverage"

Granting an LDI manager or investment consultant access to a pool of liquidity under the terms of an investment management agreement is entirely consistent with this approach, he adds. "No doubt it will need to be constrained, but the access to liquidity and the processes by which additional liquidity can be obtained need to be mapped out prior to any liquidity event."

Not necessarily a silver bullet

While collateral, or liquidity, waterfalls make perfect sense and are intuitively simple, they are not necessarily a "silver bullet", warns Aon partner, Calum Mackenzie.

Their main benefit, says Mackenzie, is to speed up, or even remove decision-making processes. And while waterfalls undoubtedly helped during the 2022 gilt crisis, there were areas in which they were found lacking.

"For example, even where a single LDI manager held different parts of the waterfall they could not move assets to the collateral pool quickly enough," says Mackenzie. "For those pension schemes where decision making is a challenge, it is likely that a broader fiduciary management approach will be more appropriate than relying on a collateral waterfall in isolation. This offers speed of execution, alongside diversity of investment managers and asset classes."

Part of the reason that some collateral waterfalls failed to deliver last year was due to structural issues. Liquidity, for example, may have been within the confine of a scheme's overall investment portfolio, but it was simply in the wrong place, says Brine. Other barriers may have included some assets within a portfolio turning out to, in fact, not be very liquid at all. Some schemes may also have run out of liquidity, because a lot of assets simply could not be liquidated under any circumstances. "This is likely to have been a harsh lesson to those that consider pension schemes can make non-trivial illiquid investments without risk," says Brine.

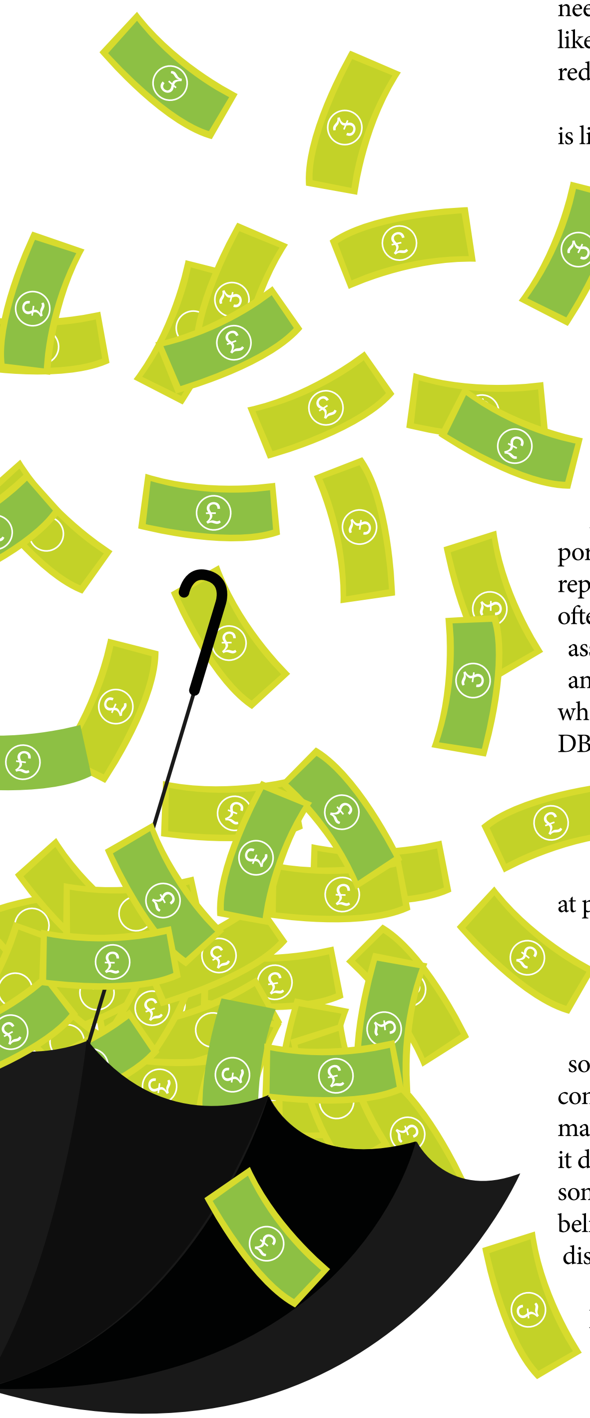
Then there is the issue of some schemes only being able to turn to cash in the LDI emergency, either directly, or through the collateral arrangements of the pooled funds that some of them were invested in. In contrast, says Brine, those that had the ability to deliver gilts, or even corporate bonds, "sailed through the crisis".

"If I was to correct one single need, it would be the ability to be able to deliver gilts (as opposed to cash) against a collateral call. If that had been the case for the majority of the market, there would have been no crisis in the first place," claims Brine.

Do they even need to sell?

Although a critical issue, questions remain over how much, and what sort of portfolio restructuring needs to take place to back-up a trustee board's desired collateral waterfall plans.

Hodder categorises DB schemes with LDI plans into three broad categories. The first already had low LDI leverage ahead of September 2022, due to pro-active de-risking, and generally do not require much, if any, rebalancing activity.



The second used typical LDI leverage but had liquid wider strategies. Generally, these schemes have already carried out some rebalancing in the fourth quarter of 2022 and so it is arguable as to whether much more is needed. The third and final group used LDI leverage alongside significant illiquid asset allocations. These schemes have the most urgent need to review arrangements and will likely be taking action over 2023 to reduce illiquid allocations.

"We believe the third category is likely a minority of schemes, but with a large variation in how much illiquid assets they have depending on different circumstances and governance models," says Hodder.

Mackenzie says that pension schemes have already made significant increases to collateral, meaning that there is little expectation that there will be further selling for this purpose. Aon does, nevertheless, expect to see significant portfolio changes as pension schemes reposition their assets to reflect their often overweight allocation to illiquid assets, their improved funding positions and the new economic environment, which could prove beneficial for some DB funds. "Selling illiquid assets will present opportunities for long-term investors (such as LGPS pension schemes) to buy assets on the secondary market at potentially attractive prices," notes Mackenzie.

"Schemes are likely to be net sellers," says Brine. "But you cannot state when: Some may have already sold during the crisis and some may be conducting an overall strategy review to make sure that whatever action is taken, it does not have to be reversed soon. And some may be just waiting to sell if they believe it may be an appropriate time to disinvest from the market."

Due to the intense demand for liquidity during the crisis, schemes may well have sold significant non-LDI assets simply to be able to meet collateral calls. Brine says that these may or may not have been the "right" assets to sell at the time. Some schemes, however, could have sold in a hurry and then, in a stroke of good fortune, found out that they were not mistaken in divesting some investments as the drop in overall liabilities would have resulted in them being sold anyway.

"We can think of cases in both camps and we are sure there are others," says Brine. "Liquidity demand may have generated a tactical sale of return seeking assets, but the strategic re-balancing is on-going and there are myriad variations. The most likely problem in the medium term is that illiquid assets – assets that could not be sold in the crisis, or assets previously deemed liquid but, when you needed to sell, turned out not to be – will most likely be proportionately over-invested on a strategic level."

Wake-up call

However DB schemes play it out, 2023 will be a year of change, predicts Mackenzie, with the old world of high hedging, low volatility returns and high liquidity having been replaced by tighter monetary conditions and lower levels of leverage. "Schemes need to make tough decisions about how they manage risk, and ultimately what effect this has on sponsor contributions and recovery plans," he says. "At the same time they are likely to review their governance models and question whether their experience through the gilt crisis suggests they should consider delegating some, or all of their investment implementation to specialists."

Ultimately, sums up Brine, the crisis showed that change was needed. "The industry has had a real wake up call," he says. "Pension scheme management is not necessarily non-executive."

Written by Marek Handzel, a freelance journalist

Food for Thorpe

Following the recent launch of the latest LGPS Legal Services Framework, Tom Dunstan talks to National LGPS Frameworks head of operational services and support, Leon Thorpe, about how this new framework is different and how it works in detail

Can you by describe how LGPS Legal Services Framework works?
Every pension scheme, on occasion, needs to source specialist professional advice and services. In doing so, the Local Government Pension Scheme (LGPS), and other public service schemes, must also ensure that they comply with local and public procurement regulations.

Public sector procurement is subject to a legal framework, which encourages free and open competition and value for money. Whilst public contracts regulation compliance brings benefits and safeguards, procurement exercises can also be time consuming and expensive for all parties.

A procurement framework therefore can help. It is an agreement put in place with a provider or range of providers that enables buyers to place orders for services without running lengthy full tendering exercises. Setting up and using procurement frameworks that are fully compliant with public sector procurement regulations and best practice can be an efficient way of supporting access to already competed specialist services, either by further competition or direct award, saving significant time and money for all parties.

The most recent National LGPS Framework is the new Legal Services Framework. This framework will be available for the LGPS to use for four years until January 2027, and contracts can be let under it for a period of up to seven years (so to January 2030 at the latest).

LGPS funds, pools and employers (as well as other public service pension schemes) can use this framework to procure pensions related legal support and advice, either through further competition or where appropriate via direct award, across a range of service areas and jurisdictions.

Can you detail exactly how the previous Legal Services Framework affected schemes and what effect you believe the new framework will have?
The LGPS operates in an ever-increasingly complex legal environment, and this isn't likely to change any time soon! Funds, pools and employers are accountable to all their stakeholders. The legal framework helps the LGPS to swiftly access the already market-tested specialist legal support and advice that is essential for maintaining the high standards of integrity and compliance, performance and service to scheme members and employers.

How is this new framework different to the previous one?
The starting point for each new framework is to reflect on lessons learnt from the ones that went before. All framework users and service providers are invited to share their experience, particularly of what worked well and what could be improved. This helps make sure we design frameworks – from service specification, pricing models and terms and conditions through to call off and supporting documentation for the user – that are as fit for purpose as they can be.

The National LGPS Frameworks are here to make life easier, to support the LGPS effectively and efficiently access the services it needs. Ultimately, if a framework isn't fit for purpose, it won't get used and we will have wasted fund and pool officers valuable time and money. So we hope all frameworks are an improvement on the ones they replace!

Are there any aspects of the framework in which you think that it falls short?
The Specification of Requirements for each framework is developed by officers, or 'founders' (the LGPS/pools that work with us to set up a framework), at LGPS funds and pools who have the expert understanding of the scope, challenges and complexities of the services they require. We try to make sure that each framework is supported by a range of founders who ensure that the framework is designed to be flexible enough to meet the diversity of funds and pools needs and is also as future proof as possible.

We also undertake extensive engagement with the marketplace before the formal tender process starts, which also helps ensure that each framework not only delivers what users need but also works for providers.

Can you explain the framework's 'lots' and how they work?
'Lots' are used to break down the services into more specialist areas. This helps ensure that we can attract a good mix of specialist providers to the framework ensuring both breadth and depth is available to framework users.

On the legal framework, the founders identified seven service areas, or 'lots'. These were chosen to reflect user requirements. The resulting structure means that users have the choice of procuring a provider who can meet all their service requirements, or have access to providers who may specialise in particular areas. The lots also reflect the differing legal regimes in England and Wales, Scotland and Northern Ireland.

There is no limit on the number of providers who can bid to be in each lot, and providers can bid to be on one, some, or all Lots if they think they are qualified. The founders test each bid against the specification of requirement for each 'lot' individually.

I understand that emphasis has been placed on making the framework as accessible as possible. How has this been achieved?

There is a small joining fee to use most National LGPS Frameworks. The frameworks operate on a not-for-profit basis and this goes towards helping recover the set-up costs and administration of the framework.

The legal framework particularly though is used a lot for relatively small, discrete pieces of work, often needing a quick turnaround time. The founders therefore wanted to make accessing this framework as easy as possible and so decided to not have a joining fee for this framework. This means that all funds and pools can sign up once and then use it as needed over the lifetime of the framework, without any delay.

Are the 12 legal providers enough to support the framework?

All the National LGPS Frameworks, including the latest Legal Services Framework, are multi-provider, allowing several qualified providers to be on the framework.

When designing a framework the founders consider experience from previous frameworks, market research and feedback, and of course use their own experience and understanding of the marketplace.

We always aim to ensure that there is a diverse range of providers, but not so many that the framework becomes inefficient to use.

It is a competitive process to secure a place on a framework. Bids are initially assessed to remove providers who cannot meet the fundamental requirements (for example financial standing and track record requirements). Remaining bids are then taken forward for evaluation by founders. Competition is a combination of quality and price, and only providers who meet the minimum quality standards can be awarded a place on the framework.

Written by Tom Dunstan

Crypto and digital assets

Sandra Haurant investigates the role that cryptocurrency could play in pension investments and the reasons why it has been kept at arm's length so far

Summary
- Cryptocurrency is one of those rare 'novel' asset classes, but there are perhaps historical parallels to be drawn with the multiple, but short-lived, private currencies of 19th century America.
- The asset class has seen some stratospheric highs and some drastic lows in its short lifespan.
- Volatility and uncertainty make this an area that pensions are so far keeping at arm's length.
- The future may bring a less stormy landscape, potentially opening opportunities for pensions investors.

Cryptocurrency has been making headlines since it came into existence in 2009. Defined by the *Financial Times* as 'a currency created digitally, usually by private companies', it was originally conceived to allow people 'to make electronic payments without going through any financial institutions'. And, like dot coms at the turn of the millennium, it has captured the public's imagination.

But while crypto is an emergent asset class, there is nothing new about starting a currency. "This is, in essence, a private currency system," says Mercer investment consultant, Matthew Scott. "There was a 30-year period in the 19th century in America, where there were a lot of private currencies. It was called the free banking, or wildcat banking era."

More recently, and closer to home, Bristol launched its own currency, the Bristol Pound, in 2009. It has been retired since 2021 (and since 2020 in its digital form), but during its existence members used it for £6 million worth of transactions, to pay for bus tickets, groceries and council tax.

Building blocks

One of the many things that differentiates cryptocurrency from those old dollar bills, Bristol's foray into its own money, and mainstream currencies like the dollar or sterling, is the technology that underpins it: Blockchain. As the *Financial Times* defines it, blockchain is a 'type of distributed ledger, written on open-source software. It is a growing database of time-stamped transactions that cannot be altered. Each new transaction is verified by a network of computers and added as a 'block' to the chain'.

"A ledger is a book where you record transactions, essentially," says Scott. "And what we've got here is a secure ledger." The idea behind blockchain is that it removes the need for trust. Anyone can access the transaction record, and so, says Scott, "it's quite hard to be a bad actor in that system."

Highs and lows

So why does crypto keep grabbing the headlines? Cambridge Associates global head of digital assets investing, Joe Marenda, says: "Liquid tokens such as Bitcoin and Ether, and liquid token funds, attracted institutional attention beginning with the initial public offering (ICO) 'boom' in 2017."

An ICO is effectively a form of

cryptocurrency crowdfunding. While in an initial public offering, a private company issues shares that can be bought by investors, an ICO involves the issuance of coins or tokens. During the 2017 flurry of ICOs, the value of a bitcoin soared to around $20,000, then fell again the following year to $4,000. The highs and lows didn't end there – Marenda cites the recent Bitcoin bull market that saw the currency rise to a vertiginous $68,000 in 2021; since then, it has once again dropped to around $21,000.

Tulips and tokens

With such dramatic price inflations and deflations come concerns about investment bubbles. And whenever the idea of a bubble is floated, the mention of tulips is never far behind. The 17th century Dutch phenomena, where the prices of tulip bulbs reached such heights that the most prized were traded for thousands of pounds in today's money, remains an illustration of what happens when valuations get out of control. But can the crypto craze be compared to the tulip mania?

Scott says the tulip mania analogy is better suited to another virtual space: Non-fungible tokens (NFTs). "What an NFT often is, at the moment, is basically some sort of ownership of an image. The NFT usually encodes a URL to a website, where you can go and see the picture. And, obviously, anyone can go and see that picture. But only *[the owners]* have the bragging rights."

At the height of tulip mania, he says: "You could be purchasing a tulip bulb for the same price as a mansion on the Grand Canal in Amsterdam. If you look at some of the NFT auctions, they can reach the price of a penthouse in Miami."

Headlines and high-profile falls

Investors buy and sell on cryptocurrency exchanges. So, when cracks began to appear in the walls of one of the major players, FTX, the world watched to see if it could withstand the shock. The structure, it turned out, was not sound. At the time of writing, it's unclear how much investors have lost in its collapse.

Those investors included the Ontario Teachers Pensions Plan (OTPP), which in October 2021 invested $75 million in FTX International and its US entity FTX.US, as well as a follow-on investment of $20 million in FTX.US in January 2022. (This was "less than 0.05 per cent of our total net assets and equated to ownership of 0.4 per cent and 0.5 per cent of FTX International and FTX.US, respectively," OTPP said.)

"It's very volatile and speculative, and it's unclear who the winners and losers will be"

Generally, investment in crypto remains 'of interest' but at arm's length for many pension funds. Questions are raised around whether pensions could invest in crypto, if they wanted to, from a legal viewpoint. "You wouldn't necessarily associate *[cryptocurrency and pension funds]* as good bedfellows," says Osborne Clark association director, James Saddler.

"Trustees making any sort of discretionary investing decisions inherently have the power to invest how they want to, subject to their legal duties. But is that power subject to any kind of statutory restrictions?" A lack of regulatory clarity is another potential barrier. "There's a restriction in statute about trustees having to invest predominantly in regulated markets, so they've got to overcome that too."

And then there is the final point: "Are they acting in the best interest of the members in investing in this way? And that's where they need to be taking advice from investment consultants to support them in their decision," says Saddler.

Forward thinking

For now, most pensions continue to view crypto and its peripheral industries as a curiosity. As Cardano deputy CIO, Keith Guthrie, says: "Broadly, we don't think cryptocurrencies have a place in pension investments. The technology is at a very nascent stage. It's very volatile and speculative, and it's unclear who the winners and losers will be. In the past few months, there has also been a substantial loss of confidence in this space after recent events, for example FTX.

"Pension schemes should also be aware of the negative environmental impact of many of the algorithms," says Guthrie. "This is particularly the case for Bitcoin which uses extreme amounts of energy."

"As an investment in a nascent technology, the risk/reward profile is quite broad with a wide range of potential outcomes, partially driven by macroeconomic and market factors, but also driven by manager and position selection and sizing," says Marendo. "Volatility management is critical at this early stage, although as the technology matures and becomes more widely adopted, we expect volatility to decline over the long term."

There may, in future, be scope for introducing crypto in some form. "Blockchain as a technology has some really exciting potential real world," says Guthrie, while Saddler adds: "With DC, the emphasis is more on giving members the flexibility and different options, so they can make their own choices. I can see a future in which DC schemes maybe kind of open up investment opportunities involving cryptocurrency."

But for now, the risks are likely to outweigh the rewards. "We'd say keep a watchful eye on the asset class but leave it to specialists to invest. Eventually the ecosystem will mature and could potentially create some interesting real-life applications, which some asset managers might take advantage of," says Guthrie.

Written by Sandra Haurant

A broad skillset

Following the news that Local Government Pension Scheme (LGPS) knowledge in non-traditional areas has improved in recent years, what 'non-traditional' skills are a valuable addition for those managing pension schemes?

Hymans Robertson's *LGPS National Knowledge Assessment 2022* has identified the growth of new skills in the committees responsible for the governance of local authority schemes. Perhaps the area where the Local Government Pension Scheme (LGPS) has the potential to achieve significant change is in the recognition of the importance of equality, diversity and inclusion (EDI).

In the private sector, The Pensions Regulator (TPR) has in recent years done much to promote EDI in trustee boards. Boards that enjoy true diversity in their composition reflect differences in age, gender, ethnicity and professional background, and it has been demonstrated that this variety leads to better decision making and to more effective governance generally. Diverse boards benefit from having different perspectives addressing a specific topic and they are far less susceptible to the pitfalls of groupthink.

However, the effective implementation of EDI can be difficult in a trustee board with (typically) eight of fewer members. In contrast, an LGPS Local Pension Board is likely to have significantly more members, and there will be significantly more scope for the appointment of members whose backgrounds differ in a range of ways. As has been noted, a truly diverse board has the potential to achieve consistently high standards of governance, and this can only help to serve the interests of all scheme members.

PMI director of policy and external affairs, Tim Middleton

Put simply, good governance involves decisions being made by the right people, at the right time, with the right attitude and the appropriate knowledge and skills. We look forward to the legal requirements to have knowledge and skills being extended to committee members as recommended by the Scheme Advisory Board, but it's not just about traditional areas.

Board and committee members need to take appropriate advice, (whether from officers or third-party advisers) so being able to ask the right questions of advisers is a key skill in ensuring effective decision-making. We have seen a number of occasions in the past where advice from advisers has been accepted without question, but this is starting to change. Our experience also suggests that those who are skilled in separating their role as a fund member or employer from their role on the committee can add most value as well as ensuring decisions are well-founded and appropriate. Having members with a broad range of expertise from other roles and responsibilities can be particularly helpful – for example, board or committee members who have worked in areas such as it can bring cyber expertise, and others with former chief operating officer roles can bring valuable experience from managing a diverse range of services and business needs.

Across the board/committee as a whole, cognitive diversity can support more effective management of the fund and individual members can play a part through emotional intelligence and exhibiting inclusive behaviours at meetings. This is particularly important for the chair.

These may be viewed as 'softer' skills, and historically of less significance than financial knowledge or other more traditional skills, but in our role as governance adviser to LGPS funds, we observe that they can make a material contribution to the effective management of funds which in turn drives excellence in delivery to employers and members.

Aon partner, Alison Murray

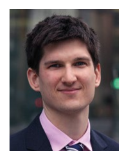
An increased level of knowledge of less traditional areas of LGPS is welcomed, but not entirely a surprise given the many complex matters for senior officers, committee and board members to get to grips with.

The LGPS has changed fundamentally in benefit design and there have been meaningful changes to LGPS participants, with a diverse employer base with differing objectives and covenants. Changes in the LGPS regulations have afforded greater and long-awaited flexibilities and there has been a greater focus from auditors and The Pensions Regulator on governance and administration. On top other of this, there are TCFD reporting requirements and the ongoing impact of the pension dashboards initiative.

Given all of this, having robust training in place is key. It not only supports keeping knowledge up to date, but also evidences that training is being delivered in line with best practice, such as CIPFA's technical knowledge and skills framework for local pension board members.

Arguably, there has been too much focus historically on the more traditional areas and broader subject areas have played second fiddle. With greater need for transparency and assurance for the public, increasing the wider knowledge of officers, committee and board members will support them in fulfilling their statutory duties.

Isio director and public services pensions and national LGPS lead, Urrffa Rafiq



It's good to see survey results showing improvements in knowledge in non-traditional areas. A DC scheme's focus on members and member outcomes means that communication and engagement are crucial – and no more so than now when people are dealing with the current cost-of-living crisis.

Keeping members paying into their pension (wherever possible) and building up their knowledge to help them make good decisions as they approach retirement can be achieved through a combination of good administration, effective communications and the right support.

Those managing a pension scheme must have the requisite skills and experience in these areas. But from a governance perspective, one of the most important skills isn't a financial one, it's empathy.

Understanding and sharing the feelings of members is an essential skill in setting priorities and ensuring the scheme adapts to the ever-changing needs of members. The current environment has highlighted how the service and communications the scheme offers needs to be fluid and scheme managers must empathise with members to meet their needs.

Redington senior vice president, DC and financial wellbeing, Russell Wright

Pensions history

Back to the future?

By February 2018, all employers had to comply with the auto-enrolment requirements of the Pensions Act 2008. The objective was to increase the number of employees who were accumulating workplace pensions – particularly important in the private sector, where the closure of final salary schemes to new entrants and to future accrual was accelerating. Under the new rules, an employee qualifying for auto-enrolment had to make a conscious choice to opt out and forgo prescribed minimum contributions. Employee inertia was expected to counter opt-outs, and no attempt was made to revert to an earlier framework of compulsion effected by employment contract.

At one level the policy has worked. Millions of employees are now auto-enrolled. But underlying concerns about employee engagement and the adequacy of contributions are long standing. In the ACA's 2011 *Pension Trends Survey* employers gave several reasons why their employees did not join company schemes: Cost, lack of interest, disillusion with pensions and preferring the money now rather than later. Similar attitudes can be found today, exacerbated by cost-of-living pressures.

They have to be overcome if contributions are to be increased to meaningful levels that will meet employee retirement expectations. Compulsion, the original model, may not be the right one in current circumstances, but an informed debate now would prevent more pensions disillusion later.

www.pensionsarchive.org.uk

Pensions Archive Trust director, Jane Marshall

Fun and games

Wordsearch

Y	U	I	W	E	X	K	Y	R	U	E	T	M	F	P
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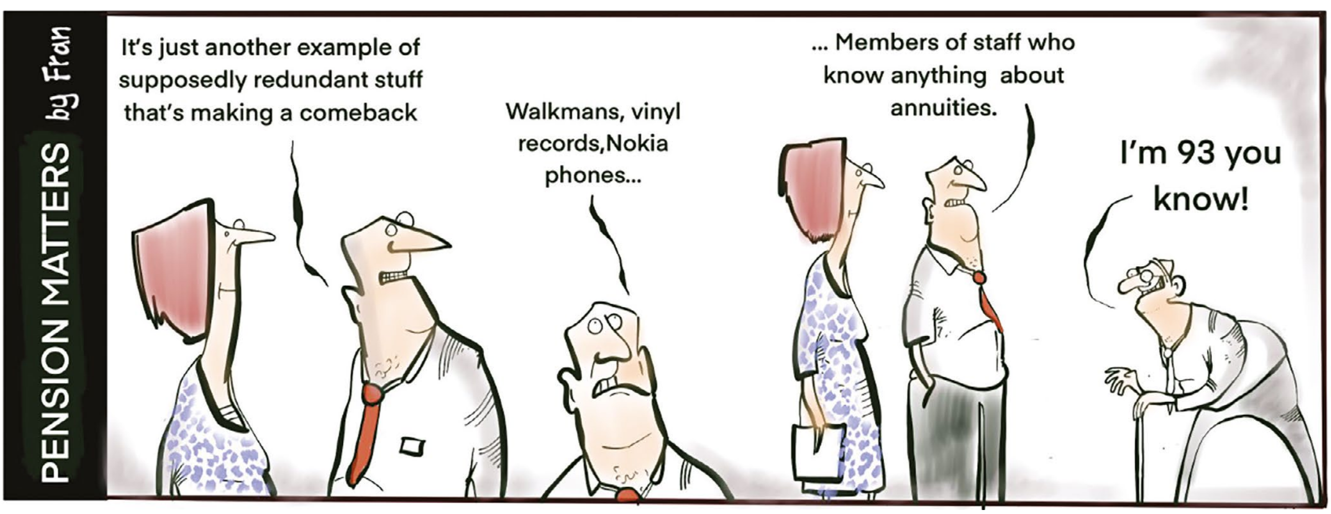
I know that face...

Answer at bottom of page



I know that face... Answer: Pensions Dashboards Programme principal and Pensions Policy Institute director, Chris Curry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Liquidity
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Communications
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