www.pensionsage.com

January 2021

PENSIONS Age

The leading pensions magazine

What good is data without insight?

Green gilts
The government's plan for green sovereign bonds and what it means for pensions

Auto-enrolment
The lack of consensus over the next steps for raising AE contributions

Complex retirement saving requirements
How complex family structures can affect pension saving

www.pensionsage.com

January 2021

PENSIONS Age

The leading pensions magazine

Case study: *The work of NHS Employers and the NHS Business Services Authority to support NHS Pension Scheme members*

Work practices: *The Covid-19 work structures here to stay and what changes are still to come*

Rolling with the trends

The industry trends continuing to evolve despite Covid-19's challenges

Editorial credit: SIHASAKPRACHUM / Shutterstock.com

Trustee Guide 2021: A brighter future

Special Guest Comment

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

The path ahead for pensions in 2021

Pensions play a vital role in shaping the financial security of the nation and our commitment to net zero by 2050.

That's why my focus in 2021 will be to deliver on the essential measures included in the Pension Schemes Bill to create a safer, better and greener pensions system in the United Kingdom.

Putting the consumer first is at the heart of this, and at the heart of automatic enrolment. With more than 10 million employees automatically enrolled in workplace saving since 2012, everyone accepts that it has been a great success. But that doesn't mean we can't make improvements.

The growth of deferred small pension pots in the automatic enrolment market is one such problem I am determined to address. A first step on the journey to achieving this was the creation of the Small Pots Working Group, harnessing opinions from across the financial services and other sectors.

The group's valuable analysis and recommendations, published on 17 December 2020, will be considered in detail, alongside the review of the default fund charge cap and standardised cost disclosure. It is vital that costs, charges and transparency measures work effectively to protect member outcomes.

The creation of pension dashboards will help reduce the proliferation of small pots, increase transparency, and transform the way we all think about and plan for retirement. I'm encouraged by the progress made last year, and the continued collaboration driving the project forward.

I am ambitious for the future of dashboards, as a place where people can easily see what they can expect at retirement, and the value their current providers are giving them.

The bill also places greater responsibility on the government to ensure savers are protected from unscrupulous scammers, creating greater safeguards for pension savers when transferring between schemes.

Safeguarding the individual consumer, increasing engagement and offering choice are essential, but at the same time, individuals and pensions do not operate outside of the wider global context; climate change is a real financial risk to savers, and it is beholden on us all that the issue is addressed.

Climate change is expected to have a significant impact on pension schemes' assets and returns for savers, both through the risks of a warmer planet, and the transition to a lower-carbon economy.

I am putting trustees' duty to manage climate risk on a statutory footing by introducing minimum governance requirements and mandating the publication of climate-related risks and opportunities in line with the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD).

We will be consulting on draft regulations in the new year, and will be the world's first major economy to do so. In addition, we are working with the Taskforce on Pension Scheme Voting Implementation, including the Association of Member Nominated Trustees, to change the relationship with pension schemes' asset managers, and improve stewardship.

The UK leads the world in its action on pensions policy and climate change, and as the country seeks to build back better following the extreme difficulties of the pandemic, the United Kingdom has a real opportunity to showcase this progressive agenda at COP26 in November.

Collectively, we have accomplished a great deal in 2020, the most challenging of years. I am looking forward to building on these accomplishments over the next 12 months.

Minister for Pensions, Guy Opperman

COVER FEATURE

Theme: Taking stock

65

Rolling with the trends

Duncan Ferris explores pension industry trends that have remained relevant throughout the unpredictability of 2020 and beyond, including the rise of ESG, the challenge of increasing member engagement and the drive for pension scheme consolidation

Highlighted features

Kickstarting a green recovery 38
Sophie Smith examines the government's plan for green sovereign bonds, the challenges and benefits they could bring, and what they could mean for pension schemes and the wider economy

Supporting those who support the nation 40
At a time when NHS staff have worked tirelessly to support the country through the Covid-19 crisis, Sophie Smith explores the work that NHS Employers and the NHS Business Services Authority have done to support NHS Pension Scheme members

Trustee Guide 2021: A brighter future 43
Featuring:
- The post-Covid new normal for trustees
- Why diversity and inclusion should be on the agenda
- The bulk annuity landscape for 2021
- The benefits of a CDI approach
- The importance of tailored and relevant communications
- How to help members avoid pension pitfalls in 2021
- The sustainability spectrum
- Incorporating ESG factors into fixed income

AE: Lost momentum 68
The industry agrees that the current minimum automatic enrolment contribution of 8 per cent is not enough, but there is less of a consensus on what the next steps should be. Natalie Tuck reports

New year, new normal 70
2020 saw unprecedented change in the pensions industry, but as businesses begin to consider life post-Covid-19, Sophie Smith considers what changes are here to stay and what work is still needed

Complex families, flexible retirement savings 72
Laura Blows explores how complex family structures can affect pension saving and the ways in which the industry can help these savers with their retirement provision

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

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

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

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

PERSPECTIVE PUBLISHING

PPA Publisher Member

abc Audit Bureau of Circulations Member

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

recycle — When you have finished with this magazine please recycle it.

Features & columns

News, views & regulars

News round up 8-16
Appointments 17
Market commentary: Brexit 18
Word on the street 20
Soapbox: Too good to be true? 22
Interview: Kim Gubler 42
Opinion: DB transfers 75
Pensions history, cartoon and puzzles 76

Looking to the future 19
Kevin Martin considers the opportunities for the pensions industry to find the good in these difficult times

A perfect match 21
Martin Mercer offers a quick guide to finding your perfect adviser

Podcast: Responsible investing 23
Laura Blows speaks to Standard Life head of investment solutions, Gareth Trainor, about the latest responsible investment trends and developments for providers, pension schemes and their members

Pension funds risk landscape in 2020 24
Judith Hetherington reflects on how attitudes to risk have changed during 2020, and what UK schemes are doing about governance

Pensions Age Northern Conference review 26
Covid-19, Brexit, ESG, CDI, dashboards, scams and more

Pensions in 2021 29
Following the tumultuous year that was 2020, the pensions industry may be hoping for a quieter 2021. However, with the impact of Covid-19 still being felt, the introduction of the Pension Schemes Bill and a swath of new regulations, this seems unlikely. Jack Gray looks ahead at the trends likely to shape the coming year

Market predictions 32
Expert views on the 2021 trends for equities, property, fixed income and infrastructure

Don't leave data 'til later 35
Duncan Ferris chats with Pensions Dashboards Project (PDP) principal, Chris Curry, about how newly-released data standards set out what providers and schemes need to prepare in order to digitise retirement savings

Areas of focus 36
Some of the industry's key associations reveal their priorities for the year ahead

Kickstarting a green recovery 38
Sophie Smith examines the government's plan for green sovereign bonds, the challenges and benefits they could bring, and what they could mean for pension schemes and the wider economy

Supporting those who support the nation 40
At a time when NHS staff have worked tirelessly to support the country through the Covid-19 crisis, Sophie Smith explores the work that NHS Employers and the NHS Business Services Authority have done to support NHS Pension Scheme members

Trustee Guide 2021: A brighter future 43
Featuring:
- The post-Covid new normal for trustees
- Why diversity and inclusion should be on the agenda
- The bulk annuity landscape for 2021
- The benefits of a CDI approach
- The importance of tailored and relevant communications
- How to help members avoid pension pitfalls in 2021
- The sustainability spectrum
- Incorporating ESG factors into fixed income

Rolling with the trends 65
Duncan Ferris explores pension industry trends that have remained relevant throughout the unpredictability of 2020 and beyond, including the rise of ESG, the challenge of increasing member engagement and the drive for pension scheme consolidation

AE: Lost momentum 68
The industry agrees that the current minimum automatic enrolment contribution of 8 per cent is not enough, but there is less of a consensus on what the next steps should be. Natalie Tuck reports

New year, new normal 70
2020 saw unprecedented change in the pensions industry, but as businesses begin to consider life post-Covid-19, Sophie Smith considers what changes are here to stay and what work is still needed

Complex families, flexible retirement savings 72
Laura Blows explores how complex family structures can affect pension saving and the ways in which the industry can help these savers with their retirement provision

PENSIONSAge

Publisher
John Woods
Tel: 020 7562 2421

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

Editor
Laura Blows
Tel: 020 7562 2408

Associate Editor
Natalie Tuck
Tel: 020 7562 2407

News Editor
Jack Gray
Tel: 020 7562 2437

Reporter
Sophie Smith
Tel: 020 7562 2425

Reporter
Duncan Ferris
Tel: 020 7562 4380

Design & Production
Jason Tucker
Tel: 0207 562 2404

Accounts
Marilou Tait
Tel: 020 7562 2432

Commercial
John Woods
Tel: 020 7562 2421

Camilla Capece
Tel: 020 7562 2438

Lucie Fisher
Tel: 020 7562 4382

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

NEW circulation figures

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

Managing Director
John Woods

Publishing Director
Mark Evans

ISSN 1366-8366
www.pensionsage.com

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

Dateline - December 2020

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

1 December Pensions Minister, Guy Opperman, announces the launch of the Taskforce on Pension Scheme Voting Implementation, which will examine issues faced by trustees implementing their own voting policies, particularly in relation to pooled funds. The taskforce will be supported by the Department for Work and Pensions (DWP), but will remain independent, and has been given a focused remit to consider potential solutions to voting system issues.

2 December Defined benefit (DB) scheme funding levels fall to an average of 94.9 per cent, as of March 2020, from an average of 99.2 per cent 12 months prior, the **Pension Protection Fund's (PPF's)** latest *Purple Book* reveals. The decline in the aggregate funding ratio is attributed to market movements, primarily due to lower gilt yields driving up liability values and decreases in equity values. The aggregate deficit increased from £12.7bn to £90.7bn during the same period.

2 December The **Court of Appeal** overturns a High Court ruling to block the transfer of a £12bn portfolio of annuities from Prudential Assurance Company to Rothesay Life, stating that the original judge was "wrong" on a number of issues. The ruling upholds all of the central issues highlighted by the appellants, confirming that these "errors" mean that the judge's original decision cannot stand.

3 December Arcadia owner, Tina Green, agrees to bring forward a payment of £50m for the collapsed firm's pension scheme from September 2021 to 12 December 2020 or earlier. Arcadia, whose shops include Topshop, Burton and Dorothy Perkins, fell into administration in late November with an estimated pension deficit of £350m. Green, who is married to Philip Green, had agreed to pay a total of £100m into the pension scheme as part of a £385m package agreed with The Pensions Regulator (TPR) in 2019. She has already paid the first two instalments of £25m each and will now pay the remaining £50m. The company's scheme is likely to enter the PPF, with more than 9,000 members affected. On 1 December, Business Secretary, Alok Sharma, wrote to the Insolvency Service, asking it, in its investigation into the business' collapse, to look at whether any action by Arcadia directors had caused detriment to creditors or the firm's pension scheme.

8 December The proportion of pension transfers showing at least one sign of being a potential scam reached a record high of 64 per cent in November, according to **XPS Pensions Group**. The company's Red Flag Index shows that incidents of red flags that might indicate scams had more than doubled since the emergence of the coronavirus pandemic, having sat at below 30 per cent in October 2019. Transfer values declined slightly during the month, from £257,000 to £256,000, while transfer activity rose from 0.62 per cent of members to 0.63 per cent.

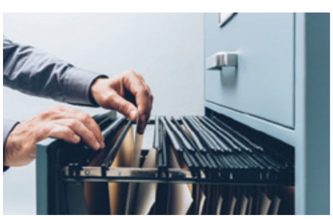
9 December TPR executive director of regulatory policy, analysis and advice, David Fairs, urges the industry not to make "rash predictions" about the impact of the regulator's upcoming DB funding code. In a blog, Fairs seeks to allay fears about the parameters of its funding route options by stating that there were still multiple stages of planning to go before parameters are set. He says that TPR is "surprised" by some of the debate and predictions that had been surfacing since it published its first consultation. LCP had warned that the funding regime proposals could result in the UK's biggest DB schemes paying an additional £40bn over the next decade, while Hymans Robertson had said 70 per cent of schemes would fail fast-track requirements. "While some schemes and advisers seem confident that they already know the impact the new funding code will have on DB schemes, we have yet to firm up the proposals for our second consultation," Fairs says. "These will be informed by responses to our first consultation, an impact assessment and the final legislative package."

10 December The UK pension risk transfer market could reach up to £60bn in 2021 through bulk annuities, longevity swaps and new risk transfer solutions, according to forecasts from **Mercer**. The firm predicts continued growth in risk transfers during 2021, stating that increased activity will likely be driven by an increase in demand and innovative and streamlined processes, and could lead to the "busiest year on record".

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

11 December Representatives for the University of Cambridge write to the **Universities Superannuation Scheme (USS)** to express "serious concerns" over the approach taken to the March 2020 valuation. The letter, addressed to USS Group CEO, Bill Galvin, argues that the scheme had missed an opportunity to rebuild trust between the USS, University and College Union (UCU) and Universities UK (UUK), as well as between members and employers. Furthermore, it warns that based on the proposals so far, there is a "real danger of a serious and damaging breakdown in trust".

15 December The PPF outlines a number of supportive measures for levy payers in 2021/22 following its consultation. Schemes with less than £20m in liabilities will have their levies halved, with the levy adjustment tapering for schemes with between £20m and £50m in liabilities. The risk-based levy cap will be reduced from 0.5 per cent of liabilities to 0.25 per cent. The PPF confirms it will continue to measure insolvency risk using credit ratings and the PPF-specific insolvency risk model operated by Dun & Bradstreet. The levy estimate of £520m for 2021/22 and the levy scaling factor of 0.48 per cent will be retained. The PPF states it received "overwhelming backing" for the proposals.



15 December The **Pensions Dashboards Programme (PDP)** publishes its key data standards and tells schemes and providers it is "essential" that they begin to prepare their data. The standards set out definitions of data that pension information holders will be required to provide for the PDP, both to allow for the finding of individuals' pensions in order to populate the dashboard and to allow individuals to view their information.

16 December The **government** launches a consultation on the options to increase the general levy on occupational and personal pension schemes, including plans to restructure the levy. The consultation, which closes on 27 January 2021, outlines three potential options, including increasing the rates but introducing separate levy rates for DB, defined contribution (DC), master trusts and personal pension schemes.

17 December The **Small Pension Pots Working Group** publishes a report that outlines a series of recommendations for the government and pensions industry to work together on in tackling the increasing number of small, deferred pension pots in the auto-enrolment pensions market. The cross-sector working group, chaired and facilitated by the DWP, urges the government, industry and regulators to explore and enable opportunities for member-initiated consolidation, with proportionate member safeguards. It concedes, however, that member-led consolidation alone is unlikely to halt the growth in small, deferred DC pots.

21 December The government sets out a list of circumstances where the cap on the payments that specified public sector bodies make in relation to employees' exits from the **Local Government Pension Scheme (LGPS)** can be relaxed. The Restriction of Public Sector Exit Payments Regulations 2020 imposed a £95,000 cap on the payments LGPS employers could make into the pension scheme to fund early exit terms. The government has now published guidance on the circumstances where these regulations must or can be relaxed.

Editorial credit: Air Elegant / Shutterstock.com

22 December Arcadia's DB pension schemes are expected to enter PPF assessment "shortly", according to a letter from TPR. It notes, however, that the schemes' entry into the assessment period was still subject to validation by the PPF. The regulator is responding to questions from Work and Pensions Committee chair, Stephen Timms, who wrote to TPR to ask how the Topshop owner's collapse would impact members and change previously agreed measures for contributions to the retailer's two DB pension schemes.

News focus

Editorial credit: Damian Pankowiec / Shutterstock.com

Govt launches consultation on restructuring general levy

The government has published a consultation on the options to increase the general levy on pension schemes and its plans to restructure the levy. It has proposed introducing separate levy structures for DB, DC, master trusts and personal pension schemes. Meanwhile, the PPF has announced several supportive measures for levy payers in 2021/22, following a consultation

The government has launched a consultation on the options to increase the general levy on occupational and personal pension schemes, including plans to restructure the levy.

The consultation, which closes on 27 January 2021, has outlined three potential options, including increasing the rates but introducing separate levy rates for defined benefit (DB), defined contribution (DC), master trusts and personal pension schemes.

It argued that this would allow for a more extensive realignment to recognise that the supervisory regime directs more operational effort towards some scheme types than others.

The government said it was attracted to this option, noting that it would better reflect the differing levels of supervisory attention and would provide scope for subsequent realignments, whilst also preserving the collective approach that underpins the levy system.

It also acknowledged that pension schemes have been operating in an environment of "considerable uncertainty and unpredictability" amid the pandemic, and has therefore proposed only "moderate increases" in the levy for 2021/22 under this option.

In particular, it proposed an increase of 10 per cent for DB and DC schemes other than master trusts, and 5 per cent for master trusts and personal pension schemes.

The consultation stated that these increases would begin balancing the levy without imposing an "unreasonable burden" on schemes, predicting that if levy rates were to remain unchanged, there would be a deficit of around £230m at the end of 2023/24.

Furthermore, whilst the government is proposing higher increase for 2022/23 and 2023/24, it stated that bringing forward new levy rates for a three-year period should provide schemes with a firm basis on which to plan for payment.

Considering this, the government has said it will aim to set the levy rates for forward periods of three years in future, which would allow for more robust payment planning for schemes, and would align with the corporate planning cycles operated by the levy-funded bodies.

The consultation's second option suggested increasing rates and introducing a separate, lower set of levy rates for master trusts, although it stated that the government is not attracted to this option because it does not reflect the relative complexity of DB schemes.

The government estimated that option one would raise £60.7m in additional levy revenue and option two would raise £58.4m.

Its third option proposed maintaining the existing levy structure and increase rates.

However, it emphasised that this would mean failing to act on the representations received following the 2019 consultation, namely that the structure should be made more equitable and cross-subsidies addressed, and that the government is therefore not attracted to this option.

Commenting on the proposals, Pensions Minister, Guy Opperman, stated: "Changes within the pensions industry and regulatory landscape have resulted in growing responsibilities for the DWP's pensions bodies, putting additional pressure on their expenditure.

"Whilst the government has protected the industry from increases in the levy over a number of years, we can no longer avoid the fact that action is needed to bring levy rates back into balance with expenditure."

Smart director of policy and comms, Darren Philp, added: "While it is disappointing that levy rates are increasing during the current economic climate, it is welcome that the DWP has listened to feedback and is proposing a fairer distribution of levy financing, recognising the different regulatory efforts involved.

"This realignment is important given that, under the current system, auto-enrolment master trusts would be financing an increasing proportion of the levy, cross subsidising the regulation of other types of schemes."

Meanwhile, The Pension Protection Fund (PPF) has outlined a number of supportive measures for levy payers in 2021/22 following its consultation.

Schemes with less than £20m in liabilities will have their levies halved, with the levy adjustment tapering for schemes with between £20m and £50m in liabilities.

The risk-based levy cap will be reduced from 0.5 per cent of liabilities to 0.25 per cent.

The PPF confirmed it will continue to measure insolvency risk using credit ratings and the PPF-specific insolvency risk model operated by Dun & Bradstreet.

It also confirmed the levy estimate of £520m for 2021/22 and that the levy scaling factor of 0.48 per cent will be retained.

The levy estimate represents a reduction of £100m compared to this year's levy. However, the PPF warned that it expects to see a worsening in insolvency scores, which could impact the levy estimate for 2022/23.

"I'm delighted that our levy payers and industry stakeholders overwhelmingly supported the proposals in our recent consultation," said PPF executive director and general counsel, David Taylor.

"We are therefore confirming key decisions now, which we hope will help schemes plan for next year."

The PPF stated that it received "overwhelming backing" for the proposals it outlined in its consultation, which was published in September.

Its newly-announced measures aim to support levy payers that plan to implement risk reduction measures, which could reduce the amount of levy they pay before the 31 March.

Taylor continued: "We hope that these measures will help with affordability while preserving a levy that is risk-reflective and incentivises measures to reduce risk.

"In this difficult year *[2020]* the protection we provide has never been more important. The levy schemes pay is a vital source of funding which allows us to protect members of defined benefit pension schemes in challenging times as well as good."

The pensions lifeboat will maintain its current rules for levying superfunds, but will monitor market developments and is considering using a 'hybrid' methodology in future levy years for arrangements that have similar characteristics.

The 2020/21 levy was invoiced in autumn 2020 and over 97 per cent has been received, although a "small number" of schemes have taken up the flexibilities the PPF has offered through the Covid-19 easement and payment plans.

The review of the PPF's funding strategy is planned to take place in 2021/22 and will inform the setting of the 2023/24 levy.

Written by Jack Gray and Sophie Smith

VIEW FROM THE PLSA

Starting the New Year with a resolution to try new things, improve things or to tackle some long put-off project, is a long-established tradition.

It's the perfect time for pension schemes to think about taking stock of their own costs. Thankfully, the Cost Transparency Initiative's (CTI) series of templates make that task easy, and are free to use.

Here are a couple of quick tips for making the most of them. Firstly, investment charges will probably be a significant element of your scheme's operating costs, so if you are not already, start using them with your investment managers. After that, it's important to set aside sufficient time to collect and analyse the information you receive. Also make sure the information provides the degree of detail you expect. If that's not the case, or if there is some doubt about how a template has been completed, speak to your manager.

Secondly, review and prioritise anything in detail that's a surprise to you or your advisers. When you are interpreting the results also consider factors such as quality of service, investment performance and a comparison of products or services by objective, asset class or cost.

The templates have been used by many schemes and investment managers for nearly two years now, and feedback remains incredibly positive. We'd encourage all schemes to start as they mean to go on, by committing to make sure they understand their costs.

PLSA deputy director of policy, Joe Dabrowski

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PDP publishes data standards and calls for dashboard preparation

The PDP has published the key data standards it expects in schemes' preparations for the pensions dashboards and told schemes that it is vital they begin to prepare their data. Meanwhile, the small pots working group has announced a series of recommendations for the government, regulators and pensions industry to help tackle the increasing number of small, deferred pension pots, which the dashboards are also expected to help address

The Pensions Dashboards Programme (PDP) has published its key data standards and told schemes and providers it is "essential" that they begin to prepare their data.

The standards set out clearly-worded definitions of data that pension information holders will be required to provide for the PDP, both to allow for the finding of individuals' pensions in order to populate the dashboards and to allow individuals to view their information.

Stressing the importance of the publication, PDP principal, Chris Curry, said: "With schemes and providers onboarding to dashboards from 2023, it's essential that everyone starts to prepare their data now, using the information in the data standards usage guide."

The report details which individual elements of data will be mandatory, conditional or optional, with a given name and surname being mandatory, types of alternate surnames being conditional and all alternate surnames being optional.

The data required to locate individuals' pensions that data holders will need to match against includes information such as a person's first name and surname, date of birth, address and national insurance number.

Meanwhile, the data required for savers to view on the dashboards includes their pension arrangements and the name of the pension provider, as well as income data that will provide an estimated retirement income derived from current pension pot value for defined contribution (DC) pensions and the date payable for each pension.

Pensions Minister, Guy Opperman, said: "Bringing information to savers at the touch of a screen will revolutionise how we engage with our pensions and plan for retirement. Getting data standards right is vital, to realise the full potential of pension dashboards. The publication of key data standards is therefore an important and welcome step.

"I'm encouraged by the progress to date and the continued collaboration driving it forward. I am ambitious for the future of dashboards, as a place where people can easily see what they can expect at retirement, and the value their current providers are giving them."

The dashboards are expected to help address the increasing number of small, deferred pension pots.

The small pension pots working group published a report that outlines a series of recommendations for the government and pensions industry to work together on in tackling the increasing number of small, deferred pension pots in the auto-enrolment (AE) pensions market.

The cross-sector working group, chaired and facilitated by the Department for Work and Pensions (DWP), urged the government, industry and regulators to explore and enable opportunities for

member-initiated consolidation, with proportionate member safeguards.

It conceded, however, that member-led consolidation alone was unlikely to halt the growth in DC small, deferred pots, and recommended cooperation between the industry and government to enable automatic and automated large-scale low-cost transfers and consolidation.

Pension providers holding multiple pots within charge-capped default funds for the same deferred members were urged to work towards implementing a single consumer facing view, which the working group said could be achieved through adoption of industry best practice and regulatory guidance following scoping work in 2021/22.

To investigate and address administrative challenges that will need to be overcome to underpin mass transfer and consolidation systems that can be delivered at scale, the pensions industry was called upon to establish operational focused groups.

The working group noted that effective transparency and reporting arrangements will be required within the governance structure.

It stated that activity on scoping the core minimum viable administrative processes should be prioritised, including developing and testing data that would provide sufficient matching capability, developing and adopting common standards, and identifying requirements for a low-cost bulk transfer process.

An initial publicised update on the administrative challenges outlined should be made available in the summer of 2021, the working group added.

Additionally, the working group called on the industry to prioritise member-exchange proof of concept trials involving low value small pots within DC master trusts to test the concept, starting with a feasibility report in summer 2021.

It noted that the trials would offer an opportunity for learning through testing administrative processes for mass transfers and consolidation.

This investigation and examination of administration processes should then inform the development of the two consolidation system models – the default small pot consolidation scheme and the automatic pot follows member model.

The working group recommended that the DWP and pensions industry work collaboratively to develop an initial cost/benefit analysis in the second half of 2021 to further assess the models, including how they will complement pensions dashboards.

They were also urged to work together in developing customer journey mapping in relation to the models to understand the end-to-end process and provide deeper appreciation of the impacts.

Written by Duncan Ferris and Jack Gray

VIEW FROM TPR

Since the rollout of programme in 2012, auto-enrolment (AE) has seen 10 million staff automatically enrolled by 1.6 million employers.

It's typical to hold more than one job for life. For some, brief periods with different employers may be the norm. And it's these short stints of employment that are the primary driver behind a growth in deferred pension pots.

These small pots pose a risk to saver outcomes as they are vulnerable to becoming lost or left deferred and slowly eroded due to scheme charges. This means savers may not experience the best possible outcome.

The Department for Work and Pensions' research estimates AE could create about 50 million dormant pension pots by 2050 – it's clear a solution is needed.

Savers, whatever their employment pattern, should see their pension savings working for them throughout their working life.

That's why I'm pleased to see industry working together with government and regulators on this and welcome the publication of the small pots working group's report on 17 December 2020.

TPR's strategic goal for members of defined contribution (DC) schemes is to see savers get good value for their money. This means costs and charges must be kept at a reasonable level.

We look forward to continuing to work with industry and the government to ensure any solutions developed will be in the best interest of all DC members and will deliver improvements in savers' outcomes.

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

The Pensions Regulator
Making workplace pensions work

VIEW FROM THE PMI

When Sir Philip Green's Arcadia Group went into administration at the end of November 2020, there was an immediate media focus on the deficit within the group's pension scheme.

What had originally been established as the Burton Group scheme in 1972 had become a mature scheme with benefits for some 10,000 members, and a reported deficit of £350 million (though it remains unclear on which basis this has been calculated) suggests strongly that benefits will ultimately be provided by the Pension Protection Fund (PPF). The national media wasted little time in concluding that this would be a 'bad thing'.

The reality, of course, is the exact opposite. Since its establishment by the 2004 Pensions Act, the PPF has provided benefits for 380,000 members who would otherwise have received little or nothing following the insolvency of their scheme's sponsor. Whilst the media might rail against the reduction of benefits – with some members receiving 'only' 90 per cent of their accrued pension rights – there has been little discussion of benefits for pensions in payment being safeguarded in full.

These include benefits for former CEO Sir Ralph Halpern, which reportedly amount to £1 million a year.

The PPF has never really received the credit it deserves for being so successful. Before it was even launched, its detractors were confidently predicting its inevitable bankruptcy.

The truth is that over the past 15 years the PPF has performed an essential (if unfortunate) role and has proved to be very successful. We should all show it our gratitude.

PMI director of policy and external affairs, Tim Middleton

PPF *Purple Book* reveals drop in scheme funding levels

The Pension Protection Fund's (PPF's) latest *Purple Book* found that average funding levels for defined benefit (DB) pension schemes fell by 4.3 percentage points in 2019/20, with the aggregate deficit rising more than seven-fold and the number of schemes in deficit increasing, as the DB pension universe continued to shrink

DB scheme funding levels fell to an average of 94.9 per cent, as of March 2020, from an average of 99.2 per cent 12 months prior, the PPF's latest *Purple Book* has revealed.

The decline in the aggregate funding ratio was attributed to market movements, primarily due to lower gilt yields driving up liability values and decreases in equity values.

The aggregate deficit increased from £12.7bn to £90.7bn during the same period.

Nearly two-thirds (63 per cent) of schemes were in deficit with an aggregate deficit of £229bn, up from £160bn in March 2019.

The aggregate surplus of schemes in surplus fell from £147bn to £138bn.

Dalriada Trustees professional trustee, Adrian Kennett, stated: "In terms of funding, the fact that the effective date is 31 March 2020 is key. Funding levels were down at that point – if the data was cut today it would show a different story. But that different story of funding improvement would mask scheme-specific challenges, particularly as we have seen in recent days in sectors such as retail."

The *Purple Book* showed that the DB universe continued to shrink, with the number of eligible schemes decreasing to 5,327 in 2020 from 5,436 in 2019 and 7,751 in 2006.

Membership of DB schemes also fell, to 9.9 million from 10.1 million members in 2019 and 14 million members in 2006.

Of the 9.9 million DB scheme members in March 2020, 43 per cent were pensioner members, 46 per cent were deferred members and 11 per cent were active.

The proportion of schemes closed to all benefit accrual increased from 44 per cent to 46 per cent over the year, while the proportion of schemes open to new members remained at 11 per cent.

Schemes with more than 5,000 members made up almost 75 per cent of each of total assets, liabilities and members, while only forming 7 per cent of the total number of schemes in the dataset.

Schemes with fewer than 1,000 members made up 80 per cent of the total number of schemes but only around 10 per cent of total assets, liabilities and members.

Investments in equities declined over the year, from 24 per cent to 20.4 per cent, as the value of equities fell, while bond investments increased from 62.8 per cent to 69.2 per cent.

Written by Jack Gray

Arcadia DB schemes expected to enter PPF assessment 'shortly'

The Pensions Regulator (TPR) has said that it expects Arcadia's defined benefit (DB) pension schemes to enter the Pension Protection Fund (PPF) "shortly" in a letter to the Work and Pensions Committee, following the firm's fall into administration in November.

Arcadia's defined benefit (DB) pension schemes are expected to enter Pension Protection Fund (PPF) assessment "shortly", according to a letter from The Pensions Regulator (TPR).

It noted, however, that the schemes' entry into the assessment period was still subject to validation by the PPF.

The regulator was responding to questions from Work and Pensions Committee chair, Stephen Timms, who wrote to TPR to ask how the Topshop owner's collapse would impact members and change previously-agreed measures for contributions to the retailer's two DB pension schemes.

A contributions package, which was agreed upon by TPR, Arcadia and Tina Green in 2019, included a £100m guarantee from Green, annual payments of £25m from the Arcadia Group and additional asset security valued at £210m.

Outlining how contributions to the scheme had been affected, TPR said Arcadia owner Green had already paid £50m into the schemes, and an Arcadia spokesperson announced on 2 December 2020 that the payment of the final instalment of £50m would be made in the next few days.

However, as this is restricted information TPR was unable to confirm or deny whether the final instalment was paid.

In response to another question from Timms, TPR stated that Arcadia assets subject to security assessments would not be transferred directly to the schemes, noting that administrators would be "taking steps to realise the value from those assets, and the Arcadia businesses in general, and will make payments to creditors, including the schemes, in due course".

Editorial credit: RichartPhotos / Shutterstock.com

The letter, dated 18 December 2020, added that the timings of these payments would depend on how quickly the properties and businesses can be sold.

The letter continued: "The trustees of the schemes, as creditors of the employer, will be kept informed by the administrators of Arcadia of when and how much of the schemes' deficits are expected to be paid as the employer's assets are realised.

"We, alongside the PPF, continue to liaise closely with the trustees and administrators throughout this process."

The original letter from Timms had also raised concerns about scheme members falling victim to scams or being transferred to superfunds.

Written by Duncan Ferris

VIEW FROM AMNT

Annus horribilis is a Latin phrase, meaning 'horrible year'. The expression was brought to modern prominence by the Queen in a speech marking her Ruby Jubilee on 24 November 1992. The phrase seems particularly pertinent looking back at 2020.

In 2020, pension trustees have had to deal with fluctuating stock markets and downturns in other asset classes, coupled with sponsors suffering losses or even failing. Not forgetting Brexit!

This year already has a different feel with the advent of a vaccine promising a lifting of restrictions and uplift for the economy. For pension trustees though, this year could be as momentous and challenging as 2020.

In 2021 a new pension bill is on the statute books, with collective DC offering a tantalising choice for sponsors of DB schemes. Environmental issues, particularly climate change, have to be addressed when making investment decisions. There will be growing awareness by pension fund members of the ability they have to make changes in companies' policies.

Superfunds will become players in the pension arena, threatening the very concept of trustees.

These threats and opportunities will frame the basis of fundamental decisions on the continuation of pension governance, specifically whether members of funds will have a say in their future through their elected representatives; member-nominated trustees.

Let us hope that 2021 is not an annus horribilis but an 'annus mirabilis'.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

VIEW FROM THE PPI

As we leave behind the immediate health concerns we faced in 2020, we must face up to the impact of long Covid on our pension system. The effects are wide-ranging: concerns surrounding the indexation of the state pension; affordability of private pension provision through the workplace; and how investments have responded to volatility.

One reported impact has been the acceleration of DB scheme closures, brought about by the financial pressures placed upon employers. This has two long-term effects on the outcomes for individuals.

Firstly, the inevitably lower contributions into a DC scheme will be very unlikely to provide the income levels of the DB scheme. Joining a DC scheme (with a respectable contribution rate of 15 per cent) instead of a maintaining a DB scheme could result in a mid-career individual having an income in retirement around £9,000pa lower.

Secondly, losing a DB scheme costs certainty. There is the possibility of DC investments outperforming DB accrual, but this comes at a cost of increased downside risk. For the same mid-career someone retaining a DB scheme results in 80 per cent of outcomes spread over a £3,000 a year band. A DC scheme (with contributions yielding similar average outcomes to the DB scheme) increases that spread to £16,000 a year, depending on investment performance. This long Covid is going to leave sufferers with symptoms of reduced security and reduced incomes in retirement.

PPI head of modelling, Tim Pike

PENSIONS POLICY INSTITUTE
PPI

Barclays pension scheme completes £5bn longevity swap with RGA

The Barclays Bank UK Retirement Fund has completed the fourth-largest longevity swap on record with a £5bn deal with Reinsurance Group of America (RGA). The next day, the BBC Pension Scheme secured a £3bn longevity swap with Zurich and Canada Life Reinsurance

Editorial credit: chrisdorney / Shutterstock.com

The Barclays Bank UK Retirement Fund has completed a £5bn longevity swap transaction with RGA.

The deal was completed with the aim of enabling the scheme to manage a proportion of its longevity risk, while members' benefits will remain unchanged.

Insight Investment was appointed as collateral manager for the deal and Aon acted as the lead adviser to the Barclays pension scheme.

The deal represents the joint fourth biggest longevity swap on record, with the largest being the £16bn transaction between the BT Pension Scheme and PICA in 2014.

Aon risk settlement team principal consultant, Tom Scott, stated that the deal demonstrated the capacity and appetite of the global reinsurance market to take on pension scheme longevity risk.

"Despite the current economic climate, pension schemes can still successfully access the reinsurance market in an effective manner," he noted.

The following day (15 December), the BBC Pension Scheme completed a £3bn longevity swap deal with Zurich and Canada Life Reinsurance.

The transaction will provide the scheme, and the BBC as sponsoring employer, with protection against the risk of rising costs should pensioner members and their dependents live longer than expected.

Aon acted as lead transaction adviser, including negotiating insurance terms with Zurich and brokering the reinsurance with Canada Life.

Legal advice was provided to Zurich by CMS, to the trustees by Allen & Overy, and to Canada Life Reinsurance by Herbert Smith Freehills.

Commenting on the announcement, BBC Pension Scheme trustee board chair, Catherine Claydon, highlighted the deal as an important step in the scheme's risk management strategy.

"We appreciate the support of our sponsoring employer and our advisers," she stated.

Adding to this, Zurich head of longevity risk transfer, Greg Wenzerul, said: "We are delighted to have helped minimise the longevity risk of the BBC Pension Scheme.

"We are also grateful to Canada Life Re for their flexible approach. This is an example of how large pension schemes can successfully hedge longevity risk in a cost-effective and low-risk way."

Written by Jack Gray and Sophie Smith

Appointments, moves and mandates


Paul Bucksey

Smart Pension and Smart Pension Master Trust have announced the appointment of Paul Bucksey as managing director.
Bucksey first joined Smart Pension as director of distribution in 2019, having previously held the role of managing director at BlackRock. The appointment is part of a broader restructuring of the business, which is designed to ensure that the Smart Pension platform business and master trust have appropriate separation. This included recent changes for Jamie Fiveash, who was appointed as CEO of Smart UK, and Andrew Evans and Will Wynne, who were named Group CEO and Group MD, respectively.
Commenting on the appointment, Fiveash stated: "With over 20 years experience, Paul is an expert in the UK workplace pensions market and will be responsible for making sure the Smart Pension Master Trust continues to provide leading pension solutions for employers and scheme members."


Stuart Travers

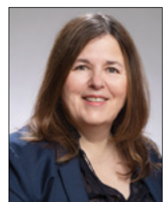
20-20 Trustees has announced the appointment of Stuart Travers as trustee director.
Travers will be based in Bristol and joins from Winterbourne Trustee Service, where he has acted as trustee for over 15 clients. He has more than 30 years of experience, having previously also held senior consulting roles with companies such as SBJ Benefit Consultants, Bluefin and Alexander Forbes.


Michael De Lathauwer

Now Pensions has named Michael De Lathauwer as non-executive chair.
The appointment was made with immediate effect following the departure of John Rowland, who had held the role for three years prior to this. De Lathauwer, who was previously in the role of non-executive director at the pension provider, will also remain chief executive officer of the Cardano Group, a role he has held since 2015.


Anthony Briskey

MyPensionID has appointed Anthony Briskey as head of digital ID solutions.
He brings over 15 years of experience in the UK pensions industry to the role, having worked for a range of asset management firms, such as Newton and HSBC, and a proven track record with corporate and pension scheme clients. The role will focus on assisting clients to implement digital ID solutions into their offering, ahead of the launch of a consumer-focused app.


Dawn Thirley

Cardano has promoted Group HR director, Dawn Thirley, to the role of partner.
Thirley joined Cardano in 2019, and has over 20 years of experience in global HR. Prior to joining the business, she held senior HR leadership roles at Old Mutual, Bank of America, and Merrill Lynch. She leads the HR function of the Cardano Group, comprising multiple specialists across the brand portfolio, and also led on the Covid-19 response.


Tiziana Perella

Dalriada Trustees has appointed Tiziana Perella as a professional trustee.
Joining from Aon, where she was a principal consultant in its Risk Settlement Group, she brings over 20 years' experience in providing endgame advice to the role. Whilst she will act as a professional trustee, assuming a portfolio of appointments, she will also support other trustees in the team on bulk annuities and transfers to consolidators.

LGPS Central Limited has appointed two external managers to its £660m Multi-Asset Credit Fund.
BMO Global Asset Management and Western Asset Management Company were chosen following a "robust manager selection process", with over 80 fund managers from across the globe initially expressing interest in tendering for the mandate. They will each receive half of the total mandate.
Commenting on the appointments, LGPS Central CIO and investment director for fixed income, Gordon Ross, said: "LGPS Central Limited has a robust manager selection process in place to ensure we choose the right fund managers to manage the assets of our partner funds.
"Our search included criteria on expected performance, a consistent investment process, value for money, full transparency and a commitment to strong ESG integration. Both BMO and Western Asset displayed all these traits and have proven themselves to be worthy winners of this mandate. We look forward to working with them."

VIEW FROM THE ACA

In one of our latest survey reports, we found very strong support from employers for key automatic enrolment (AE) reforms.

Six in 10 employers think more flexibility would lead to higher saving and most larger employers support minimum contributions increasing to 10 per cent from April 2022. Pension coverage remains a major problem. Almost nine in 10 employers support extending AE to over-18s and applying AE from the first £1 of earnings. The survey found 59 per cent of employers now engage 'gig workers' who, in addition to 15 per cent of their employees, are ineligible for AE. Pension coverage hasn't been helped by the unsurprising increase in cessations following Covid-19.

The government has resisted calls to include AE reforms in the Pension Schemes Bill. Our survey shows strong support from employers, to add to support for reforms from MPs and Lords. We call on the government to publish a timetable for its next AE review and implementing the recommendations of the last AE review.

It's understandable that more people have opted out of pensions following Covid. Our challenge is that we weren't saving enough for a decent retirement in the first place. This will leave more people facing a miserable retirement.

Our society needs the government to bring in higher minimum savings rates, which apply to more people. It will take time to phase in, so we need to start planning now, as part of the government's 'build back better' response to Covid.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Market commentary: Brexmas

While in some ways Christmas was the main event of December, economists have had their attention trained on Brexit. Amidst the turkey, crackers and pandemic-related rule changes, you might have noticed that a last-minute deal was agreed with the European Union, although at the time of writing the consequences of this agreement remain largely unknown. Regardless, Quilter portfolio manager, Hinesh Patel, notes that the deal has still been warmly received.

He comments: "The good news for the UK is that this should help unblock the backlog of international investment that has been waiting for some sort of outcome before institutions begin investing in UK public limited company once again. Indeed, the market appears to be enjoying the news despite the usual quiet Christmas period.

"The overall mood though appears to be one of relief and this news should benefit the small and mid-cap businesses of the FTSE 250 who should now be able to plan with a bit more confidence and adapt to the new environment."

Although even the short-term impact of the newly-secured Brexit deal is uncertain, most analysts seem to acknowledge that the agreement still pales in comparison to what was offered by EU membership.

DeVere Group CEO, Nigel Green, states: "Stock markets will be buoyed by the trade deal and the pound – consistently the most reliable Brexit sentiment bellwether – will be strengthened as a result. But let's be very clear: this is not the end of Brexit.

"Now there will need to be a period of major readjustment as the world's sixth-largest economy diverges from the world's largest trading bloc after being an integral part of it for almost half a century. In addition, Britain now has to move quickly to secure new trading relationships – but these are always complex and lengthy to establish."

In fact, the stock markets' relief was such that the FTSE 100 climbed to a nine-month high in the closing days of December, with goods manufacturers performing well amid optimism that the deal will help them to continue exporting their products to the continent. However, bank stocks have been on more shaky ground as the new trade deal does not offer services the same protections.

Quilter head of fixed income research, Richard Carter, agrees with Green's sentiments, commenting: "Of course, we should not kid ourselves that the deal is an improvement, from an economic perspective, on the UK's membership of the single market. There will be more trade friction than before and there is precious little in the agreement on areas like financial services.

"UK sovereignty has been reinforced but the economy still faces a prolonged period of adjustment to the new arrangements and there will no doubt be 'bumps in the road'. However, as we move into the New Year, the focus of investors will likely now move back to issues such as the vaccine-led recovery from Covid and the impact of a new President in the White House."

He adds that investors must "expect disruption and uncertainty that will create volatility in the markets" as they adapt to the "post-Brexit world".

Although Brexit was the dominant influence on the UK's markets towards the end of December 2020, the pandemic remains a major factor. The final month of 2020 saw the commencement of vaccine rollouts, leading to optimism that the New Year could see the planet begin to recover from Covid-19 and escape the widespread economic hardship it has precipitated.

Written by Duncan Ferris

Looking to the future

Kevin Martin considers the opportunities for the pensions industry to find the good in these difficult times

After such a challenging year, there are encouraging signs that the pensions industry should feel positive about the future. The coronavirus pandemic has forced all providers to adapt and make changes more quickly than before. Well-governed master trusts have demonstrated their strength by building in flexibility, changing their processes quickly and meeting their ultimate goal of protecting members' money.

From a customer services perspective, this terrible situation has really sharpened our focus. Today's contact centres look very different from a year ago. Everyone's been forced to minimise human interaction and strengthen their customer digital self-serve capabilities. The shift to home-based support, investment in technology and improved digital content has resulted in more flexibility for customers and staff.

So, all positive stuff. But the real win in getting the pedestrian and easy to self-serve issues handled by customers online, is that it frees up valuable and experienced staff to speak to customers who need help with complicated and complex issues – we call this 'digital first with a human touch'.

Following this approach, we've digitised more forms and processes and updated information on our website. Increasingly sophisticated, helpful and informative recorded phone messages (using interactive voice response, or IVR, technology) triage enquiries and direct customers to information they need quickly, reducing the time it takes to get to those who really need our help. Human interaction will always be needed and available to those who want it, but we've also recognised the needs of those who simply want a quick answer and prefer to deal with us online to sort out a simple enquiry.

New technology allows us to use a remote contact centre with staff fully equipped to handle calls and emails from home, complemented by a small team based in our head office. This means our staff have everything they need to work remotely, for example during lockdowns. We're seeing customer behaviours shifting too, with over 13 per cent of our customers now being directed to the information they need by our new IVRs[1] – which means we've seen a significant reduction in calls needing to be handled by our call centre.

I don't think anyone in the pensions industry could have predicted the need to make such fundamental changes in such a short space of time, or forecast that this would result in such positive benefits. Of course, constant monitoring and evolution is required, and a priority for 2021 should be to establish operating models that retain the best from our learned experience, using this to adapt our service to better match our future customer needs. For us, that's likely to be a flexible hybrid model of home and office-based staff to provide the best of both worlds.

There are challenges, of course, such as reliance on technology, staff wellbeing, and training which all must be considered. The full extent of the pandemic fallout is also still unknown, and has been partly obscured by the government's extension of the furlough scheme and other initiatives to support business and individuals. So, we fully expect many more challenging months lie ahead for our employer customers and individual members of our scheme and we don't underestimate the effect this may have on them.

But the strong governance provided by well-run master trusts means scheme members can feel confident their pension savings are being looked after.

We're continuing to invest in our digital capability, equipping staff with the tools they need to deal with customer enquiries in order to achieve resolutions quickly and with the minimum of fuss. It's key for pension providers to provide extra opportunities for members to become more engaged and interested in what, for many, may make a real difference to the retirement outcome they face.

If you'd like to discuss how The People's Pension could support you and your workplace pension needs, get in touch by calling 0333 230 1310 or emailing RRM@bandce.co.uk. For more information about how we can support you, visit www.thepeoplespension.co.uk/comms-PA

Written by The People's Pension group director of customer services, Kevin Martin

[1] Based on internal call reports

VIEW FROM THE SPP

Statistics show that the number of UK insolvencies in 2020 was lower than in previous years.

Although that may sound counterintuitive, this is actually not a surprise given the actions the government has taken to support businesses via loan and job schemes, and the granting of new protections against creditors. But these are all temporary measures.

In 2021, the country's businesses are starting the year with significant liabilities that have been built up over Covid and will need to be addressed. But that's not all. Businesses are also emerging into a new world. A world with different rules. With customers and employees who have profoundly changed their behaviour. Digitisation has accelerated and supply chains are disrupted. Economic conditions are, to say the least, challenging, and there will be many unknowns to navigate.

The rules of restructuring have also changed. Both the Corporate Insolvency & Governance Act and the reintroduction of Crown Preference are changing restructuring behaviours and have introduced new risks for pension schemes.

Businesses now need to proactively plan the path to recovery in this new world. Acting now is the best way for a business to maximise options and take control.

But acting at pace also applies to pension trustees. Trustees must act now to understand and protect their covenants.

SPP Covenant Committee, Atul del Tasso-Dhupelia

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On the impact of The Pensions Regulator's (TPR) DB funding code
"While some schemes and advisers seem confident that they already know the impact the new funding code will have on DB schemes, we have yet to firm up the proposals for our second consultation... I am not saying 'don't worry, just trust us with it all'. It is right we are held to account and pushed for answers. But there is some way to go on this journey and we should not be making rash predictions. More is to come. Let's get the basics right first."
TPR executive director of regulatory policy, analysis and advice, David Fairs

On the Court of Appeal overturning the High Court decision to block a £12bn annuity transfer
"It was interesting to see that the Court of Appeal rejected each and every one of the original judge's objections to the transfer from Prudential to Rothesay. This will be very well received by the insurance industry, as the original and unprecedented ruling risked stymieing corporate activity. At the same time, the robust process that we have seen in action demonstrates to policyholders, be they pension schemes with buy-ins or individual annuitants, the high level of regulatory and legal oversight in the industry."
Hymans Robertson partner, Michael Abramson

On industry research identifying seven under-pensioned groups of society
"Some groups in the UK face huge savings gaps and those individuals who most need to save for later life are often the people who are effectively locked out of the current auto-enrolment system. We need to improve retirement incomes across the board – and that starts with creating a level playing field so that everyone has the same opportunity to save for later life."
Now Pensions chair of trustees, Joanne Segars

On forecasts that the pension risk transfer market could hit £60bn in 2021
"We predict that 2021 will be the busiest year on record with the return of 'mega' buy-in and buyout deals and longevity swaps. Given the growing range of risk transfer solutions available to trustees and sponsors, it is more important than ever that advisers provide clear guidance to help them identify the right path to achieve the best outcomes for all stakeholders."
Mercer UK head of risk transfer and DB journey planning, Andrew Ward

On the launch of a working group to address stewardship barriers
"I firmly believe the days of trustees leaving everything to asset managers without scrutiny must come to an end. We need to do more to improve pension schemes' and asset managers' stewardship and engagement with companies to ensure they are fit for purpose in the 21st century. We will get more engagement, better stewardship, better outcomes, and a stronger economy, where asset owners who want to have a voice are able to speak up, however they invest, including in pooled funds, rather than be suppressed. I'm determined that this does work, and I believe that it will."
Pensions Minister, Guy Opperman

A perfect match

Martin Mercer offers a quick guide to finding your perfect adviser

It has now been a little over a year since pension scheme trustees needed to put in place objectives for their investment consultants, following the Investment Consultants Market Investigation by the Competition and Markets Authority. While these would typically be reviewed in detail every three years, it could well be worth kicking the tyres after the first year to see how your consultant is performing. But what will you do if your investment consultant is not performing in line with your expectations? You might want to take proactive action to ensure that your scheme receives the best possible advice, so how can you go about reviewing your consultant and what should you be looking for?

Often one of the easiest options is to talk to someone at your current adviser's firm and ask to meet other consultants to see if they might be a better fit for you. This can be a quick and easy way to reinvigorate and bring a new lease of life to the service that you receive.

Unfortunately though, it is not always the right solution and really the only way to improve the service, hear new ideas and different ways of thinking, is to go to market. But how can you differentiate between the different consultancies?

When looking at the firms that you invite to tender, you may want to consider the following:

• Having corporate stability and certainty means your consultant will be around to help you on your journey to your long-term goal.

• Receiving independent whole-of-market advice will ensure that your adviser can provide unbiased advice on the wide range of available investment options out there.

• Choosing a firm that specialises in schemes like yours means you directly benefit from that expertise and experience on other schemes.

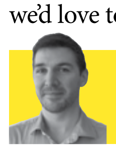
One of the most difficult tasks when choosing an adviser is to determine value for money. The more specific you can be in outlining the services that you require, the better placed you will be to compare different firms. A great example here is regular investment reports: these can vary significantly, from a one-pager once a year to a 40-page document every quarter! But value for money is also about the quality of advice and the proactivity of your adviser in promptly raising new (and relevant) ideas that can benefit your scheme. Ask for examples of how they have helped other schemes.

Given that no two pension schemes are exactly the same, it should go without saying that no two services should be either. Your new consultant should take their time to get to know you, know the specifics of your scheme and its sponsor before they can even start to think about what ideas to bring to you. If they don't take the time to get to know you, how can they deliver an appropriate service? Make sure you're receiving a bespoke solution focused on you rather than an off-the-shelf service, only then can you be sure that your exact requirements will be considered.

This doesn't just go for any initial project either if you are looking to appoint an adviser to help you reach your long-term goal. Appointing a consultant that has all the tools and experience required to help you along your journey might mean that your next investment consultant is the last one you need.

Appointing a new adviser is often straightforward once you know what you're looking for and could also be the start of an exciting and fruitful working relationship.

At Cartwright (I had to mention us at some point, right?), we offer truly tailored solutions, focused on each individual client, to small/medium sized pension schemes. If you are actively tendering, or even just looking for a second opinion, we'd love to hear from you.



Written by Cartwright senior investment consultant, Martin Mercer

VIEW FROM THE ABI

Behind every great innovation there tends to be a rather boring document setting out the minutiae of how the thing works. Every page on the internet rests on top of thousands of pages of protocols, data exchanges and the steady hum of a server in a remote facility.

Pensions dashboards will be no different. What the consumer will see is a well-designed portal displaying their long-term savings; what will sit underneath is a vast network of messaging systems, security checks, and an unprecedented degree of cross industry cooperation.

When a consumer instructs their chosen dashboard to find all their pensions they will not see the thousands of messages pinging across to servers across the country, but they will be upset if it goes wrong. That is why the Pensions Dashboards Programme's data standards work is so important. For the system to work thousands of schemes across hundreds of administrators need to be speaking the same language. Something as anodyne as imputing dates in a different format could cause serious problems.

Data standards will provide the rules of the road that will allow all of those thousands of messages and securely processed tokens to be turned into the experience we want for consumers. These publications aren't the final version and there is more work to do before they can be implemented by providers, but it's a very big step in the right direction.

ABI senior policy adviser for long-term savings, Matthew Burrell

Soapbox: Too good to be true?

As always, the New Year brings a fresh wave of optimistic resolutions. Sadly, increasing pension contributions is unlikely to be one for most people.

Whilst this is perhaps a hidden blessing (how many resolutions have you ever kept?), it is also indicative of the broader lack of engagement in the pensions space. New Year's resolutions can present an, albeit cliché, engagement opportunity, with almost every industry trying its best to jump on the bandwagon. But with so many contrasting messages it can feel like savers are being torn in every direction.

Indeed, amid the pandemic, a lot of people will have seen their finances torn in every direction, with BlackRock research revealing that 51 per cent of savers are likely to review or reduce their pension contributions in a bid to prioritise 'rainy day' savings amid the pandemic. For many, this seems like a logical step if facing financial strains amid the crisis, and whilst experts are quick to emphasise the significant impact that cutting or pausing contributions can have, whether members understand this is a different question. Actually talking to members about these issues is crucial for them to truly understand the impact of their decisions, and creating a dialogue with savers, in the context of their larger financial wellbeing, will allow savers to at least understand the potential consequences of their actions. They may still make what some perceive as mistakes, but they should at least be well informed ones.

Of course, members also need to hear the right message, and genuinely understand it. After all, pension experts are often quick to ask why anyone would turn down free money, highlighting employer pension contributions as such. But at the same time, consumers are being warned about rising scams, and told that if it's too good to be true, it likely is; and what sounds better than free money?

Taking a more holistic view to finances could help create a more consistent messaging for savers however, and avoid the confusion potentially caused by the mixed messages of different sectors. For instance, consumers are often told to be mindful of loyalty penalties and ensure they are switching utility providers regularly to ensure they receive the best price. Yet in the pension space, members might struggle to even find their costs and charges information in an understandable format. Even if they do, they may not like what they find, and this could quickly lead to resentment if members feel powerless over their savings.

The same tensions can also be seen in the responsible investment space, as more and more members discover that their hard-earned pay could be helping to fund fossil fuels, tobacco or weapons. And, if they feel like they are stuck between a rock and a hard place, they may bury their heads – or worse, opt out of pension saving completely. If the industry is to truly start a dialogue with members, it needs to be prepared that not all of the messages it gets back will be positive, and it needs to be prepared to make genuine change in the face of this member feedback, or face further mistrust and misgivings.

Mixed or unfocused messaging could not only prove to be ineffective but damaging to member engagement and trust. We need to ensure that savers are hearing the right message in the right context, and that means stepping up the game in terms of holistic and personalised communications, and broader transparency. Simply telling savers to trust the industry is no longer good enough.

Written by Sophie Smith

Standard Life head of investment solutions, Gareth Trainor

Responsible investing

Laura Blows speaks to Standard Life head of investment solutions, Gareth Trainor, about the latest responsible investment trends and developments for providers, pension schemes and their members

"It is very important that companies practice what they preach with regards to environmental, social and governance (ESG) issues," Standard Life head of investment solutions, Gareth Trainor, explains in the latest *Pensions Age* podcast, *Responsible investing*.

"People do not only want good solutions but they want to actually invest in companies that are doing the right thing."

For Standard Life Assurance, part of Phoenix Group, its sustainability agenda comes all the way from the top of the company and permeates all the way down. "This isn't something that we tick a box and move on with, this is something we believe in with how we operate as an organisation," he explains.

This attitude is not unilateral across the pensions industry, nor is the understanding of what 'ESG' or 'sustainability' means for each company – or their customers.

"When we survey our customers they want us to do good rather than bad, right rather than wrong. I would characterise this as an almost conscience-based investing approach," Trainor says. "When we survey our customers, environment and climate issues are very much getting most of the focus, but there is still consideration given to the wider ESG gamut as well."

However, there being no uniform approach to considering ESG issues makes it hard for customers to understand how a particular situation applies to responsible investing, he adds. "It is about understanding the shades of grey between the different solutions and how they function. For example, a climate fund will absolutely look at the 'E' aspect of ESG but not necessarily all of it. So ensuring that the customer can understand the wider landscape in a simple and easy way can be a challenge."

While helping customers invest in ways aligning to their principles is undoubtedly important, Standard Life's surveys find that risk and return is still their top concern when it comes to investment solutions.

Trainor gives the example of a recent Standard Life survey, which found that one in four people did not want the company to take on any more financial risk for the sake of sustainability and ESG. "So our customers have a wide range of views; not everyone is speaking in the same voice. So as a sign that we understand our customers, we have to aim for the middle ground," he adds.

Because of this, Standard Life focuses on financial risks "and not moral judgements", allowing the company to focus on what customers ultimately want – to have their risk and return managed.

Therefore, within Standard Life's new solutions, it explains its responsible investing approach in three simple ways – avoid the bad, do more good and drive change for the better.

In practice, this involves screening out some of the 'worst offenders' within sectors, investing in sources of green revenue and actively voting and challenging the organisations it invests in, as some examples.

Standard Life also ensures that the fund options for its pension customers cover a wide breadth and depth of responsible investing considerations for those customers that wish to diverge from the responsible investing within the default funds. Some recent fund additions include climate and environment funds, and a gender diversity fund, for instance.

New or old, when buying a Standard Life solution "you buy a future-proof solution", Trainor says. This is part of a trend across the industry to look at existing solutions, he explains.

Be it new ESG-aware funds or integrating responsible investing principles into the heart of existing solutions, Trainor says: "There will be lots still to come from us with this, so all I can say for now, is watch this space."

To find out more about this subject, and to listen to the podcast, please visit www.pensionsage.com

Pension funds risk landscape in 2020

Judith Hetherington reflects on how attitudes to risk have changed during 2020, and what UK schemes are doing about governance

2020 has been a turbulent year for many. As the nation moved into lockdown in March 2020, many service providers to pension schemes had to change their operations more rapidly than expected. Trustees had to get used to holding meeting with their advisers virtually. Scheme members thought more about what they could be doing with their pension pots, while fraudsters were thinking about how they could access their money and data. All these factors present challenges to pension schemes, and trustees now more than ever, need to make sure that they have strong governance in place to protect their members' funds.

Crowe's fourth edition of the *Governance and Risk Management Report* considers the changes to governance and operations of UK pension schemes in light of the effect of Covid-19 on working practices of pension schemes in the short and medium term.

Judith Hetherington, partner at Crowe, answers some key questions that have been highlighted by the survey's findings.

Cybercrime has been recently promoted by the government as part of their awareness drive around pensions, how aware are trustees of their cybercrime vulnerabilities?
Overall 22 per cent of schemes admitted that they had not identified the key operations, IT systems and information flows vulnerable to cybercrime. It's a significant number, when we see that the respondents also ranked cybercrime as the biggest risk to their schemes. If we consider too, that 42 per cent of the schemes also said that they do not have access to specialist skills, that would help them to identify and investigate a cybercrime vulnerability, it highlights an area that needs to be addressed, and that trustees should not hesitate in getting the appropriate advice in.

So if a number of schemes don't have access to the correct skills to tackle cyber risks, how are cyber risks being managed?
Twenty-five per cent of schemes do not have an adequate cybercrime breach plan in place. A robust cybercrime breach plan should cover five key areas; restoration process, investigation process, external communication, reporting process and how to contain the breach.

We were surprised to see that 59 per cent of trustees have not taken part in cybercrime scenario-based training. The picture between schemes of different sizes is mixed, with large schemes tending to do better on both points due to the additional resources available to them. We encourage trustees to put this type of training in place. It will not only provide the trustees with valuable insight into the overall process of dealing with a cyber-attack, but will also highlight areas of the cybercrime breach plan that are not fit for purpose.

Have trustees been asking their administrators what they are doing to counter fraud?
Generally, instances of fraud have been increasing, and our report on ***The Extent and Nature of Pensions Fraud*** highlights where fraudsters target pension schemes, for not just their large sums of money but also their data. While we saw quick response from administrators when the national lockdown come into effect on March 2020, the move to home working presented an opportunity for some to take advantage of being outside the office environment for unscrupulous means. Trustees have not necessarily been asking their administrators about key areas which can be vulnerable to fraud in a home working environment.

What assurances are trustees getting about their administrators processes?
Our survey responses revealed that 50 per cent of schemes have not received any assurance over fraud prevention procedures for member payments and vetting of new staff. This is a concerning number, when considering how much of the workforce are working from home.

Over 40 per cent of responses confirmed that they are aware of changes to their administrator's procedures such as training staff, authorisation and review of the calculation of member benefits and the authorisation of the payment of expenses. However, 59 per cent of respondents confirmed that they do not have third party assessment of the scheme controls and procedures. Trustees should consider how they can gain assurance over the changes that have occurred and, where the procedures haven't changed, are they still fit for purpose?

Are trustees utilising risk appetite as a tool to identify risks?
Risk appetite is the amount and type of risk that the pension scheme is willing to take in order to meet its strategic objectives. Only 50 per cent of trustees are using risk appetite to help prioritise/

mitigate specific risks, which is the same as the results for 2018. We were surprised to see this reduction, but this may have been due to the effect of Covid-19 on the scheme in 2020. In these riskier times, it is imperative to consider risk appetite and tolerance, as this method can assist in highlighting the areas for trustees to focus on.

What are the latest trends in the top risks facing DB and DC schemes?
This year saw a marked change in scheme's attitude to risks. Trustees of DB schemes ranked cybercrime as their biggest risk, compared to last year where it was employer covenant risks. Trustees of DC schemes are concerned with ensuring that members are making the right choices at retirement. For both types of schemes, the risk of errors in the administration of the scheme has dropped down in the ranking as an area of focus for trustees. Given the potential risk at administrators with the majority of their workforce working remotely, we were surprised that it had fallen so low on trustees' rankings this year.

How can Crowe help schemes with their governance and risk management?
Our pensions internal audit service provides assurance that appropriate policies, procedures and controls are in place to mitigate key pension scheme risks as part of good scheme governance and supports the latest '21st Century Trusteeship' initiative and Codes of Practice issued by The Pensions Regulator.

With the expanding regulatory requirements on trustees to take ownership of risk management of their schemes, having good systems in place is vital to insure compliance.

We help and support trustees by evaluating pension scheme governance arrangements, including risk management, policies and practices.

Written by Crowe partner, Judith Hetherington

In association with Crowe

About Crowe

Crowe is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

For more information, please visit: www.crowe.co.uk

Sponsored by:

Aberdeen Standard Investments

LOOMIS | SAYLES Investments

Manulife Investment Management

Pensions Age Northern Conference review

Covid-19, Brexit, ESG, CDI, dashboards, scams and more

The Pensions Age Northern Conference, now in its fifth year, took place online in December 2020, rather than in its customary host city of Leeds, but this did not deter the delegates from logging on to hear the usual quality line-up of pensions industry experts and thought leaders.

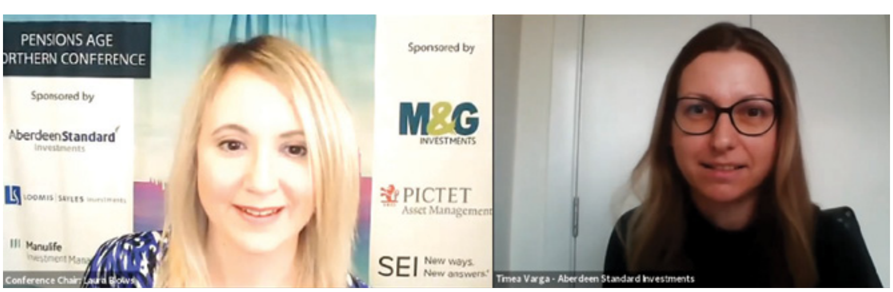
Chaired by *Pensions Age* editor, Laura Blows, the one-day event kicked off with a presentation by The Pensions Regulator's (TPR) investment consultant, Neil Bull, who offered TPR's views on some of the key investment themes in the UK pension space today.

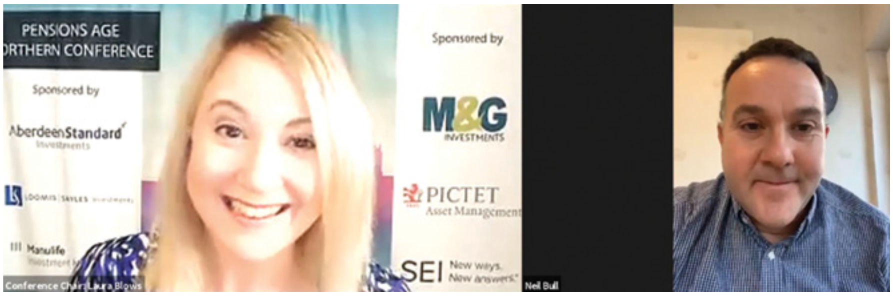
Speaking in the shadow of Arcadia going into administration, Bull focused on the investment risks facing sponsoring employers and pension schemes now and into the future. He reflected on a year that has been "volatile to say the least" and looked at what impact this has had on pension plans across the universe of defined benefit (DB) pension schemes.

"This is something that keeps us awake at night, from a regulator point of view – this perfect storm of investment returns impacting funding levels at the very time when employer covenants are deteriorating and, in some cases, serious concerns about businesses continuing," said Bull.

He also pondered the possibility of negative interest rates and how schemes might be impacted, should it happen, and later updated delegates on some of the detail of the DB funding code consultation. Finally, he debunked several common myths surrounding the regulator's priorities and how it works.

Continuing on with the investment theme, Pictet Asset Management's senior multi-asset strategist, Supriya Menon, was next to present, as she shared her





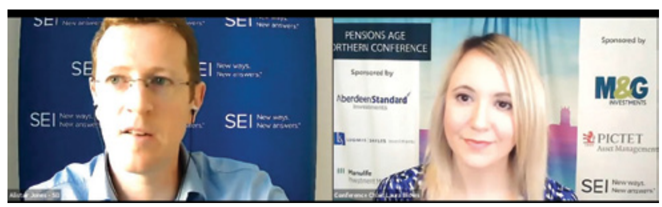
views on the current and likely future state of the investment markets and what this could mean for institutional investors going forward. She discussed the challenge of investors having to balance short-term influences, such as the US election results and Brexit, with long-term drivers, such as the increasing move towards a low carbon economy and secular economic trends, especially some of those developing as a result of the Covid-19 pandemic.

She finally explained her preference for equities over bonds, as equities, she said, "are the asset class that we believe has the best chance of delivering superior real returns as we move forward".

The role of illiquid assets was the focus of the following presentation, with SEI's client strategy director, Alistair Jones, beginning by explaining why a framework to determine the appropriate level of liquidity required by pension schemes is important to ensure they can meet their cash needs, especially in volatile markets.

Recognising that illiquid assets have become more popular among pension schemes in recent years, Jones went on to explore the case for illiquid assets and looked at what pension schemes need to think about when sizing an allocation to illiquid assets in a robust and responsible manner, "so that it is fit for purpose". He then went on to highlight the importance of the ongoing management and monitoring of illiquid assets and how fiduciary managers can help in that regard. As well as the extra levels of transparency that a fiduciary manager can offer, "fiduciary management can help appropriately set, manage and monitor liquidity for you," he concluded.

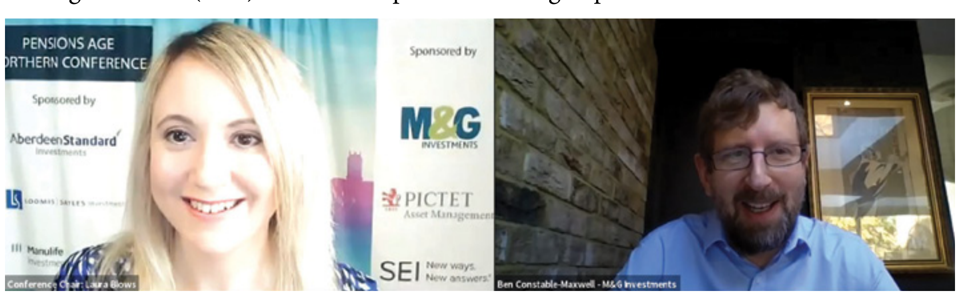
Addressing pension schemes' income requirements was re-visited in the next presentation, with Aberdeen Standard Investments' senior solutions specialist, Timea Varga, exploring how UK pension schemes are currently meeting their cashflow needs, the different approaches that are being taken, and explaining what is meant by cashflow-driven investment (CDI) solutions. Varga also looked at which asset classes can be used, what buy and maintain credit solutions are and, by using case study examples, demonstrated how they can help clients address the increasing need for income in the current environment.



With Varga having touched on the significance of environmental, social and governance (ESG) issues in her presentation, sustainability was the focus of the next session, with M&G Investments' head of sustainable and impact investing, Ben Constable-Maxwell, discussing the power of the circular economy as "a fascinating solution to some of the societal challenges we face". He argued how the concept has a huge role to play and one that is just starting to be used as a solution to those challenges. "It is a concept that helps reduce waste, as a primary focus, but is combatting climate change as well and, importantly, from an investment point of view, can make simple financial sense."

He also offered examples of some of the companies already leading the way in this space.

The next keynote speaker of the day was Pensions Administration Standards Association (Pasa) president and Pensions Scams Industry Group (PSIG) chair, Margaret Snowdon, OBE, who tackled two interlinked topics in the pensions world today, scams and pension transfers. Snowdon first looked at the different types of pension scams there are prevalent today, how big the problem of pension scams currently is and, most significantly, their potentially devastating impact. She then looked at what the



Sponsored by:

Aberdeen Standard Investments | Loomis Sayles Investments | Manulife Investment Management | M&G Investments | Pictet Asset Management | SEI New ways. New answers.

industry is doing to address the problem; the work PSIG is doing in this area; and also addressed what “administrators and trustees can and should do to protect members from potentially making the biggest mistake of their lives”.

Finally, Snowdon’s presentation looked at how administrators and schemes can achieve the seemingly impossible – fast transfers that are safe. “Together, we can make DB transfers faster and more efficient and that way everybody wins,” she said.

The third keynote speaker was Pensions Dashboards Programme (PDP) principal, Chris Curry, who offered delegates an update on where the group is with the development of the dashboards to date. He explained what progress the group had made, as well as offered an indication of the PDP’s direction of travel for the future. This began with a useful introductory video of the pensions dashboards ecosystem, which also highlighted what is being done to keep data as secure as possible. “An important part of what we are doing is making sure that the consumer is at the heart of everything,” stressed Curry.

“We are building the dashboards for the consumers and individuals to use and we want to make sure that they are built in a way that is of most use to those individuals and help them to do what it is they need to do,” he added. He also highlighted how the PDP is working with various parts of the industry and laid out a phase plan and indicative timeline for progress.

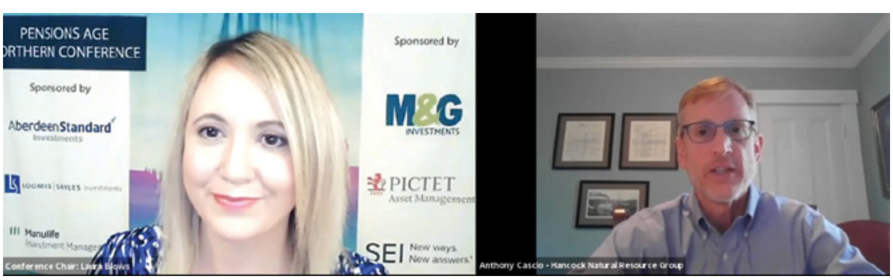
ESG was back in focus again with the penultimate presentation of the day, with Loomis, Sayles & Company’s director of ESG, Kathleen Bochman, and senior credit research analyst, Greg Schantz, looking at the evolution of ESG in credit markets.

This session looked at ESG integration and engagement, with specific examples in credit. The speakers looked at developments among credit rating agencies, how ESG can be integrated in all aspects of the investment process, and shared how a focus on the materiality of ESG factors allows credit investors to be a positive influence for change without sacrificing investment performance. “Fixed income investors can really influence issuers – it’s not just equity holders that can do it, but fixed income as well. We have the ability to speak with issuers, to identify areas that we expect to have changed, and to continue to work with them throughout their issuance cycle, to get things done,” explained Bochman.

The final presentation was from HNRG Timberland’s managing director and deputy chief investment officer, Anthony Cascio, who explained what privately-held timberland and farmland investments can offer even during turbulent times. Cascio examined the current markets and outlook for these asset classes, to include the impact of Covid-19, and demonstrated why they tend to have a dampened, delayed reaction to temporal events.

“There may be more to unfold of the Covid story in the coming months, we won’t be surprised to see some unexpected events that impact the markets for particular timber or agricultural products. However, at the portfolio level and for the respective asset classes in general that includes the underlying land, we continue to feel confident in the ability for timberland and farmland to perform in a steady manner over the long haul,” he concluded.

Many thanks to all our speakers and sponsors, and we look forward to welcoming you back in Leeds this year.



The Pensions Age Northern conference can be viewed at www.pensionsage.com/northernconference

Written by Francesca Fabrizi

Pensions in 2021

Following the tumultuous year that was 2020, the pensions industry may be hoping for a quieter 2021. However, with the impact of Covid-19 still being felt, the introduction of the Pension Schemes Bill and a swath of new regulations, this seems unlikely. Jack Gray looks ahead at the trends likely to shape the coming year

Introducing the Pension Schemes Bill

With the Pension Schemes Bill achieving royal assent, professionals across the pensions industry are going to have to adapt to all the changes it will bring. Schemes will need to prepare for the introduction of pensions dashboards and increased reporting and action on climate risk, and familiarise themselves with The Pensions Regulator's (TPR's) new powers, among many other changes.

"The act will be followed up by a raft of detailed secondary regulation in early 2021," comments Aegon head of pensions, Kate Smith.

"This includes new transfer regulation setting out prescribed transfer scam red flags, which if raised will remove member's statutory right to a pension transfer.

"In addition, the Department for Work and Pensions (DWP) will be publishing regulations setting out how the largest occupational pension schemes will have to report their carbon footprint in line with the Taskforce on Climate-Related Financial Disclosures (TCFD)."

LCP partner, Jonathan Camfield, notes that TPR will publish guidance on how it intends to use its new powers in 2021 and there are two new contribution notice powers that the industry will need to learn how to navigate.

"Many companies and trustee boards will need to review their governance procedures to ensure they comply with the new requirements," he continues. "Some will also be surprised that previously considered 'normal business activity' may trigger the new rules, leading to a need to compensate a pension scheme in the context of refinancing, dividend payments or restructuring.

"By the end of 2021, I expect company boards will be treading more carefully when it comes to any business activity that could impact the strength of the business that supports the pension scheme."

Camfield adds that although it could be argued this change will be good for schemes, he questions whether the shift towards greater support of scheme at the expense of other company stakeholders may unnecessarily hurt businesses when the economy is coming to terms with the fallout of Covid-19 and Brexit.

Covid-19 fallout

The year 2020 was dominated by the unprecedented crisis of Covid-19. Although vaccines have been approved and there is light at the end of the tunnel for many, there are concerns its impact has not yet been fully felt and sponsors are still at risk.

"In many ways, the full impact of the Covid-19 pandemic for the pensions world is yet to fully emerge," says LCP partner, Steve Webb. "Insolvency rates in the earlier part of 2020 were actually below normal levels, but as government support schemes unwind, insolvency levels are likely to rise substantially in 2021 and beyond.

"Trustees in particular will face difficult judgements as to how far to give corporate sponsors the breathing space on contributions to get their businesses back up to speed and how far to press for money for the pension scheme now."

PLSA director of policy and research, Nigel Peaple, concurs: "The recent collapse of Arcadia and Debenhams has put the spotlight on DB funding and sadly there may be more businesses which succumb to financial pressure."

SEI head of institutional group for EMEA and Asia, Ian Love, adds: "The ramifications of Covid-19 will continue to impact the economy in 2021 and the pensions industry will not be immune to the economic upheaval.

"Pension schemes and their investment portfolios will continue to experience significant disruption, and the scars inflicted in 2020 will take time to heal."

However, Love notes that the pandemic has also unearthed "hidden efficiencies" for pension schemes, such as increased technology adoption.

Insight Investment head of solution design, Jos Vermeulen, notes that, as pension schemes manage their interest rate and inflation risk, and they move out of equities, the longevity risk starts to become a larger part of their remaining risk.

Brexit stage left

The pandemic has somewhat overshadowed one of the biggest upheavals in the UK in a generation – the country's departure from the European Union. Despite the inevitability of the huge impact it will have on all financial aspects of people's lives, including pensions, there is uncertainty as to how and to what extent it will affect the industry.

"Brexit will be a consistent, industry-wide concern that will rise to and remain at the top of the agenda in 2021," says Love. "There are real question marks over how it will play out, most pressingly, its impacts on currency, rates and inflation. These will be major concerns for both DB and DC trustees."

Whatever the ramifications of Brexit, it is yet another thing for the pensions industry to adapt to in 2021.

Regulation, regulation, regulation

In 2020, TPR began consulting on its new DB funding code. It proposes a new 'twin track' approach to DB scheme funding, with its second consultation expected to launch in mid-2021.

"2021's second consultation of the DB funding code from TPR will be at the forefront of the industry's mind," comments Love.

"Against the backdrop of a weakened economy, regulation is emerging as a key pressure point for 2021 and more stringent action may potentially make some businesses, and their support for their pension schemes, unsustainable."

Webb explains that a "key decision" for regulators will be how far to press ahead with a tougher funding regime designed in more normal times, or whether to put that new approach on hold until the post-Covid economic backdrop becomes clear.

Vermeulen adds: "People are worried that it is going to overburden sponsors, but the thinking of TPR that you need different regulation on pension schemes when they are in decumulation compared to accumulation does make sense."

The age of the master trust

This year, TPR's supervision cycle on DC master trusts begins, where it will be checking that master trusts are continuing to meet the standards set by the authorisation criteria and intervene if necessary.

"In this new environment master trusts will have to prove they are financially sustainable and well run, by providing a whole host of 'mini-authorisation' information to TPR letting it see everything under the bonnet," Smith notes.

"Some master trusts will be moving from strength to strength, while others may be falling behind. As master trusts and TPR gear up it's important that open dialogue is a prerequisite with a deeper understanding that all master trusts are different, but financial sustainability should be the central priority in these uncertain times. This will be another steep learning curve for TPR, which will find out how master trusts have fared during and after the pandemic."

LCP principal, Philip Audaer, adds that too many master trusts are chasing an "ever-diminishing" pool of clients: "The DWP consultation on scheme consolidation for existing own-trust schemes with less than £100 million funds under management will create a short-term spike in demand, but after that, it's only the largest master trusts that will survive."

Audaer notes that the number of small pots is set to increase "dramatically" and master trust boards can expect to come under increased pressure from TPR to justify their delivery and independence.

Saving the world

The year 2020 saw a significant change in attitude and increased focus on pension schemes' role in the fight against climate change, and it looks like this trend will continue in 2021.

"Climate change as an issue will continue to rise up the agenda in the UK given the context of the COP climate talks taking place in Glasgow in November 2021," predicts LCP head of responsible investment, Claire Jones. "The DWP will be firming up its proposals for large schemes to report in line with TCFD early in 2021 and by October, schemes with net assets of £5 billion or more are expected to need to have a climate governance system in place, based on the DWP's current proposals.

"Expect more DC schemes to incorporate a climate or environmental, social and governance (ESG) tilt in their default strategy, some high-profile announcements of schemes setting net zero targets, and increasing interest in allocating money to climate solutions.

"When it comes to responsible investment more generally, there will be increased focus on stewardship and greater consideration of members' views on ESG topics." Peaple describes schemes' responses to the climate crisis as possibly "the most transformative innovation of the next decade".

He continues: "While schemes aren't required to apply TCFD standards until October 2022, as they gear up for regulatory change expect trustees to be very focused on climate risk over the next 12 months.

"Pension schemes cannot resolve these global challenges alone if they are to deliver the change that is necessary. The PLSA anticipates a focus on achieving a more system-wide approach emerging in 2021."

Balancing the books

As the UK comes to terms with the cost of the Covid-19 pandemic, cutting pensions tax relief has again been mooted as an option to raise some much-needed funds in 2021.

"There have been rumours that Chancellor Rishi Sunak is considering a move to a flat rate of relief, perhaps at 25 per cent," states Aegon pensions director, Steven Cameron. "While this would reduce the incentives for higher-rate tax payers, it would actually improve the boost basic-rate taxpayers receive.

"But as previous chancellors have discovered, such changes are highly complex to implement, particularly for DB schemes or for those using 'salary sacrifice' to pay their pension contributions."

"Pensions tax relief is one area that is said to be 'under review' by the Chancellor," adds Peaple. He warns that people are not saving enough currently and cutting tax relief would make this position worse.

"We fear that introducing such a major change to the retirement saving system undermines confidence in pensions which, given the long-term nature of pension saving, is harmful and counterproductive, as it is extremely unlikely to raise more than a fraction of the £40-£50 billion often quoted," he concludes.

Written by Jack Gray

Market predictions

Expert views on the 2021 trends for equities, property, fixed income and infrastructure

Equities

Equity indices are expensive. But that is mostly driven by a narrow pocket of very large tech companies that have stock prices far from their earnings. Many tech stocks are priced for perfection, and with little consideration for competition and regulation. Once you step away from the expensive pockets of the market, there are opportunities for good investment. There are many companies with strong balance sheets, solid earnings and great prospects for earnings growth. These tend to be the businesses that were overlooked during the most recent tech-boom and the Covid-19 crisis, and in sectors more related to the real economy, for example financials, industrials and materials.
SEI client investment strategist, Cai Rees

Equities are expected to be an attractively priced asset class in 2021, particularly when considering the potential for a re-acceleration of activity and interest rates still remaining low in absolute terms. However, 2021 will be a delicate year with markets remaining vulnerable to sentiment and rotation. Equity portfolios will need to be agile and capable of balancing between short-term bursts of performance in certain traditional sectors and the long-term vision of capturing growth opportunities focused on sustainability. On the one hand, continuing positive conditions as we recover from the effects of the virus are expected to enable many companies to recover rapidly. This will create challenges for active managers due to rotation effects. On the other hand, sustainability led considerations and perhaps a different post-Covid world will lead to structural changes, planting the seed for strong business models differentiation.
Lombard Odier Investment Managers head of UK institutional clients and solutions, Ritesh Bamania

2021 is likely to be another strong year for equities. The economic recovery that will follow the widespread adoption of the vaccines in the developed world, when combined with ongoing monetary support from central banks, should provide goldilocks conditions for equity markets. The main risk to this outlook is that the economy recovers faster than expected, which would allow central banks to begin tapering their support. In 2021, FAANGM (Facebook, Apple,

Amazon, Netflix, Google and Microsoft) stocks should continue to outperform compared to the rest of the market. However, if the real economy picks up faster than expected this could prove to be an opportunity for markets such as the UK with exposure to banking and commodities that have struggled to recover the ground lost in March 2020 at the height of the pandemic.
Barnett Waddingham principal and senior investment consultant, Chris Binns

As confidence builds in the recovery, we expect stock level considerations to reassert themselves as 2021 rolls on. This will mean greater scrutiny of the post-Covid intra-industry competitive landscape. Those companies that made the best of the crisis by using it as a catalyst to get their house in order – either by cutting organisational fat, accelerating their digital transformations or engaging opportunistic M&A amongst other things – should begin to demonstrably pull away from their peers for their stock specific fundamentals rather than their sector label.

Should a reasonable level of inflation transpire as we expect, then companies with strong current cashflows and pricing power dynamics also stand placed to do well. This should be to the benefit of companies with higher than average dividend yields that had a particularly tough 2020. Normally in pronounced market sell-offs, high dividend stocks, supported by their income characteristics, display defensive characteristics, however this episode proved to be the exception to the rule. Uncertainties about suspended or cut dividends has continued to hold this group of companies back. We believe that they still have significant recovery potential and that their longer-term properties – competitive total returns accompanied by lower volatility and defensive drawdown characteristics – remain intact.
Ninety One strategist, Sahil Mahtani

Property

We continue to believe the most resilient opportunities are to be found in rented residential property, senior living and logistics assets. However, as competition for assets in these areas tends to be fierce, identifying specific assets that can be acquired at a price that offers a fair compensation for the risks will require an even more forensic and granular approach.

More opportunistic strategies could look at picking up quality assets in potentially over-sold segments where long-term structural drivers remain robust. This could be hotels or student housing, given we can find comfort in the tenant quality in a challenging solvency environment. Long-leased assets with strong tenant covenants, particularly in alternative sectors, should be interesting in the current environment.
Aberdeen Standard Investments, head of European research – RE investment research, Craig Wright

Investors in commercial real estate have the most difficult task ahead of them as they try to figure out how much our current 'remote' way of living and working is a permanent change and how much we will return what it was like before the pandemic broke out. How will demand for offices change? What is the interaction between working from home and more space required in offices to maintain safe distance? How will the high street be affected as many retailers go bankrupt? Will we see a return of the local high street, a sector in long-term decline, if we are working from home more often? And finally will people want to move away from larger populated cities like London for a better and more comfortable life?
RisCura head of research, Faisal Rafi

The death of the office has been exaggerated. Offices will remain the preferred place for innovation, collaboration, and communication providing its accessible, high quality. However, the need for occupational flexibility means that landlords will increasingly need to learn to operate or outsource to others. Locations with strong creative industries and professional services, buildings that are environmentally sustainable and designs that allows for a mix of office and remote teams to collaborate will be key to success.

In the industrial and logistics space, take up will be dominated by the swapping by retailers from expensive high street occupational costs into cheaper methods of getting goods to the consumer. These companies have the potential to pay higher rents than traditional industrial users given the savings they can make. With a shortage of supply, rents will grow and the development of new assets will deliver disproportionately attractive returns, given relatively low planning and development risk. For investors, investment in industrial assets is forecast to deliver the highest sector-based returns, but the challenge will be buying the assets.

In the retail sector, food and home improvement and discounters fared well in 2020. These retail warehouses are underpinned by strong sales for now, but in the longer term with lower occupational costs and the potential for last-mile logistics from these sites. Logistics units on the edge of towns will replace the high street as the final link in the physical chain for moving goods to the consumer. Other industrial units will also benefit from post-Covid and Brexit onshoring as we build new supply chains.

Lastly, in the residential market, the attraction of inflation-linked income will fuel the nascent private-rented sector, with it becoming a mainstream

institutional asset class and values rising as yields fall to reflect demand and lower risk premiums. This is the sector we predict the most evolution in the coming years.
Fiera Capital head of UK real estate, Alex Price

Fixed income

The 'search for yield' environment is likely to persist as easy monetary policy will keep yields low for longer. This scenario generally tends to be supportive for illiquid and also for liquid high beta credit, ie where the bond rating is at the lower end of investment grade and/or where the rating is below investment grade. For example, we see value in Covid-sensitive sectors such as autos and in going down the capital structure to invest in fundamentally solid companies. However, this requires enhanced risk monitoring. In particular, a sustainability-led focus will need to be at the forefront of investment decision making. On one hand, sustainability will add resilience to portfolios by identifying companies and countries best suited to the demands of a low carbon, low temperature, and a resource-scarce global economy. On the other hand, sustainability will also help identify themes and sectors that are expected to do well and benefit from a transition towards a circular, lean, inclusive and clean economy.
Lombard Odier Investment Managers head of UK institutional clients and solutions, Ritesh Bamania

Fallen angels are often misperceived as crisis-only opportunities riddled with risk, but we feel the reality is starkly different, as fallen angels represent the highest quality segment of high yield, and have delivered a high return, low-risk value proposition. We see this trend continuing throughout 2021 and for years to come, with another £300 billion of investment-grade bonds on the precipice of being downgraded to fallen angels. Investors should be considering this area of fixed income, as fallen angel investments have delivered a higher return profile than investment grade and have been a large driver of income in 2020. We believe this will remain an attractive opportunity following the pandemic recovery and we expect this segment to bear more fruit in the years to come.
Mellon (Part of BNY Mellon) head of fixed income efficient beta, Paul Benson

We believe that credit spreads will continue to fall as central bank purchases continue to be extended and the economic recovery begins to take hold during 2021. The high default levels predicted at the start of the pandemic have failed to materialise, largely because of government support, and so we believe current spreads provide more than adequate compensation for the risk of defaults going forward.
Barnett Waddingham principal and senior investment consultant, Chris Binns

Chinese government bonds offer an interesting alternative to developed government bonds. The People's Bank of China has continued to state its desire to avoid at all costs unconventional policies and negative interest rates. It will continue to apply a more conventional policy framework focused on policy transmission versus targeting the quantity of money hence changes in yields should be correlated to the growth outlook. China is a creditor nation and having opened up its bond market to foreign investment, it now has the second most liquid government bond market in the world. Having risen in response to the strong recovery the country has experienced, Chinese bond valuations are currently at medium term fair value levels.
Ninety One strategist, Sahil Mahtani

Infrastructure

Significant investment in sustainable infrastructure is expected from many governments' economic plans to build back better through a green-led recovery. Advancing offshore wind, shifting to zero emission vehicles, investing in carbon capture technologies and driving the growth of low-carbon hydrogen are just some of the areas where governments have pledged ambitious plans. We expect delivering on these green goals will require substantial private investment in both debt and equity. We also expect to see infrastructure debt opportunities to cut the carbon footprint of more traditional infrastructure portfolios.
Macquarie Infrastructure Debt Investment Solutions co-head, Kit Hamilton

Currently, there is lots of discussion around the need to revitalise the public-private model of project delivery to continue to build and renew infrastructure at a time when governments are even more fiscally-challenged. In fact, the need for job creation associated with an infrastructure build is looked at as a critical component of economic recovery after the pandemic. Record low interest rates across all developed economies continue to underpin valuations in the sector.

Critical changes and new technologies will continue to accelerate in infrastructure. This includes faster deployment of fibre connectivity in telecommunication networks and adoption of renewable energy in electrical grids and associated supporting technologies such as batteries. The importance of constant communication with management teams and operators has been further reinforced during these uncertain times. Strong relationships with lenders, regulators and other stakeholders is now more critical now than ever.
Fiera Private Alternative Investments CIO, Marc-André Desjardins

Written by Laura Blows

Don’t leave data ’til later

Duncan Ferris chats with Pensions Dashboards Project (PDP) principal, Chris Curry, about how newly-released data standards set out what providers and schemes need to prepare in order to digitise retirement savings

How have you ensured that the PDP requirements will be manageable for providers?
We have to walk before we can run. Our vision and the minister’s vision is that, eventually, there will be a lot more information available through pensions dashboards but there is a trade-off in doing that. We’re focusing on data that the providers should already have to provide and so they should already know how to get access to it.

Obviously, it’s not always available instantaneously for every member of a scheme so there will still be work for the industry to do to make sure that, by the time they connect up to the dashboard, they have the right systems in place.

It’s fair to say that there are still one or two issues where we are going to need to work closely with the industry, the government and regulators to refine further some of the data elements that we are interested in seeing, such as the estimated retirement income.

How much scope for change in the standards is there?
The refinement is mainly going to be in the technical sense, so the standard data items that we are asking for will likely be pretty much fixed. At some stage in the future we might want to add things in. A really good example of this is costs and charges, which we know will be important on pensions dashboards.

At the moment, we cannot define exactly what the cost or charge field would look like because there is no consistency across the industry in doing that, so that is another area where we will be working with the Department for Work and Pensions, regulators and the industry to come up with what we think will be most useful and then working to ensure these become part of the standards at a later date.

The issue of displaying estimated retirement incomes has caused a degree of consternation. How are you working to deal with this issue?
This is very much the start of the discussion but we know that what is available from the industry will provide a challenge for consumers to be able to understand all the different definitions of estimated retirement income that will come from different parts of the industry. We think there is a way through this and we have been working hard with the industry to come up with that.

One of the most important things for us over the next few months is going to be consumer testing, which will allow us to understand the public’s view on what will be most useful and easiest to understand, and therefore what will be of the most value for them on dashboards. From the other end we will work with the industry to understand what they think they can provide, how they can provide it and how long it might take.

What should schemes and providers do now that the standards have been released?
One of the challenges has been that people want to get ready for pensions dashboards but may have not always been aware of how they can do that. There are now really important things that they can do and a lot of that is because now we are telling them what kind of information they can be using to find members and they can check whether they have that information, whether it has been cleaned, that it is consistent and also that it is digitally accessible. It’s definitely also worth thinking about how you would currently provide an estimated retirement income and also to think about what might need to be done if this changes at some point in the future.

Written by Duncan Ferris

Areas of focus

Some of the industry's key associations reveal their priorities for the year ahead

Pensions and Lifetime Savings Association (PLSA)

Looking at 2021, here are several things we will be focusing on over the year. 2021 is the year Boris Johnson will be hosting the next key UN Conference on Climate Change. At the PLSA, we will be pursuing the agenda set out in our *The Changing Climate* report, seeking to make it easier for pension funds to invest in a climate aware way.

While the arrival of V-Day (or vaccine day) heralds the beginning of a solution to the health risks of Covid-19, 2021 may be the year the Chancellor seeks to address the economic costs. If he seeks to reduce the amount of fiscal support for pension saving, the PLSA will be underlining that the UK needs to do more, not less, pension saving.

The government is also likely to make proposals on how to reduce, or manage the downside of, the growing number of small pension pots resulting from the interaction between automatic enrolment (AE) and job changes. To address this, the PLSA will be working for a solution that keeps the interests of savers at its heart, while also ensuring any initiatives do not destabilise workplace pension provision.

We suspect that defined contribution (DC) decumulation will continue to draw attention this year and, over the course of 2021, the PLSA will continue to argue for a new approach to the issue that not only builds on the pension freedoms but also, by introducing a new statutory obligation, will provide more support for savers at retirement. And, of course, the PLSA will be championing measures to improve understanding of pension saving by updating our Retirement Living Standards, and supporting the work of Money and Pensions Service on pension dashboards and financial wellbeing in retirement.

Pensions and Lifetime Savings Association director of policy and advocacy, Nigel Peaple

Pensions Management Institute (PMI)

The PMI recently conducted research to establish longer-term strategic thinking among trustees. The results were understandably bleak: most trustees are focused on the extreme short term and are concerned about the employer covenant. The recent collapse of the Arcadia Group – whilst not entirely attributable to the pandemic – is likely to be part of a series of insolvency crises that will threaten the security of members' defined benefit (DB) pensions.

Another area of concern will be the continued threat of scams. After nine months of furlough and redundancy, many members will be desperate for cash and so will be vulnerable to those offering to 'unlock' accrued pension savings.

Looking further into the future, it is perhaps time to widen the scope of AE. The Work and Pensions Committee will investigate this later this year and could well press to bring forward arrangements for AE to begin at age 18 and for the lower threshold to be abolished – allowing contributions to be based on 'pound one.' It is perhaps time to consider increasing the minimum contribution rates and to establish a mechanism for bringing the self-employed into AE.

Finally, we wait to see when the pensions dashboards will become available and members will finally have access to an aggregated presentation of all their pension savings. This has been eagerly anticipated for some time and has the potential to make a massive change to retirement planning.

Pensions Management Institute head of technical, Tim Middleton

Association of Professional Pension Trustees (APPT)

The impact of Covid-19 will continue to be felt across the industry in 2021, and with the uncertain economic outlook, a new Pensions Schemes Act and an industry drive towards consolidation, our priority will be to support APPT members in navigating this evolving landscape.

Soon we will start to see the longer-term impacts of the pandemic on funding and investment, and changes to the way we work. This is likely to accelerate the move to sole trusteeship and, following the release of our code of practice in November 2020, this will remain a major focus for us in 2021. We hope that the code will raise standards across the industry, not least ensuring that schemes are overseen by two or more accredited professional trustees, acting in consultation with professional colleagues.

Beyond Covid-19, environmental, social and governance (ESG) will be key, with businesses under increased pressure to put climate change and sustainability at the top of the agenda. As we undertake a major project to develop our professional trustee standards, we'll be continuing moves to put ESG at the core of trustee investment strategies, and we have set up an ESG group to develop more rigorous benchmarking, as well as help trustees understand how to address ESG matters.

Diversity and inclusion will also be central to this review of standards, as we look to encourage a diverse future talent pipeline into the industry. APPT members can also expect an increased focus on how to prevent scams – a key issue for us – as well as how to approach the alternative DB consolidation models emerging in 2021.

Association of Professional Pension Trustees chair, Nita Tinn

Society of Pension Professionals (SPP)

2021's all about embracing change and improving member outcomes, but we need to do more. Coverage and contribution adequacy need addressing. Preparing to implement the 2017 AE review is critical to this.

2020 had been a difficult year for all. In the pension world, pension schemes and sponsors are wrestling with the repercussions of Covid on members, individual businesses, and the economy more generally.

On top of this, it seems to be all change, with a myriad of seemingly unrelated legislation and consultations underway or expected next year. There's lots to comply with – the DB funding code, ESG requirements, more DC disclosures, simpler statements, dashboard requirements – and lots of new options, including superfunds, DC consolidation and even collective DC.

It's easy to feel overwhelmed responding to seemingly ever-increasing red tape but the legislative agenda has a single theme at its centre, and one that ultimately goes to the heart of what pensions are about and why we're here – member outcomes. Member outcomes are improved by managing risk (DB funding, ESG), improved value and governance (DC disclosures and consolidation, superfunds and collective DC) and greater engagement (simplified statements, dashboards).

As we've already seen, sadly some sponsors won't survive, leaving members at risk of reduced pensions. But the pensions system as a whole has been robust in the face of the turmoil. 2021 is an opportunity to embrace change and make the system even more robust.

If there's one thing I'd add, it's starting the discussion on implementing the recommendations from the 2017 AE review. Going further, I hope 2021 is year we have the 'legitimate debate and discussion' the Pensions Minister says is needed over future AE contribution rates. 2021 may not be the year to increase these but, to make meaningful change by the mid-2020s, we need to start the discussion now.

Society of Pension Professionals president, James Riley

Association of Consulting Actuaries (ACA)

Was a Pensions Act on your letter to Santa? Maybe a fast-track DB funding code, simple annual statements or Taskforce on Climate-Related Financial Disclosures (TCFD) recommendations? Well, you must have been good, as all these will roll out in 2021.

Adequacy/coverage and climate risk are worth watching for this year. Another review of AE will kick off. It's three challenges are familiar: widen coverage (helping under-pensioned and minority groups), increase contributions over time and keep people enrolled as the economy recovers from Covid-19.

Glasgow's delayed COP26 will create a climate risk buzz. Corporates and asset managers should deliver on their promises of 2020. We'll see TCFD disclosures and I'm optimistic of a step change in DC saver engagement too.

Lots more will move forward this year: Posties will get the legislation for Royal Mail's long-awaited CDC. Let's hope DWP drafts CDC regulations widely enough for other businesses to find CDC attractive too.

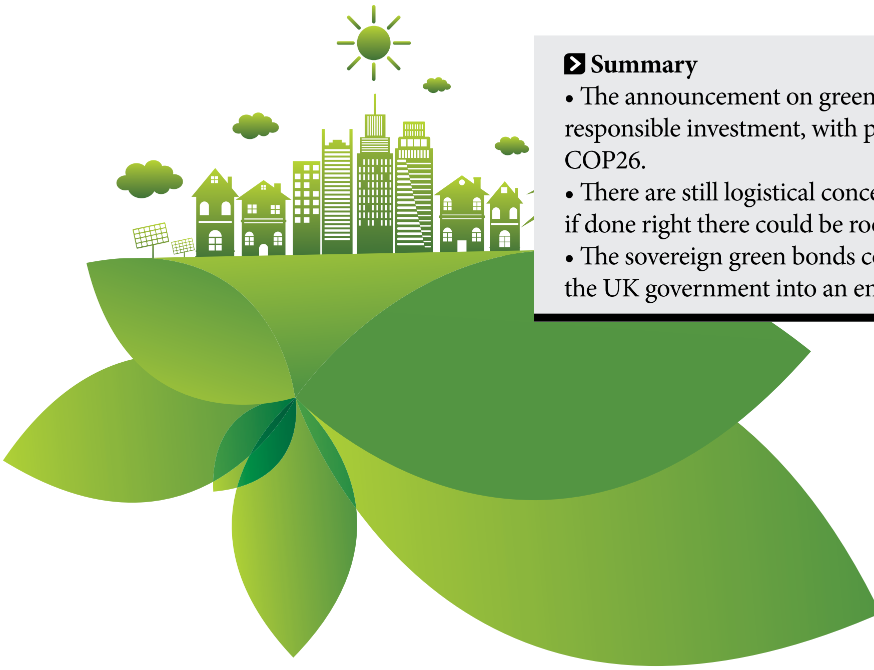
DC has a fascinating rolling agenda. The simpler annual statement will help millions of people finally understand their savings. The industry will break the back of dashboard data too, paving the way for the most fundamental change in pension engagement of our lifetimes.

Value for money in DC will rumble on too. Whether it delivers what's really important to savers or drives costs to the bottom remains an open question. I'm not optimistic the boundary between advice and guidance will get clearer.

The Pensions Regulator's well-trialled fast-track DB funding code will get nailed down this year. The twist will be balancing sponsor resilience post Covid-19 with gradually strengthening funding as schemes mature. Hopefully DB's progress won't be marred by the mess of GMP equalisation has created.

Pension tax may again be the joker in 2021's pack of policies. Our outrageously complex system needs simplifying. But we can't let short-term pressures trump long-term saving for retirement. Building back better in pensions needs thinking that spans generations.

ACA chair, Patrick Bloomfield



Summary

- The announcement on green sovereign bonds reflects a broader trend around responsible investment, with pressures mounting from both the pandemic and COP26.
- There are still logistical concerns that the government must overcome, although if done right there could be room for future developments.
- The sovereign green bonds could have more of an impact as a catalyst, pushing the UK government into an environmental leadership role.

Kickstarting a green recovery

Sophie Smith examines the government's plan for green sovereign bonds, the challenges and benefits they could bring, and what they could mean for pension schemes and the wider economy

In November 2020, Chancellor Rishi Sunak provided a financial services update, which aimed to place the UK at the forefront of green finance. This included plans for the first Sovereign Green Bond, expected to be issued in 2021. The gilts aim to help the UK meet its 2050 net-zero target and other environmental objectives, but what could they mean for the pensions industry, and for broader environmental, social and governance (ESG) trends?

"It's great news," says Aegon investment solutions managing director, Tim Orton, "the introduction of green gilts by the UK government marks a significant moment and adds to the growing range of ESG investments on offer". Orton explains that, although equity-based ESG investments dominate at present, the value of sterling-denominated green bonds is very small, whereas the euro and US dollar denominated markets are somewhat bigger. "Green gilts will therefore significantly increase the market for those looking to fund sterling-denominated projects and help allow more holistic exposure to responsible investing across asset classes," he explains.

They also provide capital for large projects that help to cut carbon emissions, with the added incentive of government backing, points out Interactive Investor head of pensions and savings, Rebecca O'Connor. She explains that green infrastructure, once constructed, tends to generate reliable, long-term revenue that usually matches the aims of pension schemes. Furthermore, she notes that whilst the early stages of new development can be risky, with the risk of delay or cost over-runs, sovereign bonds issued by the government help shelter pension scheme investors from some of this risk, making earlier stage investment more attractive.

Adding to this, Sackers partner, Stuart O'Brien, stresses that, as with all investments, trustees will have to make their investment decisions by putting financially material matters first and cannot act altruistically.

"Benefits to wider society may frequently be compatible with positive financial attributes to the pension scheme but this can't just be assumed," he adds, warning however that it would be problematic if trustees are asked to pay a premium to fund the government's green activities (or cover the additional costs of monitoring and reporting) in relation to instruments that fundamentally offer no better credit rating or default risk. Indeed, Cambridge Threadneedle responsible investment portfolio management director, Simon Bond, acknowledges that pension schemes must also consider the financial returns, stressing however that there will be little difference from other sovereign bonds from a risk or yield perspective. "A gilt is a gilt is a gilt whether its green or not when it comes to credit," he emphasises, explaining that the main difference is the use of proceeds, which can have wider environmental benefits.

Remembering the S&G

It is not only environmental benefits that the gilts could bring however, as Bond emphasises that the proposals will also bring social benefits, with Sunak's update highlighting the creation of green jobs as one key example. Echoing this, O'Connor says that the gilts could help kickstart the building of expensive but necessary infrastructure that can struggle to get off the ground without government backing, giving the UK economy a much-needed boost. Furthermore, Impact Investing Institute chief executive, Sarah Gordon, says that since the UK government's 10-point Green Recovery plan clearly sets out interlinked environmental and social goals, notably in creating green jobs, any green gilts issued by the government should provide explicitly for social co-benefits, in a format the Impact Investing Institute and Green Finance Institute have labelled Green+ Gilts. These proposals, which were presented to the government in the month prior to the Chancellor's announcement, have already received the public support of 40 asset owners and investors, representing organisations and assets under management of more than £10 trillion.

Agreeing, Bond highlights the gilts as a very appropriate instrument to support the government's 'build back better' initiative, stating that in the aftermath of the pandemic, there is no lack of projects that would benefit the environment and also benefit that green recovery. He clarifies, however, that the details as to what exactly the pre-defined projects will be are yet to be revealed.

Green enough?

Broader concerns as to how exactly the green in these green bonds is defined are emerging, as Orton warns that different investors have different criteria, which the government will need to consider when structuring the bonds, whilst Interactive Investor, head of funds, Dzmitry Lipski, emphasises that it is essential that the gilts meet ESG criteria wherever possible, to attract as many investors as possible.

Whilst Gordon agrees to an extent, she says that considerable progress has been made in the 14 years since the first green bond was issued, highlighting the extensive resources available to market actors, including the Green Bond Principles, Climate Bonds Initiative, and the Science Based Targets Initiative. Furthermore, Lipski says that the bonds are "nothing new", and that those already in issuance serve as a handy blueprint for the UK government when designing the bonds.

Getting the foundations in place

Other logistical barriers still remain however, as Lipski also highlights concerns around securing the development permissions and the developers – both resources and equipment – to deliver these largescale infrastructure projects in a timely manner. Adding to this, Bond points out further issues facing the government around reporting, emphasising that if the government is going to follow the International Capital Market Association (ICMA) green bond principles, this will require reporting on an annual basis of the disbursements and the impacts, using predefined statistics, which could present further challenges.

Trustees will also need to consider their own reporting requirements when exploring the potential of the green sovereign bonds, as O'Brien notes that the new Taskforce on Climate-related Financial Disclosures (TCFD) requirements will require trustees to conduct scenario analysis and measure certain emissions-based metrics. However, he warns that both of these are currently more challenging for sovereign debt than many other asset classes, and that standardisation of calculation of greenhouse gas emissions, in particular, is notably lacking at the moment. "Whether green sovereign bonds will be easier on that front remains to be seen," he adds, "although trustees will need to be careful not just to make allocations on the basis of improving metrics for metrics' sake without demonstrating the financial materiality of doing so to the pension scheme."

Sparking a shift

Bond highlights the framework for the gilts as another challenge, explaining however that once this framework is in place, it could make it easier to respond to future crises from within the framework. For instance, he says that if the government was to encompass social benefits as outlined in the Green + Gilts proposals, it could potentially issue social bonds of the back of that same framework should the need arise, as other agencies and international firms were able to do earlier this year amid the pandemic, with French Agency, UEDIC, issuing social bonds to pay for their furlough scheme earlier this year.

Adding to this, Gordon says that whilst at this stage the UK government has announced a green transaction, the unprecedented challenges of the past year have bought the social elements of the E, S and G into sharp focus, pointing out that bonds whose proceeds address social themes have been the fastest growing sector of the labelled bonds market. "Since the government's 10 point Green Recovery Plan clearly sets out interlinked environmental and social goals, notably in creating green jobs, it can be supposed that issuance with broader social themes is an option in the future," she says.

Furthermore, Bond says that it is hoped that the bonds will act as a catalyst, driving the government into a leadership position to illicit and encourage further issuance, such as from corporates and bank, as has already been seen in countries such as Germany and Sweden.

"That's what we see as the power of this, it's not just the amount the government borrows and spends, it encourages other borrowing and spending from more private courses", he adds. This is echoed by O'Connor, who warns that stronger targets and agreements on collective global climate change efforts at COP26 will help provide the impetus and framework for further green investment on a global scale, adding that there will be a greater sense of urgency to make up for lost progress.

Written by Sophie Smith

Editorial credit: Marbury / Shutterstock.com

Supporting those who support the nation

At a time when NHS staff have worked tirelessly to support the country through the Covid-19 crisis, Sophie Smith explores the work that NHS Employers and the NHS Business Services Authority have done to support NHS Pension Scheme members

The past year has shone a spotlight on the amazing work done by the NHS in the UK and the country's appreciation has been shown in a myriad of ways. But prior to the pandemic, it was the NHS' pension scheme that had been making headlines, thanks to the tax issues facing members, with NHS providers warning of a potential "exodus from the scheme".

"NHS Employers' reward team has worked closely with employers to understand their concerns around the impact of pensions tax issues for staff," a spokesperson for NHS Employers states, explaining that the group also commissioned research from First Actuarial, which examined the impact and potential impact of pensions tax issues on NHS staff and on delivery of NHS services. This research, as well as engagement with employers, showed that staff had considered reducing their hours, avoided promotions and additional work due to the pension tax issues, whilst others considered retirement, opting out of the scheme, or even leaving the NHS altogether.

Based on these findings, and wider engagement with members, a suite of dedicated online resources to support employers in guiding staff who may be at risk of being affected by pension tax issues was created by NHS Employers. These tools ranged from resources on pension tax issues, advice on how the pension tax issues can be communicated, as well as tools to support staff in understanding their allowance.

After months of uncertainty and emergency interim plans, the Chancellor's March 2020 Budget then confirmed that the government was no longer pursuing pension flexibilities options for clinical staff, announcing instead that the annual allowance taper and the income thresholds associated with the taper were to be increased by £90,000.

Despite this, NHS Employers states that it recognises that some people may still be impacted by the standard annual allowance, commissioning First Actuarial to develop the 'ready reckoner' to help staff understand the benefits they are building up in the NHS Pension Scheme and the annual allowance.

Its spokesperson explains: "The ready reckoner presents staff with a traffic-light system to assess the potential risk of breaching their annual allowance. The purpose of the traffic-light system is to highlight when an employee can have relative comfort in their position, or when they ought to be seeking independent financial advice.

"It will also provide an estimated

Supporting the front-line

NHS staff have worked tirelessly to support the nation throughout the pandemic, and Dawson emphasises that the NHS Pension Scheme has worked to maintain critical payments throughout the pandemic, working quickly to ensure staff could work remotely, and achieving a full recovery from the effects of the initial lockdown by September 2020. Furthermore, the government also included easements around the scheme in its coronavirus action plan. Dawson explains that this temporary suspension of a number of regulations governing the administration of NHS Pensions allowed skilled and experienced members who have recently retired from the NHS to return to work. "The measures also allow retired members who have already returned to work to increase their commitments if needed, without affecting their pension benefits," he adds.

In addition to these legislative changes, the scheme also introduced a number of easements to support members, particularly its frontline healthcare workers. This included extending the voluntary scheme pays deadline for 2018/19 until 31 March 2021 and temporarily removing the 10-week time period freelance GP locums have to declare their pensionable income. "We continue to work closely with and support scheme members, and scheme employers who are responsible for local administration of the scheme across England and Wales and over the past year we have introduced a number of easements and contingency measures to support members and employers, particularly those who may be working remotely due to the pandemic," concludes Dawson.

breakdown of the total annual cost of scheme membership and estimate how much their NHS pension is projected to increase by. Staff using the ready reckoner can save a summary of their results, which can be used to discuss potential solutions to any annual allowance problems."

The tool, which looks at the 2020/21 tax year only, has been shared with members through a wide variety of communication channels with employers and staff working in the NHS, including a webinar, which introduced employers to the tool to ensure they could support staff, and a variety of support resources. The NHS Employers' spokesperson adds: "The tool has been well accessed and we have received positive feedback on it from our employer audience, and also independent financial advisers who will be supporting affected staff, who have said using the tool will help give staff a realistic insight into any potential pensions tax liability.

"The NHS Pension Scheme is and should be regarded as a highly competitive and valuable part of the overall reward package NHS staff receive. It continues to offer a competitive benefit for members, which can be used as a key tool in attracting and retaining staff. Utilising and highlighting the value of the scheme is vital. We believe using the ready reckoner tool can support that."

Indeed, NHS Pensions head of service, Chris Dawson, echoes this, highlighting the NHS Pension Scheme as a "cornerstone" of the NHS' reward package since its creation in 1948. He adds: "Alongside other NHS Business Services Authority services, we believe NHS Pensions has an important role to play in supporting the aims of the plan to ensure the NHS has more people, working together differently, to deliver patient care.

"That's one of the reasons we're continuing our efforts to offer guidance to help NHS staff better understand scheme benefits and create a user-friendly experience for our members through our ongoing digitisation and optimisation efforts."

Furthermore, Dawson says that the majority of NHS members are not affected by the pensions tax regulations around annual allowance, stating that those who are, are supplied with a pension savings statement to support them in completing their tax returns. "Each year we administer annual allowance in two ways; providing the majority of pension savings statements to members who exceed the 'standard' annual allowance, through our automated process by the 6 October, and providing on demand statements to members who did not receive a statement by the 6 October but believe they may be impacted by annual allowance," he explains. He also stresses that the scheme continues to examine procedures and resources around the annual allowance to make further changes through system automation to improve the service to members.

Written by Sophie Smith

Readying the ready reckoner

NHS Employers worked with First Actuarial in the creation of the tax-ready reckoner tool, having worked with the provider for many years and developing a strong relationship, according to First Actuarial project lead, Dale Walmsley.

"We were delighted to work with NHS Employers to design and build a 'ready reckoner' to raise awareness of this complicated and sensitive issue," he says, stating that the provider was keen to develop "pragmatic solutions to complicated problems". "We approached the tool with a member focus and looked to balance the desire for giving meaningful and detailed information in a complex area with ease of use/accessibility," he explains.

After developing high-level proposals for what the modeller might do, Dale says that the team then created a prototype for testing with a selection of NHS staff. He continues: "It is always amazing how some really simple changes can make huge differences when this approach is taken, whether it's changing the language used or adding an extra button."

Next up was the development stages, which saw First Actuarial working with NHS Employers and other stakeholders, such as the NHS Business Services Authority, to finalise the tool, ensuring there was consistency in terminology and approach to calculations, whilst also supporting the development of communications to get it released.

Horsing around

Duncan Ferris quizzes Pensions Administration Standards Association (Pasa) chair, Kim Gubler, about her fondness for horses, rescuing pigeons and trying to be a princess

What's your employment history (including jobs outside of pensions)?
I was a Saturday girl at a hairdresser, worked on the till in a petrol station and was a retail trainee at Harrods. After that I went into banking, became an accountant and then it has been pensions, pensions, pensions.

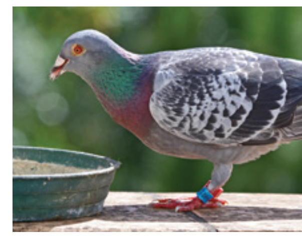
What's your favourite memory of working in the pensions sector?
Getting the award for outstanding contribution to the Pensions Management Institute (PMI) from my colleague, friend and (at the time) president of the PMI, Lesley Carline. It was totally unexpected and when I look at the picture they took, you can see how happy we were.

If you did not work in pensions, what sector do you think you would be in instead?
The equestrian sector obviously! But the likelihood of earning an equivalent living in this sector is low and it's mostly outdoors. I can do outdoors, but a 17-hour day in winter is beyond me. So, I'll stick to pensions.

What was your dream job as a child?
I wanted to be a princess, failing that a lawyer. Clearly, the lawyer option was the one I should have gone for. Sadly, I waited too long trying to be a princess.

What do you like to do in your spare time?
Taking my horses out competing is great, but there's nothing like being with your horse in the middle of the countryside and watching nature go about its business without noticing you.

Do you have any hidden skills or talents?
Not quite a talent, but sometimes it needs a bit of skill – I rescue pigeons.



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

If you had to choose one favourite book, which would you recommend people read?
Station Eleven by Emily St John Mandel. I read it before 2020 – that's a clue!

And what film/boxset should people see?
Sliding Doors.

Is there any particular music/band that you enjoy?
Muse.

Who would be your dream dinner party guests?
It changes over time, but I think I'd go for Henry VIII, Helen Mirren, Dave Allen and Shirley Bassey – should make for an interesting evening.

Is there an inspirational quote/saying you particularly like?
Where there's a will, there's a way!

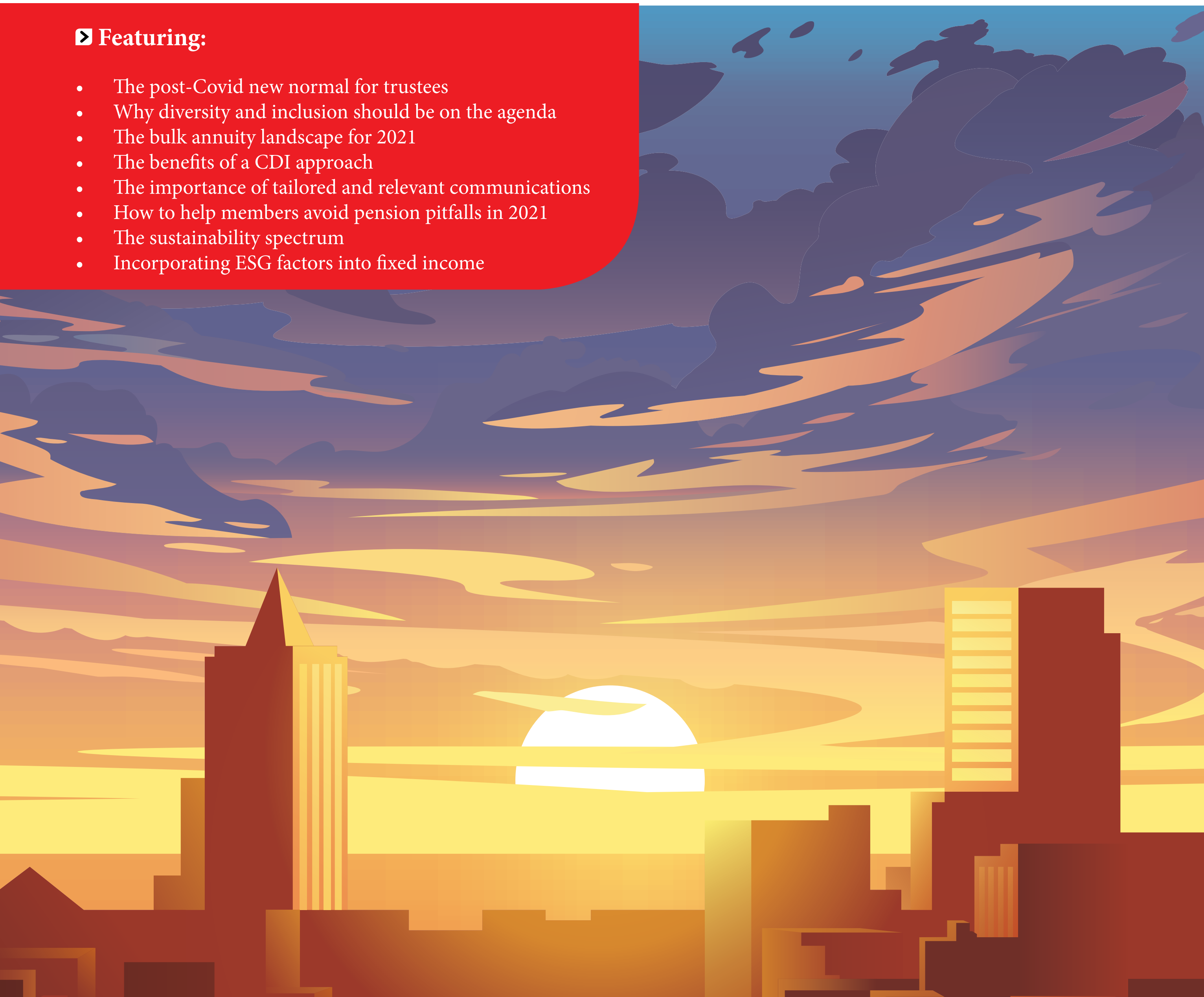
Written by Duncan Ferris

Trustee Guide 2021:

A brighter future

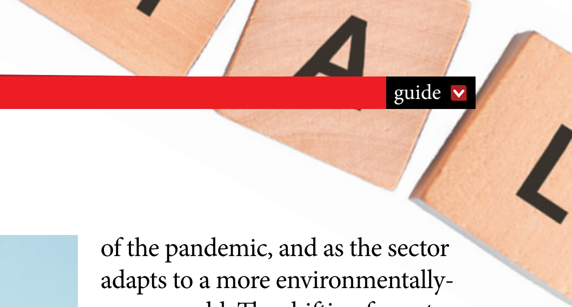
Featuring:

- The post-Covid new normal for trustees
- Why diversity and inclusion should be on the agenda
- The bulk annuity landscape for 2021
- The benefits of a CDI approach
- The importance of tailored and relevant communications
- How to help members avoid pension pitfalls in 2021
- The sustainability spectrum
- Incorporating ESG factors into fixed income



Sponsored by

AON
AVIVA
Schroders
Standard Life
There's a lot to look forward to
WEALTH at work
KNOWLEDGE | EXPERIENCE | OPPORTUNITY
Capita
MFS
PENSIONS Age



Summary

- Covid-19 may have permanently changed the way trustees approach their work.
- Alongside adapting to new working habits, trustees have a swath of new regulations to understand and follow in 2021.
- As the world moves towards digitisation, cyber risks could become more pronounced.
- Trustees will also need to evidence that they are taking more action in the fight against climate change.

Adapting to new surroundings

Along with the rest of the world, trustees have had to adapt to 'the new normal' amid the Covid-19 pandemic. Jack Gray investigates whether this will continue into 2021 and other trends trustees will have to contend with

As we move into 2021, the working landscape looks very different for trustees compared to this time last year. The coronavirus pandemic has altered working habits, with most trustee meetings now taking place virtually. Some schemes have changed their investment strategies to protect their schemes and members from the impact of the pandemic, and as the sector adapts to a more environmentally-aware world. The shifting focus to fighting climate change, alongside the Pension Schemes Bill and court cases, has brought new requirements around responsible investment, guaranteed minimum pensions (GMPs) and defined benefit (DB) pension scheme funding.

Going green

The government and Pensions Minister Guy Opperman have made no secret of their desire to make pensions "safer, better and greener" through the Pension Schemes Bill and changes in regulation. The Department for Work and Pensions (DWP) has proposed requirements for larger occupational schemes and authorised master trusts to publish climate risk disclosures and have effective climate-related governance, strategy and risk management in place from October 2021. October 2021 will also be most trustees' first experience in publishing an implementation statement that describes how climate-related policies in their statement of investment principles have been followed and disclosing trustee voting behaviour, alongside their scheme annual reports and accounts.

"A key trend for member-nominated trustees will be the continued rise in environmental, social and governance (ESG) factors in pension schemes' investment decisions," comments Association for Member Nominated Trustees (AMNT) co-chair, David Weeks.

"Government and regulators both promote this flow. AMNT members were firm supporters in a recent survey and AMNT's Red Lines Voting Campaign continues to urge strenuous engagement with the issues. The next step should be to improve the ESG databases and scoring methods. The step to avoid will be too much intrusion by the lawyers."

The shifting focus to more

environmentally-friendly pensions is also recognised by 20-20 Trustees head of business development, Dana Day, who says that people are going to increasingly look to pension trustees to help in the fight against climate change.

She continues: "Trustees are going to be increasingly held accountable for the actual environmental and social improvement that the approximately £37 trillion of institutional pension assets worldwide can achieve.

"Where does the buck stop? We could easily spend days debating the role that pension assets could play in slowing climate change and all types of social inequality. That's not this article.

"The challenge I think that is coming to trustees is, if not us, then who? We are the masters in many ways of where and how trillions of pounds are invested. If we are not finding a way, with all of those assets, to make demonstrable improvements, then who will? I think growing segments of the population are going to look to trustees with that very question, and we'll need to have a compelling answer."

Red tape

Possibly the most impactful piece of pension legislation in years will come into effect in 2021 – the Pension Schemes Bill. The bill includes a requirement for trustees to create a funding and investment strategy for ensuring that pension benefits can be provided to scheme members in the long term, which will require collaboration with the sponsoring employer. This will include a written statement setting out the strategy and how successfully trustees feel it is being implemented.

The bill also introduces new criminal offences that trustees may fall afoul of if they are not prepared for the changes. These new offenses have led to concern from within the industry, including Weeks, who explains: "Two clauses ring alarm bells for trustees. Clause 107 introduces new criminal offences, which seem to be woefully hazy in definition about whether activities were conducted in 'good faith' or not.

"Clause 123 relates to DB schemes' funding and the adequacy of their risk management strategies. It may, potentially, have the unintended effect of unnecessarily closing some schemes that still remain open. We look forward to swift action to quell these concerns."

Aegon Master Trust chair and Sackers partner, Ian Pittaway, notes that the burden of further regulation on own trusts is increasing the drive towards consolidation. "The requirement for smaller schemes to assess value for members will accelerate demand marginally but it was already happening," he states. "In five to 10 years, you won't see many own trust defined contribution (DC) schemes, other than the ones with assets of more than £1 billion."

Day adds: "'If we count what is easy for us to measure, what we measure becomes what counts'. This phrase rings in my ears as we tick off the boxes for the ever-growing number of statements, policies, procedural requirements and accreditation evidence that are now part of being a trustee and running a DB or DC scheme.

"As the UK pension industry continues to trend toward compartmentalised measurable achievements, there is a risk we take our eye off the ball and pat ourselves on the back for all of these ticked boxes, when schemes and sponsors continue to struggle and members have to fight harder than they should for benefits due.

"Requirements and standards are good; we need to continue to develop them. But they need to be baseline, not the end goal. It's easy to lose sight of that – we have to be careful not to."

GMPs remain high up the agenda for 2021 following the recent court ruling that DB scheme trustees that provided GMPs should revisit and, where necessary, top-up historic cash equivalent transfer values that were calculated on an unequalised basis if an affected member makes a successful claim.

Virtual adoption

Due to the Covid-19 pandemic, trustees had to adapt the way they work to reduce the number of face-to-face meetings in 2020. Although there is light at the end of the tunnel following the approval of a vaccine, it appears as if virtual meetings could be here to stay. A recent AMNT survey found that 42 per cent of MNTs planned to introduce virtual meetings to replace some face-to-face meetings in the longer term and 18 per cent said they would replace most face-to-face meetings with virtual ones.

"It is difficult to imagine returning to the traditional governance models of three/four half/full-day meetings per year in person," says Ross Trustees trustee director, Grant Suckling. "When it is safe again to do so, we can see every other trustee meeting taking place in person, with in-person meetings focused on training, strategy and long-term planning and covering more strategic topics such as covenant, investment and funding. This would leave shorter, online trustee meetings in between with a focus on important operational, business as usual, matters such as administration, audit, communications, governance and legal."

Suckling also predicts that as sponsors focus on driving their businesses forward, the demand on lay trustees' time will increase and further support with be sought from professional trustees.

"The appointment of a professional independent trustee frees up existing resource and helps meet any skill gaps on existing boards," he adds. "It also provides experience and independence from the employer at a time when conflicts are widespread. Such appointments should lead to quicker, more effective agile decision-making that can take advantage of favourable market opportunities."

Written by Jack Gray

A diverse approach

Why diversity and inclusion should be on your pension trustee board's agenda

Pensions trustees are responsible for the retirement savings of scheme members with a wide range of different characteristics, views on retirement and socio-economic backgrounds.

But many trustee boards still conform to the stereotype of older, white men with a background in finance. Research carried out by Aon in 2017 found that the average trustee is male, 54 years old and university educated.

But it isn't just the visible diversity characteristics that matter, there are very good reasons why creating a more cognitively diverse trustee board with a range of different backgrounds is essential for effective decision-making and top-quality governance. It can even have an influence on member engagement.

"It stands to reason that trustee boards benefit from access to a broad range of skills and diversity in perspective and experience," says Shromi Jeyakumar from Aon's governance team. "This supports robust decision making and mitigates against the risks of knowledge gaps and over-reliance on a single trustee or adviser."

Every one of us has a set of 'unconscious biases', which are hard-wired beliefs, often based on our background and personal experiences. They define the way that we respond in certain situations and help to frame our decision-making. We can't eliminate them, but we can become aware of them and learn to minimise their effect. However, if everyone taking part in a decision has a similar set of biases, it becomes more difficult to filter them out and look at other options.

"It's instinctive to overlay your own preconceptions, based on your own background, cultural environment and personal experiences into your decision-making," says Sue Austen of Aon's governance team. "While you might filter what you say, there's probably a gremlin inside disrupting your logical thought process. Therefore, it really helps the process to have a diverse group in the first place, so the unconscious biases don't pull in the same direction."

Why care about diversity and inclusion in your pension scheme?

PWC's *2020 Global Diversity and Inclusion Survey* (https://www.pwc.com/gx/en/services/people-organisation/global-diversity-and-inclusion-survey.html) found that 76 per cent of businesses said diversity and inclusion was a priority for them.

As this trend continues, the types of benefits being offered to employees, and the way these are communicated, will come under greater scrutiny. "Most sponsors to pension schemes will already have a diversity and inclusion policy, and many corporates will want to ensure that there is a consistency of policy within the pension arrangements they sponsor to avoid damage to their brand," adds Austen.

The Pensions Regulator (TPR) is also taking more interest in trustee board diversity. Its Future of Trusteeship and Governance consultation asked for insights into how it could help trustees achieve this, and its February 2020 response document outlines plans to create an industry working group with a focus on diversity. Whilst the formation of this group has been delayed following the pandemic TPR have made a commitment to find ways to support schemes to take steps to improve both diversity and inclusivity. But trustees don't have to wait for the regulator to take action.

How to build a more diverse trustee board

For a trustee board that feels stable, efficient and well-run it can be hard to justify change. On the surface, it may seem like an advantage that everyone thinks alike, so decisions can be made quickly.

But there can be a vast difference between a decision that is made conveniently, and one that is optimal. Trustees have to make many subjective decisions, whether related to everyday tasks such as the design of communications, or sensitive scenarios such as how to manage death in service payments. Making sure that those decisions have the best possible outcome for the scheme and its members is vital.

Poor diversity can also store up future problems for the scheme. A 'people like us' approach to member-nominated trustee recruitment inevitably limits the pool of potential candidates, closing the door on employees from different backgrounds who might have a lot to offer, but don't feel that trusteeship is aimed at them.

The same also applies to appointing scheme advisers and asset managers. Opting for advisers who have the same characteristics as the board itself can further entrench biases.

But introducing more diverse characteristics onto a trustee board may not seem that straightforward. Member-nominated trustees are voted in by the membership; and it may not be easy to have much control over employer-nominated representatives. Using quotas can also feel tokenistic. Feeling that you have been appointed to the board because of your ethnicity or age is hardly a recipe for a good working relationship. Cost and time to make changes may also feel like a barrier, especially for smaller schemes.

When trustee vacancies appear, reviewing recruitment methods and materials can make a huge difference to the response the board receives. Even if members have the ultimate vote on member-nominated trustees, the quality of communications asking for volunteers will have a huge impact on applications. Similarly, discussing skills and diversity gaps with the sponsor can help strengthen employer-nominated appointments.

"Traditionally, the comms for MND elections or selection exercises haven't been the most compelling. But we are now seeing real effort in effective recruitment campaigns," says Aon principal, Sarah Butlin. "We see boards really thinking about how to structure their communications to attract candidates with the skills and experience that the Board needs to complement the individuals they already have."

Working on diversity and inclusion issues with an existing trustee board

Large-scale change doesn't have to happen overnight – there are many smaller steps towards achieving authentic diversity and inclusivity that every trustee board can take.

Creating a roadmap for longer-term change is a valuable exercise. That could include both long-term areas for focus. Aon's *Practical Diversity and Inclusion for Trustees Guide* sets out a number of practical and implementable thoughts and ideas across a wide range of scheme areas including:

1. Unconscious bias in discretionary decision making
2. Diversity in trustee appointments
3. Accessibility of member communications
4. Unconscious bias in scheme rules
5. D&I in investment decisions
6. Actuarial calculations

Training on diversity and inclusion can be welcomed by trustees particularly when it is practically based around decisions they might have to make. Austen gives the example of "Practice using tools to spot unconscious bias when looking at a discretionary ill health decision – does it make a difference if the illness is depression rather than a bad back?"

Other immediate actions might include understanding more about the characteristics of the membership and thinking of ways to help them feel included in pension savings, such as reviewing communications. For example, make sure your online communications are screen reader accessible, check your language is accessible and clear, and consider the small things like the images you use.

Working with the scheme sponsor to understand their business-level policies on diversity and inclusion is another simple step. And, as boards become more diverse, chairs will need to think about how to run trustee meetings so that everyone feels included and confident in their ability to contribute.

Building more diverse, inclusive pension schemes is a key part of good governance. Aon's experience with pension schemes has highlighted the value diversity brings to trustee decision-making and informed the tools that we offer to support boards. Download Aon's *Practical Diversity and Inclusion Guide* to find out more about why diversity matters, and how we can help schemes build a more diverse future.

To speak to Aon's team in more detail on how diversity and inclusion should be on your pension trustee board's agenda email talktous@aon.com

Actions

- Create a roadmap for longer-term change
- Assess the skills and diversity of the current board
- Engage with the sponsor to highlight diversity gaps and to strengthen employer nominated candidates
- Review MND communications and processes
- Undertake practical D&I training on discretionary decisions
- Review your member communications from a D&I perspective

Written by Maggie Williams, a freelance journalist

In association with AON

Bulk annuities: Sustainable growth

Despite the understandable challenges of 2020, Aviva maintained its focus on investing responsibly within its bulk annuity portfolio, leaving it well placed to drive the agenda in 2021

The bulk annuity market has remained surprisingly resilient to the turmoil of the past year. While the 'jumbo deals' that characterised the market in 2019 did not appear for 2020, the market continued to grow in line with the underlying trend and will likely reach £28 billion by the end of the year.

Aviva has been very active throughout 2020, having written £5 billion of bulk annuities by the end of Q3, compared to £2.1 billion in the same period last year. "We continue to support schemes of all sizes and needs with their de-risking ambitions – with the largest completed transactions being over £1 billion and the smallest being under £5 million", Aviva annuity asset origination director, Marcus Mollan, says.

According to Mollan, 2020 has been an interesting year for investment markets. The year started with relatively low yields, tight credit spreads and equity highs, and the end of the year looked much the same. But that's only half the story.

"If you just looked at market conditions at the beginning and end it would look like a very boring year, but between March-May we saw equities falling, spreads widening, and consumer behaviour dramatically changing.

"This created a brief period where investors such as insurers and pension schemes could take advantage of very attractive investment opportunities. This rewarded schemes that had been invested conservatively and were able to move quickly to adjust their investment portfolios or to execute an annuity transaction," he explains.

Just as the volatile market conditions provided opportunities for nimble investors, they also brought the sustainability of investments more sharply into focus.

"At a macro level, the experience of Covid-19 focused everyone's minds on the delicate state of the world," Mollan says. "Far more investors have now recognised that we are seeing dramatic changes in climate, and that such changes will have significant market implications.

"Investment markets have always looked ahead of what's happening in the real world, aiming to predict what's coming next and trying to price that in. The markets have recognised there is a real and emerging dynamic. Environmental, social and governance (ESG) issues will be the most pressing topic on investors' agendas to respond to once we are past the current Covid-19 crisis."

Having been actively prioritising ESG investments for many years, Aviva has long been at the forefront of responsible investing, and it intends to remain so even as others wake to it and competition for assets increases.

At the start of the year, prior to the pandemic really taking hold, Mollan explains, Aviva had completed a significant volume of annuity transactions and had money available and ready to invest. The private asset market was significantly quieter than normal and in response Aviva switched focus to public assets, particularly finding good opportunities in US corporate bonds.

The second half of the year saw a real change, with private asset markets being much more active. "There was a thawing of the market and a lot of opportunities that had been put on hold came back to life, many of them with a green or sustainability focus," Mollan explains.

Notable 2020 examples include, in May, Aviva announced it had supported a UK renewable energy project with a £131 million loan to finance offshore transmission assets for a wind farm off the Suffolk Coast.

Each year, the Galloper Offshore Wind Farm's 56 turbines generate enough green electricity to power the equivalent of more than 380,000 British homes.

Its financing of the Galloper deal builds on Aviva's existing portfolio of offshore wind assets and renewable energy investments, having provided £400 million to help fund the construction of the world's largest offshore windfarm, Hornsea 1, in 2018.

Real estate opportunities also figured within Aviva's responsible investing deals in 2020, with the company investing £35 million in debt financing in April to support the Big Yellow self-storage company, and £154 million in debt financing for CLS Holdings, a property investment company, in September.

As part of the Big Yellow financing, Aviva included a green clause in the transaction subject to the sponsor installing solar panels on additional security properties, as it expects the addition of solar panels to result in an even lower-emission portfolio, whilst reducing ongoing running costs of the underlying assets. The CLS transaction also embedded sustainability-linked incentives.

In July, Aviva also entered into a £60 million corporate debt facility for a not-for-profit housing association, Coastal Housing Group, which has 6,000 homes under management in South Wales. Coastal will use the proceeds from the financing, the largest it has undertaken to date, to secure its long-term business plans by expanding its operations and delivering additional housing across a range of tenures.

The following month, Aviva also completed a £75 million private placement with Settle, the not-for-profit housing association that manages over 9,000 properties across Bedfordshire and Hertfordshire. This facility will help Settle in advancing its environmental, social and governance agenda, including the commitment for all properties to meet 'EPC C' standards or better by 2025.

The financing will also help the group meet its 2024 goal of at least 1,500 new homes, including a targeted focus on shared ownership to meet the current supply shortage of affordable homes in the region.

Aviva was able to lean on the £47.3 billion Real Assets business of Aviva Investors to access these markets, drawing on its expertise across the infrastructure, real estate and private debt markets to assess opportunities that could meet long-term investment objectives.

Looking forward, while the first half of the year is usually a quieter time for private asset investments, the backlog from 2020 will likely result in a busier H1 for 2021 than would be the norm, meaning there should be plenty more deals to see this year.

The focus on ESG will also certainly continue through 2021 and well beyond for Aviva, its shareholders and its customers, as Covid-19 has made people even more aware of the need to address climate change.

Thanks to the amazing work done to develop and roll out vaccines, we're hopefully turning the corner on the Covid-19 health crisis.

"In contrast", adds Mollan, "the challenges facing our society on climate change are an order of magnitude greater. The world hasn't been as swift to embrace this challenge, but that's changing. We're starting to see significant movement at a policy level and renewed focus on climate change in the US.

"Aviva will continue to lead from the front, as responsible investing is in our DNA. It's central to all our annuity asset investment decisions and as our annuity business continues to grow, we have the incentive and leverage to make a positive difference for our annuity customers and for future generations."

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

Aviva annuity asset origination director, Marcus Mollan

In association with AVIVA

Turning to CDI

Jon Exley and Patrick O'Sullivan explore the benefits of a CDI approach and the role it can play within a LDI strategy

Why should pension schemes consider a CDI approach?

All defined benefit pension schemes fundamentally need to meet their liabilities as they fall due. Ideally they would do this by investing in a 'cashflow matching' gilt portfolio so all future liability cashflows would be met with the income and redemption proceeds from government bonds.

However, few schemes are currently in a sufficiently well-funded position to implement such a strategy. Historically, most have instead by necessity constructed their investment portfolios using higher-risk assets such as equities to close their funding gap. In doing so they are effectively relying on a combination of dividend income and equity sales at unpredictable prices to deliver some of the cashflows needed to meet future liabilities.

A cashflow-driven investment (CDI) approach can however provide an alternative solution with more certainty of outcome than a traditional growth and matching approach. It does this allocating to assets that provide a greater certainty of delivering the required cashflows without any required future disinvestment in unknown future market conditions.

Take a pension scheme that is 90 per cent funded on a gilts valuation basis and is invested in only equities and gilts. To move to a CDI strategy, we would replace the equity allocation with a different (typically higher) allocation to non-gilt fixed income assets held on a 'buy and maintain' basis. This is illustrated below in Figure 1 with asset cashflows separated between gilts and these non-gilts.

Importantly, the non-gilt portfolio does not in isolation need to match the liability cashflows exactly – the gilt portfolio fills gaps and mops up excess cash inflows through reinvestment. Furthermore, the liabilities may be inflation linked which is not typically addressed by the non-gilt fixed income portfolio. Instead, the non-gilt portfolio is designed to meet the client preferences in terms of investment risk profile and deliver the overall quantity of cash (after an appropriate allowance for default risk) required without worrying about precise timing or inflation linkage.

Incorporating LDI into a CDI strategy

CDI therefore works best when the non-gilt portfolio is fully integrated with a gilt portfolio managed using an LDI approach:

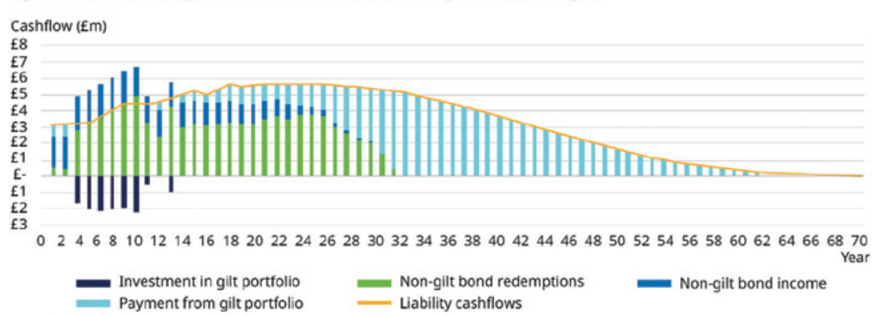
- The gilts in the LDI portfolio will be used to match the longest-dated pension liabilities, as the non-gilt fixed income assets will typically mature before these liabilities fall due
- Index-linked gilt exposures in the LDI portfolio can also be used to match the inflation exposures noted above
- The non-gilt portfolio will not deliver the exact cash required to pay pensions and lump sums every month. Instead, the LDI portfolio will act as a liquidity "reservoir" – or bank account – to absorb excess asset cashflows in some months and from which to drawdown in other months.
- The LDI portfolio may also provide sophisticated currency hedging if non-UK bonds are held as part of the overall strategy

The design of a CDI solution

To recap, CDI is about increasing the certainty of meeting liabilities. In practice, this means investing in fixed income assets that have predictable and well-defined returns. In order to have these predictable returns, CDI solutions invest in non-gilt fixed income assets managed on a 'buy and maintain' basis. Importantly though, the overall CDI solution must deliver enough credit return, or spread, above gilts from these assets to allow a scheme to close any funding deficit. Figure 2 illustrates this for a pension scheme that is 90 per cent funded on a gilts-flat basis. The navy bars of Figure 2 represent the cashflows we can fund through gilts while the green bars show the deficit cashflows that could not be delivered through investment in gilts alone but are met by the extra spread earned on the non-gilt allocation.

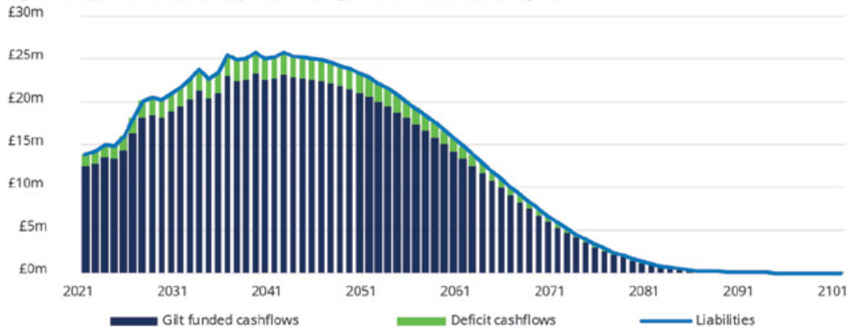
Thanks to this additional spread, investing in these non-gilt fixed income assets on a 'buy and maintain' basis therefore effectively means we can deliver future cashflows at a lower cost than through gilts in return for accepting the associated credit risk. The reduction in this cost of delivering cashflows depends on the spread generated by the asset

Figure 1: Asset and liability cashflows for scheme invested in corporate bonds and gilts



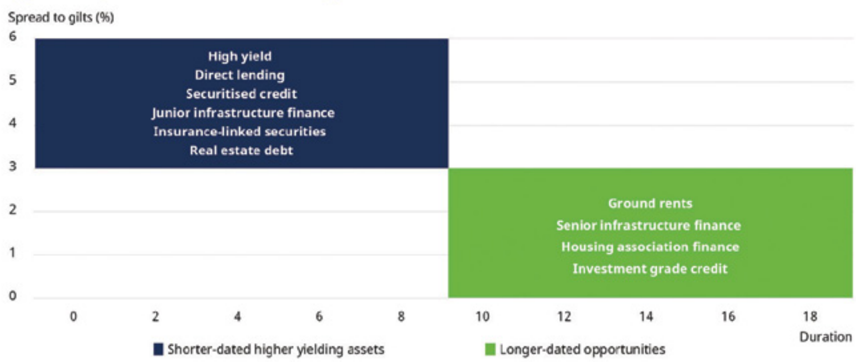
Source: Schroders. For illustrative purposes only.

Figure 2: A pension scheme only invested in government bonds through LDI



Source: Schroders. For illustrative purposes only.

Figure 3: Examples of assets available for building CDI solutions



Source: Schroders. For illustrative purposes only.

multiplied by the duration of the fixed income assets. We tend to see a separation between higher spread, shorter duration credit strategies with lower credit quality and lower spread versus longer duration credit strategies with higher credit quality in CDI solutions, as illustrated in Figure 3. A CDI investor's long-term objectives will shape the credit strategies included in the CDI solution. Long term self-sufficiency objectives may lead to a solution using higher quality, longer duration bonds with lower annual spread. On the other hand, if buyout is a near-term objective, the solution may favour lower quality, shorter duration bonds with higher spread in order to close any deficit earlier.

Who should use CDI?

As discussed above, a scheme can fully implement a CDI solution if the scheme's deficits can be met entirely through hold-to-maturity credit investments. Schemes that are not sufficiently well funded to implement a full CDI solution can introduce a partial CDI solution by building an allocation to hold-to-term credit in their portfolio and integrating it with their LDI strategy. Schemes looking to adopt such an approach might, for example, aim to maximise the proportion of future expected return being delivered with certainty from hold-to-term credit. In this wider context, the principles of CDI can be relevant to most pension schemes and will probably become increasingly so over time.

Whether and precisely how a scheme implements a CDI solution will depend on market conditions when the solution is evaluated. This will vary through time due to market spreads and asset availability.

Conclusion

A successful CDI strategy can offer pension schemes higher certainty of meeting the liabilities than a typical 'growth plus matching' strategy. This is achieved by constructing a portfolio of bonds that, if held to maturity, will secure sufficient funds to meet the liability cashflows without any reinvestment or disinvestment risk. CDI is usually most suitable for mature, well-funded pension schemes but it can also be applied either wholly or partly to other types of scheme depending on the circumstances.

CDI is not an alternative to LDI and, indeed, LDI should be integrated into CDI for a complete solution.

Written by Schroders senior solutions managers, Jon Exley, and Patrick O'Sullivan


Standard Life

Tailored communications

Donna Walsh explains Standard Life's focus on tailored and relevant communications

With more and more of the UK workforce joining workplace pension schemes through auto-enrolment, engagement at a personal and individual level has never been more important. No longer does a one-size-fits-all approach to communications work as we now look to communicate with members across five different generations, all with different wants, needs, goals and ambitions.

Of course, to be truly relevant you have to be communicating about what matters to someone that day, that week, that month. That's how we approach our communications, by understanding more about members, and it's how we aim to support members as they move through life.

To do this, at Standard Life we have segmented members into 14 different groups, each with different needs. This programme has enhanced our dynamic, automated communication system, which has transformed the way members interact with us. From supporting young families looking to meet their immediate challenges and build confidence with financial decisions, to early birthday information packs ahead of key milestones, no matter the 'member journey', we can offer tailored messaging that keeps our information relevant.

The data behind our segmentation model includes insights from member engagement, interactions and surveys, and incorporates likely financial goals, as well as functional and emotional needs. Our new client analytics tool allows trustees and clients to understand their workforce better with an online self-serve platform, which enables analysis of their member segmentation set against the initial 14 segments we have created.

In a recent poll on which life stage members would benefit most from tailored communications, 41 per cent found that personalised communication at the 'Preparation stage', which are the years leading up to retirement, would be most beneficial for them. This was followed closely by the Growth (30 per cent) and Starting Out (22 per cent) stages, with a further 7 per cent choosing the Retiring stage. This demonstrates the need for relevant communications at all points in a person's financial life.

The way members are choosing to interact with their retirement savings is also changing, and it was no surprise to me to see in a recent poll at the PLSA conference that 34 per cent (the highest percentage) voted for increased personalisation including videos as the one initiative that would have the biggest impact on member engagement. It is important to engage members with these personalised, compelling, and relevant communications, so that whether they interact digitally or over the phone, they continue to have a truly personalised and relevant experience.

Personalised video statements with real-time values is one way to achieve increased member engagement. Through an early pilot with over 65,000 employees, we found that members who viewed this video were four times more likely to change their pension contributions.

And another way to support with relevant guidance is to ask members how confident they are about their retirement. We do this through the 'Plan Your Retirement' section of member dashboards to make sure we are offering the right level of support for the member based on their confidence levels.

Once members start to access their retirement savings, arguably the need for relevant communications increases as we aim to help members ensure their money lasts and they are in appropriate investment solutions. This is where online drawdown review tools and simple, jargon-free annual statements can help. At Standard Life, we also monitor members' activity and, given we added guided investment journeys in 2015, if their withdrawals are at odds with their stated intentions, we will nudge them to use the drawdown review tool or call us.

Providing support and guidance across all channels is crucial to make sure we can help members, irrespective of how they choose to engage with us. And no longer does a one-size-fits-all approach work – relevance and personalisation is a must to help boost member engagement levels.

If you'd like to understand more on how Standard Life can help you or find out more please visit standardlifeworkplace.co.uk

Written by Standard Life head of proposition deployment, Donna Walsh

Avoiding pitfalls

Jonathan Watts-Lay explains how to help members avoid the pension pitfalls in 2021

2020 was certainly one of the most turbulent years on record and led to many more scheme members accessing their pension for the first time than perhaps would have in normal times.

The pandemic saw a surge in the over 55s withdrawing from their pension early as a way of alleviating pressure on household income. It was also attributed to many deciding to retire early due to being discouraged about finding employment again when faced with redundancy.

However, others have put their retirement plans on hold, with a poll by YouGov finding that 13 per cent of the over 55s are planning on delaying their retirement due to the crisis. This may be because of the effect of the stock market falls on pension wealth, and members therefore needing more time for their savings to recover.

Although the situation is likely to improve due to the roll out of a vaccine programme, it will take some time for the economy to recover and so further redundancies are likely and the pressures on household income will continue. This will no doubt lead to more scheme members accessing their pension early.

However, many members do not realise the significant risks surrounding pension withdrawals and without support, could be set to make costly mistakes in the year ahead. To help with this, Jonathan Watts-Lay has outlined some of the common pension pitfalls and what trustees can do to help.

Paying unnecessary tax

There are a number of important tax considerations that everyone should be aware of prior to taking money from their defined contribution (DC) pension. Firstly, up to 25 per cent of a pension pot can be received as tax-free cash, however any withdrawals beyond this are potentially taxable.

There can be a huge difference in the income tax due when withdrawals beyond the tax-free entitlement are received. For example, an individual who receives small amounts from a pension whilst receiving no other income may be able to ensure these withdrawals are within their personal allowance. This could mean they pay no tax at all on their pension withdrawals.

However, if they were to draw large sums from a pension, they may find they pay tax at 20 per cent, 40 per cent or possibly 45 per cent on these withdrawals. Members need to ensure if they are withdrawing money from their pension that they actually need all the money they are withdrawing, as merely taking money out to put in a bank account can be a costly transaction.

Underestimating how long retirement savings may need to last

Research has found that most people live longer than they expect, and so members could easily underestimate how long they think their savings will need to last. For example, The Institute for Fiscal Studies found that those in their 50s and 60s underestimate their chances of survival to age 75 by around 20 per cent, and to 85 by around 5-10 per cent. Men interviewed at age 65 believed they had just a 65 per cent chance of reaching age 75, but the official estimate is 83 per cent. Before accessing their pensions, members will need to think about if they will have enough money to last the duration of their retirement.

Falling for a scam

Pension scams is not a new issue and more than £30 million has been lost to fraudsters since 2017. However, unfortunately, scammers often see turbulent times like these as an opportunity.

Since the virus emerged, the Financial Conduct Authority and The Pensions Regulator (TPR) have issued comprehensive guidance on what employers and trustees should be doing to help deal with the increasing risk of scams and are expecting them to step up to the task.

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

DB pension transfers

According to a pensions consultancy firm, some schemes are seeing an increase in defined benefit (DB) transfer requests in the wake of Covid-19. However, members need to realise that there are many things to consider before deciding on a DB transfer, such as if it is really in their best interest and that they understand any associated risks including paying too much tax and managing income throughout retirement. DB transfers are also a target for fraudsters and almost two-thirds (64 per cent) of them showed at least one sign of being a potential scam in November according to XPS Pensions Group.

Although regulated financial advice must be sought for DB pension transfers valued at £30,000 or above, the FCA has warned that pension transfer advice is often substandard. Rather than leaving individuals to go it alone when sourcing DB transfer advisers, many trustees are now facilitating member access to reputable advisory firms that have appropriate qualifications, an exemplary regulatory record and transparent and fair pricing.

Failing to consider all sources of income

Whilst some members may really need the cash now, any benefits to accessing a pension early should be weighed up with the potential drawbacks such as paying significant tax on the withdrawals and drawing money from investments whilst markets are depressed.

It is important that members consider all other options first such as using non-pension savings, cutting back on expenditure or taking debt payment holidays through the government-backed recently extended mortgage holiday and debt repayment deferrals, and weigh up the best option for them to get through this difficult period.

Unable to build pension funds back up

When someone draws money from their pension beyond their tax-free cash entitlement, in most cases a money purchase annual allowance is introduced. This means an annual limit of £4,000 will apply to all future pension contributions, instead of the usual £40,000. If contributions beyond this limit are made, a tax charge will be due. This could be particularly significant for members who are not yet retiring and continue working and contributing into their workplace pension scheme.

The effect of the money purchase annual allowance will typically mean that it would not be practical for an individual to repay money back into their pension once they have withdrawn it, so it could be difficult to build it back up.

What can trustees do?

Trustees are the first line of defence in protecting retirement funds and have a key role in ensuring members make informed choices. Providing financial education and guidance to members before they reach age 55 can help them understand their options and avoid the pension pitfalls. It can also help members to decide if they need further support such as regulated financial advice.

Trustees are currently under no legal obligation to provide access to regulated financial advice to its members and for a long time there has been a concern that it carries risk for the trustee. However, a discussion paper from Eversheds Sutherland and Royal London suggests that this theory only looks at 'the risk of doing something and not at the risk of doing nothing'.

It highlights that simply referring members to a list of advisers for them to choose from can lead to significantly poor member outcomes and therefore member distrust. In some cases, this can result in reputational damage as seen with British Steel.

If done correctly, facilitating access to regulated financial advice does not carry the risk that many presume. However, there are several tasks that trustees can carry out to make the process far more thorough and robust. This includes checking whether the firm is regulated, researching experience, reviewing compliance processes and checking pricing structures.

Trustees can then feel confident that the responsibility for the regulated financial advice given to members, and the consequences of that, rest with the chosen provider and not the trustee.

Ultimately, ensuring robust processes and providing members with access to appropriate support before they access their pensions, will lead to better outcomes for all.

Written by Wealth at Work director, Jonathan Watts-Lay

In association with

WEALTH at work
KNOWLEDGE | EXPERIENCE | OPPORTUNITY

The sustainability spectrum

2020 has certainly been a difficult and challenging year. However, against this gloomy backdrop, we've witnessed some unexpected glimmers of hope. Community spirit has flourished and a global reduction in carbon emissions and human mobility has increased air quality. With governments across the globe wanting more action on climate change, how can we in the pensions industry use our assets to help improve sustainability and play our part towards the net zero goal?

Trustees need to understand where they sit on the sustainability spectrum, challenge the views of their trustee boards, fund managers and advisers, and work alongside the corporate sponsor to drive the sustainability conversation

2020 was a year of firsts for many of us. First to experience a global pandemic, first to work from home for the whole week, first to experience home schooling of children, first to watch yourself on video every day, and I am sure you can think of many more! However, there were several positives to come out of the pandemic, carbon emissions reduced, nature seemed to come alive and community spirit rose significantly.

Reflecting over the past year has really shown us that we need to think more about sustainability. Not only our lives and the world amid a pandemic, but also sustainability of our industry and the investments we make now to deliver for ours and our member's future.

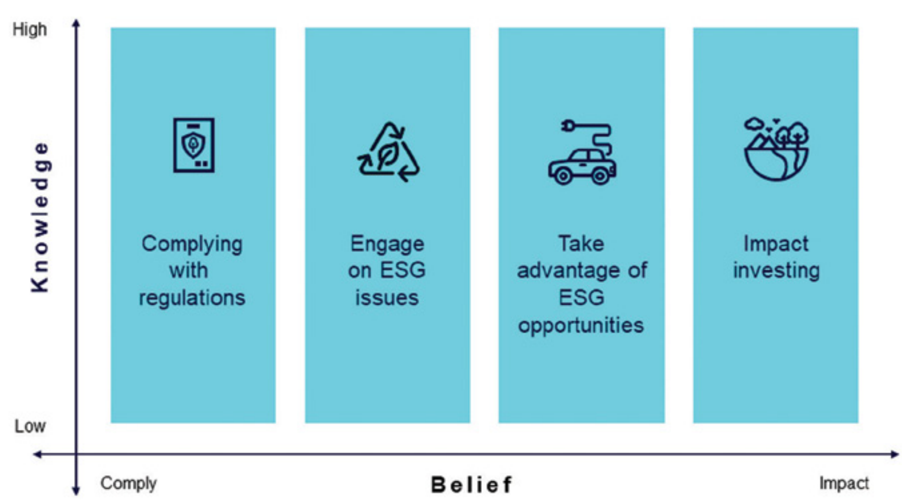
In 2020, we have seen regulation implemented with trustees needing to report on their progress of sustainability, providing clarity within their Statement of Investment Principles (SIPs) and the new implementation statements/investment reports. But how do we shift from purely compliance, to helping trustees decide how to implement sustainability within the investments on behalf of their members within both defined benefit (DB) and defined contribution (DC) schemes, particularly for the smaller schemes who may not have the governance bandwidth of some of the larger schemes?

Know where you sit on the sustainability spectrum

As a pension trustee board, it is important to agree on where you sit on the sustainability spectrum. This is a process where, as a trustee, you first need to know your own beliefs, then the beliefs of others on your board and then align that to your corporate sponsor belief.

To do that, you need to consider the knowledge and expertise you have available to support you alongside what your ESG position is, is it complying or preferring to take a more active stance? An example of this spectrum is set in the figure below.

Your position on the spectrum is not just about selecting particular investment funds or solutions, but also considering the impact of third parties on sustainability, for example how your advisers, lawyers and administrators act.



Interestingly having a greater knowledge of sustainability may not necessarily move the dial on the solutions you would choose for your schemes, but this knowledge will help inform what the right solution should be for the different membership groups. For example, knowing the membership of your DC scheme, you may feel it is right to offer members an impact-based fund within the self-select offering but may not believe it is right to include it within the default strategy.

Once each trustee has placed themselves on the sustainability spectrum, the trustee board should review this and challenge each other, discussing and concluding the position on the spectrum as a board. We have seen varied and wide differences of opinion, so getting to an agreed approach is important before considering how these concepts will be implemented within a pension scheme.

Recording the outcome of the discussions and including them within your regulatory statements, will allow you to monitor your progress and continue to reflect on the position of the trustee board. This certainly won't be a 'set and done' piece of work, as more information is released, reporting improves and data is presented, the views and opinions of the trustee board will change. The position on the spectrum therefore needs at least an annual review or refresh.

Gaining more knowledge

2020 has certainly been the year for ESG (environmental, social and governance) news, which encompasses sustainability and investing for our future. Everyday my LinkedIn news feed has something around this topic. This, hand in hand, with news from governments across the globe around their stance and regulation for the future sustainability of their countries means it can be very difficult to split the fact from the opinion and decide which news flow is the one to focus on.

So where should you look to find the information you need?

I recommend you rely on experts and advisers to give you the information you need, with details on why they have the view they have and where they gained their knowledge and insight. Consultants, like Capita, can present to your trustee board to provide insights, the latest thinking and possible solutions.

A great source of information is the sustainability report of the corporate entity that is responsible for your scheme. Many, if not all, will have set out their own beliefs and actions they are looking to take to ensure they are a sustainable business. By understanding these views and aligning the pension scheme with them is a great place to start.

There are also several industry media organisations that help to filter the information, *Pensions Age* being a great example of this. So sign up to daily news feeds to get your daily sustainability fix!

Challenge the fund managers

When it comes to thinking about how the investments are being managed and implemented with sustainability in mind, speaking directly to your fund managers is vital, and we recommend you work with your investment consultants alongside meeting the fund manager(s) on a reasonably regular basis to understand what they are doing. It is also a good opportunity to hear about other solutions that may be applicable to the scheme and its members.

We have a series of 10 questions that are a reasonable starting point for understanding the views and actions of the fund managers, which include areas such as:

- the firm wide philosophy on responsible investment/ESG;
- integrating ESG factors into your investment process; and
- reporting on the role of ESG factors in your investment decision making process.

The future of sustainability

The need for evidencing and monitoring how your scheme invests sustainably is only going to increase. We have seen an increase in regulation recently, but as governments push companies to do more, the same will be true for pension schemes. Getting ahead of this by requesting and analysing the data will put you in a good position when it comes to reporting on the activities and changes that have been made, with that necessary focus on sustainability.

The data currently available is certainly not perfect or complete, but we need to start somewhere. By considering the trends of data and reviewing investment performance regularly, we will gain a clearer view of how the pension scheme strategy can be aligned to a sustainable future.

We all have our role to play in the sustainability of our industry, to ensure our members have the financial sustainability they desire and understand what part they can play. It is important to stay ahead of the game and assume that members will want to understand where sustainability sits within their pension savings, both DB and DC. Being prepared will certainly help and clear, interesting communications could mean a more engaged membership in the future.

It is important we keep our members informed of the trustees' views and beliefs and provide them with the positive steps the schemes are taking to secure their future benefits.

Sustainability and how it fits within pension schemes is a particular passion of mine, if you would like to read more, please follow me on LinkedIn.

Written by Capita head of pensions consulting, Lydia Fearn

In association with Capita

The growing role of ESG in fixed income

With environmental, social and governance (ESG) issues becoming more important across the globe, Mahesh Jayakumar explains how MFS incorporates ESG factors into fixed income research, and looks at the opportunities and challenges facing investors

ESG has been a theme in equities for many years. Why has it been a growing trend in fixed income?
Fixed income has traditionally been used for its ability to manage downside risk while generating income and, in general, it continues to play a diversification role in asset allocation. The fixed income investor base is growing as both institutional investors, such as pension plans, and an increasing number of retail investors, such as retirees and everyday savers, perceive greater volatility within equity markets and allocate more of their capital to fixed income.

At the same time, market participants such as asset managers, asset owners, regulatory agencies and policymakers are increasingly thinking about ESG issues beyond just the implications for equity shareholders. In addition, more investors are seeking to use their capital to have a positive social or environmental impact, which involves a greater degree of ESG integration.

In light of this, and given that fixed income markets are significantly larger than equity markets, it is clear why ESG is becoming an increasingly important part of fixed income investing.

How do you approach incorporating ESG issues into fixed income analysis?
Our investment approach has always focused on identifying companies and issuers with sustainable, long-term competitive advantages. As investors, we need to take into account all factors that can affect the viability of our investments through multi-year business cycles and ever-evolving macro environments. We believe that the integration of ESG factors into our research is essential, as these issues often affect the long-term sustainability of cashflows for issuers.

When evaluating corporate bonds, integrating ESG issues into our fundamental analysis of the issuer's credit and leverage profile is critical. ESG analysis involves understanding issues that are typically nonfinancial in nature, such as environmental impacts, employee well-being, supply chain management, product safety and workforce diversity. In the short term, shocks to these factors can affect cashflows and the ability to pay interest to debt holders. In the long term, they can harm corporate culture and impact operating models, which can lead to the erosion of revenue generation and, ultimately, profitability.

While governance is widely considered the most prominent ESG factor affecting various fixed income sectors, environmental and social factors must also be considered. For instance, the deterioration of social or environmental factors can influence the political stability or business climate of a particular country. Therefore, we evaluate social factors, such as inequality, and environmental considerations, such as air quality and water stress, along with a country's governance practices.

Which elements are most important in this integrated approach?
ESG factors are assessed within the context of overall credit risk. Traditional credit analysis involves understanding the ability and willingness of the borrower to service their debt. An integrated approach must consider how ESG factors could affect the ability of the borrower to pay back the lender.

Emphasis is placed on materiality and time horizon, ie, the maturity of a bond. Materiality measures the likelihood that a particular ESG issue will affect a borrower's revenues, costs, long-term financial condition and, ultimately, ability to repay debt. Time horizon determines materiality. ESG factors can become increasingly impactful over time, so the maturity of a bond is a critical lens for any ESG analysis.

Finally, high-quality ESG data sources are crucial to truly understanding an investment's material ESG risks and opportunities. Market data, such as ESG ratings, are important to consider as one of many inputs into the fixed income research process. However, more holistic and relevant insights require assessing these topics deeply and independently.

Do you see any challenges in applying ESG factors to fixed income?
The quality of ESG data has come a long way, but it continues to vary in terms of coverage and availability. For example, there is still not enough disclosure of ESG information from private and emerging market companies. As awareness of ESG issues increases, the demand for relevant data also increases, which means a greater number of market data providers are stepping in to fill this void.

Another challenge relates to engagement between investors and issuers. Unlike equity shareholders, bondholders do not have formal engagement mechanisms such as the ability to vote proxies or raise shareholder resolutions.

The relationship between credit ratings and ESG ratings is also a challenge specific to fixed income investors. High credit ratings do not necessarily imply high ESG scores and vice versa. The impact of a given ESG factor on credit spreads can be uncertain and change over time. Therefore, it is important to assess whether ESG factors are fully reflected in the credit rating.

What are the opportunities for fixed income investors?

The rise of thematic investing, such as green bonds, is providing fixed income investors the means to directly finance projects that address specific issues, such as climate change mitigation and adaptation, renewable energy production and increased energy efficiency. Growth in green bonds has led issuers to structure bonds with similar use-of-proceeds and project selection frameworks, such as social and blue bonds. Social bonds fund projects in such areas as education and health while blue bonds focus on oceans and marine life.

The United Nations' Sustainable Development Goals (SDGs) are increasing awareness among both investors and companies about the role we can all play in developing a more sustainable society and economy. Fixed income investors can help tackle larger issues such as climate change by unlocking much needed capital. Bond markets are deep enough to provide required financing, and the structure of fixed income investments lends itself very well to project financing. Investors provide capital up front to a borrower who uses the proceeds to complete or accelerate a project. The borrower can then use the cash flows generated by the project to pay the lenders back over time.

Like equity investors, fixed income investors can employ screening and tilting strategies to reflect ethical values and include bond issuers with better sustainability profiles. They also have the opportunity to increase engagement with borrowers on sustainability and related ESG issues since increased disclosure benefits all participants in the capital structure, including bondholders.

How is the thematic bond space developing and has Covid-19 had any impact?

The sustainable debt market showed resilience amid the health and economic shocks of the first half of 2020, which saw a fall in green bond issuance and a surge in social bond supply.1 The increase in social bond issuance has been significant this year; these securities are dedicated to funding social projects and/or activities that have a positive impact on health. Covid-19 has pressured societies and economies to support care systems and the populations that are the most affected by the crisis, and this aligns with the mission of governments and supranationals that have always been the biggest issuers of social bonds. The total issuance in the first half of the year was more than twice as large as last year's total volume.

We believe that thematic bonds could provide an attractive investment opportunity that can be held within traditional fixed income portfolios, not just in a standalone thematic fund.

If you are interested in learning more about how sustainable investing works at MFS, please visit us at mfs.com/sustainability or contact MFS head of UK institutional sales, James Lindsay, at jlindsay@mfs.com

MFS fixed income research analyst, Mahesh Jayakumar

In association with MFS

[1] Source: Bloomberg 2H2020 Sustainable Finance Market Outlook, as of 29 July 2020.

Company Profiles

Aon

Aon plc (NYSE: AON) is a leading global professional services firm providing a broad range of risk, retirement and health solutions. Our 50,000 colleagues in 120 countries empower results for clients by using proprietary data and analytics to deliver insights that reduce volatility and improve performance.

Aviva

Aviva is one the UK's largest insurers and we're the largest corporate pension provider, with over £75 billion of pension scheme assets under management.

We take a prudent approach to capital management and have a strong regulatory balance sheet with Solvency II coverage of 195 per cent for Aviva plc (Q3 2020). Our financial strength is demonstrated by our ratings - AA- (Stable) by Standard & Poor's and AA- (Stable), and Aa3 (Stable) by Moody's (Jan 2020).

Defined benefit solutions

We are a leading provider of tailored solutions for UK defined benefit pension schemes.

We have had over 10 years' experience in the bulk annuities market and have successfully created over 500 bespoke solutions for a diverse range of pension schemes, helping to provide certainty for their members.

All our scheme administration and member service is managed in-house. Our dedicated service teams provide the highest levels of help and support and you can rest assured that members always speak to defined benefits experts if they contact us.

Whether you want to protect your members or reduce your liability, Aviva can help you find the best solution for your defined benefit pension plan.

Schroders

We are responsible for £525.8 billion (€578.4 billion/$649.6 billion)* of assets for our clients who trust us to deliver sustainable returns.

We actively and responsibly manage investments for a wide range of institutions and individuals, to help them meet their financial goals as they change over time.

The world is forever changing but throughout our long history we have continued to adapt our business, keeping our focus on what matters most to our clients, today and in the future.

*as at 30 June 2020

Standard Life

At Standard Life, our mission is to help people make good choices with their life savings, whether they're saving throughout their working lives, enjoying financial security in retirement or planning to pass wealth on to loved ones.

We've been building our expertise, developing quality solutions and helping to shape the pensions industry since 1825. Today more than 4.5m customers trust us with their life savings.

People need more support than ever to make important financial decisions. So we're here to help them make better financial choices for their future. We do this in a way that enables and empowers employers and their employees, advisers and trustees to achieve better outcomes.

Through Standard Life Assurance Limited, we offer a range of award winning high quality products for workplace pensions, personal pensions, savings, investments and retirement. Our close relationship with Aberdeen Standard Investments allows us to offer a comprehensive range of investment solutions.

https://www.standardlifeworkplace.co.uk

There's a lot to look forward to

Company Profiles

WEALTH at work

WEALTH at work is a specialist provider of financial education and guidance in the workplace supported by regulated advice for individuals.

We deliver tailored financial education and guidance that helps employees and pension scheme members understand the various retirement income options available and key issues such as tax, investment risk and how to create a sustainable income.

Our regulated advice service helps individuals to understand their personal financial situation whether they're facing investment and tax considerations, or selecting their retirement income options.

This complete service offering helps employers and trustees support employees and scheme members to make informed decisions, in order to maximise their retirement and lifetime savings.

WEALTH at work
KNOWLEDGE | EXPERIENCE | OPPORTUNITY

Capita

Capita's pensions business provides a breadth of consulting and administration services across DB and DC pension schemes, including actuarial, investment, secretariat, member engagement, Master Trust solution, as well as administering the pensions of over 4.7 million members in the UK and Ireland.

We work with both public and private sectors, corporates and trustees, to enable our clients to create resilient and responsible strategies to help their organisations and people look forward to a more secure financial future.

Pensions administration
Administering over 600 schemes including DB, DC, CARE and Hybrid our 'best in class' HartLink administration platform ensures that member experience is at the heart of everything we do.

Pensions Consulting (Including actuarial, investment consulting and scheme secretarial services)
Our 150 strong pensions consulting practice enables us to deliver a complete pensions consulting solution, providing a wide range of advice including journey and end-game planning, investment advice, scheme governance and member engagement to the trustees of over 150 pension schemes.

Pensions administration software
Trustees who want to run their pensions administration and payroll in-house need to do so in a way that is efficient and reliable.

Our pensions software solutions suit all scheme types and trustee requirements, across both DB and DC, public and private sector. We provide software solutions to some of the biggest and most complex schemes in the UK.

Atlas Master Trust
Atlas is one of the UK's leading Master Trusts. It provides a complete DC pension solution for companies who are looking to provide a quality DC pension scheme for employees, whilst reducing the governance burden and associated cost.

Data and tracing
With established relationships with all the major credit rating agencies and access to more than 420 million records provided by UK financial institutions, as well as international records our 40-strong team of tracing specialists makes Capita one of the largest permanent teams of trained, multiskilled and experienced staff serving the UK market.

Capita – Creating better outcomes.

Capita

Company Profiles

MFS

In 1924, MFS launched the first open-end mutual fund in the United States, opening the door to the markets for millions of everyday investors. Since then, we have grown into a full-service, global investment management firm offering fixed income, equity and quantitative solutions to financial advisers, intermediaries and institutional clients around the world. Headquartered in Boston, MFS has investment offices in Hong Kong, London, Mexico City, São Paulo, Singapore, Sydney, Tokyo and Toronto. As of 30 June 2020, MFS managed £410.5 billion in assets on behalf of individual and institutional investors worldwide.

What sets MFS apart from other managers is our commitment to a single purpose: to create long-term value for clients by allocating capital responsibly. Through that sense of responsibility and the strength of our investment platform, we strive to protect our investors' assets and our clients' reputations. Our powerful investment approach combines collective expertise, thoughtful risk management and long-term discipline to uncover investment opportunities that drive sustainable value for investors. We call this Active Intelligence®, and we support it with our distinct culture of shared values and collaboration. That means bringing together teams of diverse thinkers to actively debate ideas, assess material risks and uncover what we believe are the best investment opportunities in the market.

Pensions Age

Pensions Age is the leading title targeting those managing UK pension funds and their consultants. Published monthly in print since 1996, and daily online, we invest heavily in our circulation and content to ensure we are the clear market leading title. Our in-house editorial team of Francesca Fabrizi (Editor in Chief), Laura Blows (Editor), Natalie Tuck (Associate Editor), Jack Gray (News Editor), and reporters Sophie Smith and Duncan Ferris, ensure we cover the latest news and topical industry issues to help our readers make the best-informed decisions.

www.pensionsage.com is the leading website for pension funds and we look to cover the breaking stories as they happen. With over 24,000 subscribers to our email newsletter service, we offer our readers an unrivalled service. At the core of this is high-quality, news-breaking journalism, combined with in-depth knowledge of the target market and heavy research into data.

Pensions Age also runs highly successful conferences, and the Pensions Age Awards.

We also publish *European Pensions*, which targets pensions funds across Europe, as well as running the European Pensions Awards and Irish Pensions Awards.

Rolling with the trends

Summary
• While automatic enrolment might have created an environment where many savers do not give their pensions a second thought, industry progress, catalysed by the effects of the coronavirus pandemic, is driving improved interactivity.
• ESG is only going to become more important for the industry amid increased interest from savers and beefed-up regulatory requirements.
• Both DB and DC schemes may face pressure to consolidate in the near future, but some are concerned that proposals unfairly target small schemes.

Duncan Ferris explores pension industry trends that have remained relevant throughout the unpredictability of 2020 and beyond, including the rise of ESG, the challenge of increasing member engagement and the drive for pension scheme consolidation

There is no denying that 2020 has been a rollercoaster.

It's a rollercoaster that, for most of us, has involved an awful lot of sitting inside, making awkward video calls and trying to find shops that have toilet roll in stock. In other words, it has not even come close to topping Nemesis at Alton Towers.

The pensions industry has been riding this rollercoaster, going through a number of great changes in order to protect savers and pensioners. But alongside these reflex actions taken to cushion the impact of the pandemic, the influence of several industry trends that emerged long before Covid-19 have continued to strengthen as we pelted down the track.

Engagement

Getting members engaged with their pensions, and holding their attention, can be key to them being aware of their options and receiving better retirement outcomes.

XPS Pensions Group head of client communications, Steve Powell, comments: "There is now a clear focus amongst trustees and providers to revitalise the way they communicate with members, which has been an area where the pensions industry has fallen short in the past."

A potential result of this is that it appears many members simply are not clued up on their pensions or how rules and regulations affect the money they put away for later life. Research from a report published by Nest Insight and Invesco in November 2020 showed that more than half of savers were unaware of government tax relief on pension contributions and a third did not know their employer also contributed.

LCP partner, Steve Webb, says: "The evidence is that most people are still disengaged from pensions with some people not even realising that they have been automatically enrolled and paying no attention to correspondence. The drive, led by Ruston Smith, for simpler and clearer benefit statements is a positive one, but if people are completely disengaged they may not even get as far as opening the mailing or reading the email.

"There is a growing expectation by employers and members that pension providers will have easy-to-use and appealing websites and apps, but there is still much more to be done to 'nudge' people to use these tools. There is evidence that well-written material, presented in a range of formats, can achieve high engagement rates but this is all too often still the exception."

Premier Pensions head of administration, Girish Menezes, agrees, calling the move towards simpler communication "slow" and stating that "trustee engagement with and knowledge of data quality, member web facilities and digital delivery, is low".

Of course, fighting to keep members engaged with their retirement savings is not a new battle, but it is one that has been altered by the pandemic that has gripped the world over the past 12 or so months, argues Aegon head of pensions, Kate Smith.

She comments: "It's clear that, as a result of the pandemic, the digitalisation of pensions has accelerated. This has made it easier for more people not only to see their pensions online, but also to use online tools and make transactions without the need for a wet signature.

"Further enhancements have seen improvements to digital support services, with the addition of webchat and providers personalising pensions and savings messages in more innovative ways to help promote better engagement with members. The introduction of personalised video summaries is a good example of this."

ESG

Awareness of environmental, social and governance (ESG) factors has been a hot-button issue for some time in the industry, with 2020 having seen a good deal of evidence that this trend is gathering steam. For example, May 2020 saw the release of a study from FE Fundinfo, which found that 56 per cent of financial advisers had seen an increase in the amount of client money invested in ESG funds over the past 12 months, while 82 per cent thought the number of ESG propositions would increase further over the next year.

LCP partner, Claire Jones, says: "So far, much of trustees' effort has been focused on understanding the topic, developing their policies and ensuring they are complying with regulatory requirements. ESG now features in most discussions with investment managers and views have shifted, with many trustees now regarding ESG factors as financially material and relevant to their fiduciary duties.

"Discussions have become more nuanced as trustees start to consider how to invest responsibly rather than whether to do so, and it's becoming clearer that many members – if asked – care about this topic. So far, there have been fairly limited changes in the investments actually held by pension schemes, but that's starting to change. It's becoming more common for DC trustees to include ESG or climate-aware funds in their default strategy and some schemes have set net-zero targets.

"I expect this trend to accelerate, with climate change being a big theme for pension schemes this year as the Pension Schemes Bill comes into force and world leaders step up their climate commitments ahead of the COP26 talks in Glasgow in November."

Smith agrees, noting that "pension schemes will have to do much on this front, reporting more on climate financial risk and carbon footprint" and adding that "growing interests in

investment sustainability, accelerated by the pandemic, is an opportunity for the pension industry to increase members' awareness of where their pension is invested, and drive overall pension engagement".

Summing up the situation, XPS head of DC investment, Alan Greenlees, comments: "In summary, the industry has been on a journey with ESG and that has really escalated within the past two years and led to numerous positive developments. However, we still believe that there is room for improvement and that pension schemes can invest positively and act as a real force for good, influencing change where it is needed."

Consolidation

In September 2020, the government published a DC pension scheme consolidation consultation that proposed smaller schemes wind up and consolidate if they fail to offer sufficient value to members, echoing the pushes for DB consolidation that have resulted in master trusts.

Listing the benefits of consolidation, Menezes explains: "Consolidation of pension schemes is quite attractive as it theoretically offers efficiencies and cost savings. Furthermore, there is a possibility of exit for sponsors who are not close enough for a buyout."

Webb notes that the trend towards consolidation is likely to be of key importance due to government plans to "put pressure on smaller schemes to justify their continued existence in terms of cost-effectiveness".

Smith links the issue with administration challenges and improving member engagement, pointing out that larger schemes would both be "better resourced and able to comply with the increasing amount of regulation and reporting" and "likely to have access to greater resources to continuously invest in engagement strategies to help improve members' outcomes".

Looking at how the issue has impacted the industry so far, XPS head of risk transfer, Harry Harper, states: "The Pensions Regulator's (TPR) approach to consolidation has so far been to persuade employers to contribute to the point where the scheme can eventually afford to buy out with an insurance company. This approach works well for those schemes where the liabilities are mostly in payment."

He notes that there are issues, commenting that progress with superfunds has been "painfully slow to watch" and noting that DB master trusts "provide only a consolidation of administration and governance", which keeps employers from walking away from legacy pension liabilities.

He concludes: "A key problem so far is that schemes with deficits have not wanted to truly merge together, although at least one master trust is looking to see if even this traditional taboo can be tackled. The pension industry is crying out for more affordable solutions, particularly given the traumatic events of 2020, both for cheaper insurance options and for alternatives to insurance."

Looking at consolidation for DC schemes, XPS Pensions head of DC, Sophia Singleton, agrees that "consolidation is the right solution for many DC schemes and that their members will be better off for it", but cautions that the Department for Work and Pensions (DWP) is wrong in its belief that "small schemes can't deliver but large schemes do".

Singleton states there will be "much more consolidation during 2021 and 2022" if the requirements proposed in the DWP's consultation on DC consolidation go through, but argues it "should apply to all DC schemes regardless of size" if the true objective is to improve member outcomes.

Other trends

The influence of ESG, improving engagement and consolidation are of course not the only trends that have emerged in the pensions industry. For example, Smith notes that a growing issue for the industry is "the proliferation of small, deferred pension pots", which she notes has been "accelerated by auto-enrolment and the UK job market".

This is not a problem that has slipped through the net unnoticed, with the government having launched a cross-sector working group to help address the issues caused by multiple small pension pots, but more heavy-duty solutions are likely to be required in the future.

Webb leans very much in this direction, stating: "The vast scale of stranded pots means that something more systematic is likely to be required, whether in the form of a 'pot follows member' model or some other form of mass consolidation of small pots."

Pointing out a further industry trend, Webb notes that focus on scheme funding in the DB arena has increased "as regulators and legislators have reacted to high-profile cases like BHS and Carillion".

He adds: "This is likely to continue in 2021 with the publication of government regulations flowing from the Pension Schemes Bill and a further round of consultation from TPR on its new funding code.

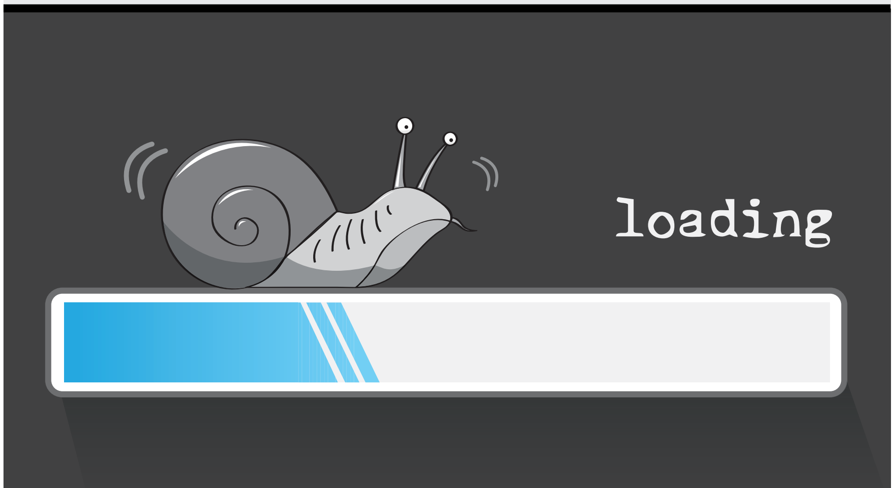
"A key question will be how far any or all of this will be adjusted – or perhaps delayed – in response to the economic downturn triggered by the pandemic. If we see insolvencies rise dramatically in 2021, as seems likely, the balance of government policy is likely to shift to giving greater emphasis to supporting corporate Britain and less to securing DB member benefits."

Finally, Menezes sees an issue with the industry lacking "enough administration consultants who can view the administration process strategically".

He states: "This is becoming an issue for trustees and sponsors who would like to kick off high-value programmes and have to either engage with client managers who have little understanding of administration or administrators who are unable to think outside the box."

Written by Duncan Ferris

Summary
- Three years on from the 2017 AE review, the industry is yet to see any changes, including increasing the minimum compulsory contribution.
- Whilst there is consensus that the current 8 per cent compulsory minimum is too low, there is a divide on whether increasing the minimum is needed, or whether employees should be encouraged to voluntarily increase contributions.
- Half the saver's age as a contribution percentage, or 15 per cent of annual salary, up from the previous 12 per cent, have been cited as ideal contribution amounts.
- Methods favoured when it comes to increasing contributions include a phased approach and auto-escalation.



AE: Lost momentum

The industry agrees that the current minimum automatic enrolment contribution of 8 per cent is not enough, but there is less of a consensus on what the next steps should be. Natalie Tuck reports

Three years on from the publication of the review on automatic enrolment (AE) titled, *Maintain the momentum*, some might argue that momentum has been lost. The last contribution increase took place in April 2019, increasing the compulsory minimum to 8 per cent of salary and, since then, there has been little talk of any future increases.

On this lack of progress, Aries Insight managing director, Ian Neale, says: "I'm always disappointed but never surprised at the slow progress with pensions legislation. It took over 16 years to make AE a reality, from the date the Pensions Commission was announced in December 2002 to 6 April 2019 when all employers were on board and minimum contributions reached 8 per cent of qualifying earnings."

However, there are some excuses, he says, such as stiff competition for parliamentary time to consider legislation during the past three years, due to the government being busy with other things. Defending the government, former Pensions Minister, Baroness Ros Altmann, who was in office between 2015 and 2016, says it was "perhaps always rather premature to expect government to act on this".

"Especially in view of the economic uncertainties surrounding Brexit, compounded by the pandemic, the fact that AE has been kept in place at the current contribution levels is actually an achievement in itself. The government has protected this programme, even in the face of furlough," she says.

This sentiment is echoed by Pensions Policy Institute director and co-chair of the AE review, Chris Curry, who notes that the past few months and the impact of Covid-19 have changed the discussion around increased contributions.
He also says that there was always going to be a delay in introducing the recommendations of the review, to allow for evidence to be collected after the final phasing in of the minimum contribution level in April 2019.

"But now we have seen that the increase in contributions had little impact on the numbers of people either opting-out or starting to save, it would be good to see more concrete plans for the implementation of the recommendations," Curry says.

Increasing the minimum

The previous Pensions Commission, which Neale references, identified that the state pension, along with AE contributions of 8 per cent, would provide around half the level of savings needed to deliver adequate retirement incomes for most individuals.

As Neale notes, it is "widely agreed" that 8 per cent will not provide a level of income that will be perceived as adequate by most future retirees. However, the 2017 review into AE did not set out any magic number for which the government should aim for, instead stressing the importance of measuring the impact of increasing contributions first.

So, what is the perfect contribution? In the past, industry figures have landed on the figure of 12 per cent, or alternatively, half one's age as a percentage of salary. New research by BlackRock suggests, however, that individuals aspire to a retirement income of around two-thirds of their salary, an amount it says would require in excess of a 15 per cent salary contribution.

The question is whether increased contributions should come from increasing the compulsory minimum, or by pushing for increased voluntary contributions. One opponent of increasing the compulsory minimum is Altmann: "I believe the pensions industry should be getting these messages across and that the government itself should steer clear of too much compulsion. The policy was always meant to be a starter that could then be built on."

Those that are not against the idea of increasing the minimum, such as Neale, are still wary of doing so in today's climate. He says that current economic pressure means any increase risks triggering a significant increase in opt-outs by lower earners.

Sharing the burden

As per the current policy, employees are required to contribute a greater share than their employer, with the first contributing 5 per cent and the latter 3 per cent, making a total of 8 per cent. In the future, there are some in the industry that believe the share of contributions should be more balanced.

Society of Pension Professionals (SPP) president, James Riley, says 84 per cent of respondents to a survey of SPP members believe minimum employer contributions should increase over time from 3 per cent to 6 per cent of earnings, giving a headline contribution rate of 11 per cent (split 6 per cent employer and 5 per cent employee).

"We believe that businesses and savers would support the government going beyond this to the 12 per cent (split 6 per cent/6 per cent) called for by the Pensions and Lifetime Savings Association (PLSA) in its *Hitting the Target* paper from July 2018. Department for Work and Pensions (DWP) research showed that opt-outs remained less than 1 per cent across the April 2018 and April 2019 contribution increases, suggesting there is room for a further increase."

Another supporter is Curry, who says that from the perspective of minimising opt-outs, "it would make much more sense for employer contributions to increase rather than employee, so the gain from staying in, and penalty for opting out, is larger". However, Altmann believes that employees should be the ones to bear the majority of the costs when it comes to contributions, as it is their pension and their retirement income.

"Most employees no longer stay with their employer for their whole working life and it is not clear that employers who have someone working for them for a few years should have extra pension costs to bear. If the employee wishes to put some of their salary into their pension, I believe that is the employee's responsibility and decision."

Method of choice

If contributions are to be increased, the method and timing of these increases is another debate to be had. Riley warns of introducing contribution increases too rapidly, as it "risks killing the goose that laid the golden egg, causing difficulties to both employers and employees wrestling with the economic fallout from the Covid-19 pandemic".

"We therefore suggest that the change is implemented over a few years, but no later than PLSA's 2030 timetable… While any increases to contributions may be some time away, decisions need to be taken to support these future increases. If we delay deciding on increases, then there is a real risk that we cannot meet our 2030 goal."

One option of managing any cost impact, he says, would be to introduce it for new employees from one date and then allow employers discretion as to when (and in what stages) to move their existing workforce up to the improved basis but subject to a final backstop date.

Given the current economic environment, BlackRock head of UK institutional defined contributions, Alex Cave, stresses that a stepped approach would be a "pragmatic solution". Curry is also a fan of phased increases, as he says the "initial phasing plan for contributions, where changes were made at the same time as other changes (such as the income tax and national insurance thresholds) worked well".

However, he is not so sure that a national roll-out of auto-escalation would be so successful as an alternative method. He notes that while auto-escalation has worked well on an employer basis, it might be "difficult and complicated to implement nationally".

Others, such as Altmann, are supporters of auto-escalation, who says: "I think auto-escalation is an excellent idea, with employers asking workers whether they wish to put some or all of any pay rise into added pension contributions. But the responsibility for adding to their minimum AE pension in my view should lie with the workers, rather than their employer."

Looking across the pond, experience in the US shows that concepts like auto-escalation and pay more tomorrow do work, Cave says, with members more comfortable to commit future contributions from pay rises they are yet to receive.

"There is also evidence that this approach sees low levels of opt out or reversion, since members have themselves made the emotional commitment to increase contributions, rather than being mandated. In practice, however, the variability across multiple employers will be a challenge. If we want to level-up retirement income across all members, then a combination of scheduled contribution increases, balancing employer and employee levels, plus a broader adoption of auto-escalation, will be required."

Written by Natalie Tuck

New year, new normal

2020 saw unprecedented change in the pensions industry, but as businesses begin to consider life post-Covid-19, Sophie Smith considers what changes are here to stay and what work is still needed

Summary
- The pandemic has accelerated a number of changes within the pensions industry, such as increased technology, and many are here to stay.
- Changes in remote working have had benefits for the industry and members alike, although pension professionals should be mindful of the potential risks facing them.
- More work is still needed to ensure that solutions are appropriate for the long term and there is an opportunity to make broader improvements.

As the pandemic first hit, one of the major issues faced by businesses around the world was how to handle the rapid shift to remote working. However, as Pensions Management Institute (PMI) director of policy and external affairs, Tim Middleton, explains, remote working has proved to be very successful and will likely be a permanent change. "This has seen no significant impact on productivity and the additional cost savings in office space and travel expenses have found favour with employers and trustee boards," he adds, stating that whilst there are downsides, the positives will surely see profound changes in the character of office culture.

Pensions Administration Standards Authority (Pasa) board director, Chris Tagg, agrees, stating that the collective perception that administration could not be done remotely has been dismissed, with a high service level delivered throughout the pandemic. Despite this, he predicts that the industry will likely revert to being a predominantly office-based role at some point during 2021. "The reasons for this are that I think it is becoming increasingly difficult in a remote environment to provide support and training to more junior members of the team – exposing them to new and more complex types of work is much more easily done if they can physically shadow a colleague or at least have them on hand to ask simple questions and receive simple answers," he explains. This is echoed by Middleton, who warns that employees will spend less time in an office, which is likely to create problems in inducting new staff and maintaining effective oversight over colleagues.

Pasa board director, David Pharo, also warns that any eventual return to the office will be dependent on external factors. "What is clear though is that the rate at which we return to offices will be impacted not just by a return to normal in society, but also to what extent the model (or parts of a model) are working effectively remotely," he explains, warning that a wholescale return to the office whilst social distancing remains a requirement would be impractical.

Keeping it virtual

These unprecedented shifts in working practices have already highlighted issues for some businesses, as Dalriada Trustees professional trustee, Paul Tinslay, notes that whilst some firms and schemes managed a seamless transition to remote working, others have struggled, primarily due to technology. Indeed, the pandemic has brought greater focus on technological solutions in all areas, and pensions is no different, as Middleton notes that almost all businesses have adapted to using video conferencing software and have enjoyed immediate benefits as a result. Tagg also states that lots of third-party administrators have accelerated developments in their processes, systems and controls as a result of the pandemic. "Lots of the innovations will be similar to those employed by other industries – around remote access to company networks and their resilience in the face of vastly increased usage, etc – so are not unique and should not present any specific cyber risks," he adds.

Taking on the risks

However, he warns that whilst in an office you are able to somewhat control atmosphere and environment, home working brings potential distractions, with others potentially overhearing sensitive conversations. "These shouldn't be great concerns," he clarifies, "but firms should be providing their administrators with appropriate guidance to manage these situations".

Mayer Brown pensions counsel, Beth Brown, adds that replacing face-to-face meetings with phone calls and Zoom meetings to discuss complex transaction and pension matters means it is more important than ever that pension professionals establish a clear understanding, and written record, of the trustee's and/or sponsoring employer's factual situation and the work they are to undertake. She continues: "Pension professionals should put in place up to date, accurately drafted engagement letters for their work setting out the scope of work to be undertaken and reflecting any categories of work for which the pension professional will not be responsible."

An increased use of technology can also lead to an increased cyber risk, and whilst Tinslay notes that most firms use secure services and email, which means the location of the user is not really an issue, he warns that those working from

home should still be provided with robust security access to systems that are regularly tested.

"The impact of a cyber-security breach cannot be underestimated by trustee boards," he stresses, highlighting that the ICO fined British Airways £20 million in October 2020 for a cyber security breach that occurred in 2018. Considering this, he argues that trustees need cyber-security risks identified, recorded, and effective controls in place, emphasising that incident management is more important than ever. "For example," he continues, "as with data protection, one activity trustee boards can undertake is a simulated cyber-security breach, ensuring that everyone involved is fully aware of the incident management procedures for the scheme and able to implement them without delay."

Adding to this, Brown suggests that schemes adopt policies setting out appropriate robust layered cyber defences, put in place rigorous and secure central electronic filing systems for all relevant documentation and ensure that hard copy documents are returned to their rightful filing place or disposed of securely.

She also recommends that they ensure the scheme's professional advisers and providers set out, and adhere to, carefully structured plans of supervision.

Making improvements

However, Middleton says that there is now a greater awareness of cyber risk, with boards devoting more time to considering this threat and how to address it.

In particular, he explains that trustee boards have adapted well, with many aspects of governance standards actually improving amid the changes to working practices over the past years, such as improved data security from the use of electronic board backs.

Indeed, Tinslay says that Dalriada Trustees, for instance, uses MS Teams as the foundation of its online e-governance solution, describing it as a "huge step forward in the development of good secure governance" and "inherently robust and secure" as all scheme documents are hosted with restricted access to certain areas for some users.

"We are able to run trustee meetings on this platform with a full audit trail of activity, decisions recorded and any changes agreed," he explains, noting that it is also flexible enough to accommodate trustees who prefer to receive written documents.

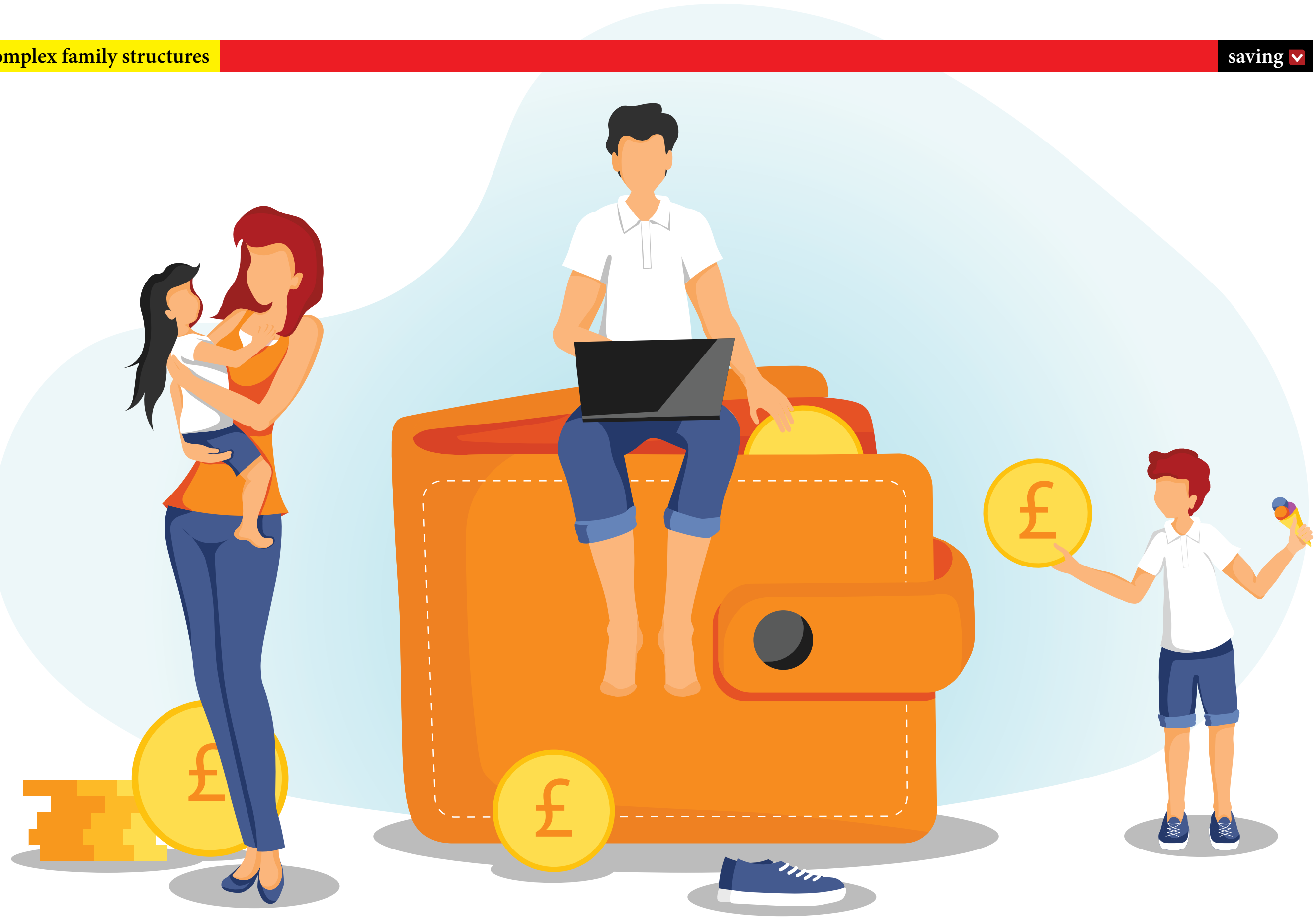
However, Tagg warns that longer term, there could be a focus on making sure any process improvements rolled out in response to lockdown are actually working and providing benefits to schemes. He explains: "There is always the temptation that when something is needed quickly a couple of corners might be cut. Trustees and particularly auditors might want to revisit some decisions and get extra comfort when there's more time available. We do need to be sure that, with increased online interaction, we are actually dealing with the people we think we are."

Despite this, Pharo stresses that the changes introduced to enable greater flexibility to members in providing paperwork and identify verification have improved member experience and should be built on further. Whilst Tagg agrees to an extent, stating that this has also been beneficial to scheme administration, with decision-making processes sped up, he clarifies that the gains may not be sustainable. "Sooner or later," he warns, "discretionary spend budgets are going to reappear and teams will be asked to do project work again, at which point greater collaboration across teams and the need to prioritise resource allocation will be detrimental to day-to-day admin... unless we get back into offices".

Tinslay, however, argues that the pandemic has accelerated the demand for, and delivery of, online self-serve capability, and that the pensions industry has some catching up to do in this area. "There's little doubt that member expectations around how they want to engage with their pension will continue to change as a result of the pandemic," he continues, emphasising that whilst firms reacted tactically to the problems arising from the pandemic, they may now be able to do even more.

"There is an opportunity now to fundamentally reappraise the business model for the future to deliver the best experience and value for all stakeholders, particularly pension members," he concludes.

Written by Sophie Smith



Summary

• Growing numbers of people are getting divorced, including in later life. Situations such as co-habitation, lone households and multiple families in one house are also increasing.

• These complex family situations can have an impact on pension saving, for instance the cost of divorce may affect the ability to save for retirement, or supporting adult children may impact pension saving.

• Savers with complex family set-ups need to ensure that their money flows into the right hands by keeping nomination forms up to date.

• The pensions industry, whilst broadly flexible enough to cater to complex situations, needs to highlight that this flexibility is available to savers to help them utilise products in the best way.

Complex families, flexible retirement savings

Laura Blows explores how complex family structures can affect pension saving and the ways in which the industry can help these savers with their retirement provision

When considering how the modern world is complex, technological innovations may spring to mind – especially for those who never managed to master setting their VCR to record, never mind navigate apps and augmented reality selfies. 'Family' doesn't quickly pop up when thinking about modern changes, with it more generally considered a timeless concept. However, it's not immune to the more complex times in which we live.

For instance, Canada Life's November 2020 research, *Complex Families, Complex Finances,* states that those with complex family situations affecting their retirement finances currently account for a third of the market, but are expected to be the largest group in the retirement market by 2035.

Canada Life technical director, Andrew Tully, adds that those in a complex family situation have grown from a quarter a decade ago to a third now, "so it's gone up reasonably significantly in that time period".

Family structures

But explaining just what a complex family is, is complex in itself. There are no set criteria for what falls into this category, but a broad definition could be anything that deviates from the traditional, only-once married, with children and grandparents picture-perfect families seen in saccharine adverts.

So, one 'complex' societal trend that clearly breaks away from that above 'norm' is that of divorce.

According to the Office for National Statistics (ONS), there were 107,599 opposite-sex divorces in England and Wales in 2019, an increase of 18.4 per cent from 90,871 in 2018 (although some of this increase can be due to a 2017 divorce petition processing backlog), and the highest number recorded since 2014. It is also the largest annual percentage increase in the number of divorces since 1972.

Amongst same-sex couples in 2019, there were 822 divorces, nearly double that of 2018, when there were 428 same-sex divorces.

When thinking of divorce, we tend to think of middle-aged people. However, in 2017, the ONS found that older people in England and Wales are getting married and divorced in greater numbers – so-called 'silver splicers' and 'silver separators'.

The number of brides and grooms aged 65 and over went up by 46 per cent in a decade, from 7,468 in 2004 to 10,937 in 2014. This is against the backdrop of an ageing population, which saw the number of people aged 65 and over increase by 20 per cent in the same period. Ninety-two per cent of those aged 65 and over getting married in 2014 were divorcees, widows or widowers, with only 8 per cent getting married for the first time.

While there was a 28 per cent fall in the number of divorces between 2005 and 2015 generally, the number of men divorcing aged 65 and over went up by 23 per cent and the number of women of the same age divorcing increased by 38 per cent.

A common enough result of all this hitching and ditching are families with stepchildren and children from multiple partners.

"There are no longer three distinct generations," Tully says. "There may be multiple different generations, such as older children and younger children from different marriages, so defining generations become more complicated."

In 2017, the ONS found that the number of women giving birth aged over 40 had doubled since 1990, which is also blurring generational boundaries. More women over 40 give birth each year than those under 20, Canada Life's research finds, "meaning that there will be a growing number of complex families who are supporting their children much later in life".

"I think about 20 per cent of people in their 60s still have kids at home (pre-Covid-19)," Tully says, "which is probably very different to 20 years ago".

Also, Canada Life's research shows that 28 per cent of people between 60-69 had caring responsibilities, which can have massive emotional and financial implications, he adds.

While ONS statistics into families and households in 2019 found that married or civil partner couples remain the most common family type in 2019, they only represent two-thirds of families in the UK, with 2.9 million lone parent families in 2019, akin to 14.9 per cent of families in the UK.

Also, it finds that the number of people living alone has increased by a fifth over the past 20 years, driven mainly by increases in men aged 45 to 64 years living alone.

Increasing divorce rates among the over-40s have caused a massive increase in single person households, with the average cost associated with divorce legal fees and lifestyle changes standing at £15,000. Single-person households spend at least 5 per cent more of their disposable income on bills and basics and 12 per cent more if they are renting or still have a mortgage, Canada Life finds.

Meanwhile, households containing multiple families (which represents 1.1 per cent of all households) were the fastest growing type of household over the past two decades, having increased by three-quarters to 297,000 households in 2019, the ONS finds.

PPI senior policy researcher, Lauren Wilkinson, highlights that this co-habiting can be either with romantic partners, or just platonic, living together for companionship.

Pension saving impact

These various family structures can have a significant impact of pension saving.

"Modern relationships have become increasingly complex, with cohabitation on the rise and people getting divorced and re-married," Royal London pension specialist, Helen Morrissey, says. "Added to this the fact that you may accumulate several different pension pots over the course of your lifetime means there is a lot to keep track of."

What you are keeping track of may differ considerably between groups. For instance, in August 2020, PPI and Now Pensions research found that single mothers reach retirement age with pension savings worth £18,300 – just 36 per cent of the average woman's savings of £51,000, and only 12 per cent of the average man's of £156,500. This is 30 per cent less than divorced women, who have £26,100, due to the barriers facing single mums to full-time work diminishing saving opportunities.

The current Covid-19 pandemic may also be affecting the amount people have to save, as an increasing number of parents are supporting adult children. In

August 2020, Barclays found that adult children who boomeranged back to their parents' homes during the lockdown period had totted up an average bill of £2,702.28 in extra household costs.

Tully also notes that receiving an inheritance peaks between ages 55-64 but an inheritance may be split between more people because of blended/complex family situations, making it a less substantial aspect of retirement finances.

Clarity required

Whatever the amount of pension they acquire, those with complex family situations also need to be particularly clear about what they wish to occur with their savings.

In particular, Wilkinson highlights the issue of co-habitation, giving the example of the *Brewster* case.

In 2017, the Supreme Court ruled that an unmarried woman is eligible to receive a survivor's pension from her deceased partner's pension.

Denise Brewster had lived with her partner William McCullan for 10 years up to December 2009. On Christmas Eve that year, the couple became engaged, however, two days later, McCullan died.

At the time, he had worked for Translink, a public transport operator in Northern Ireland, for around 15 years and had been contributing to the Local Government Pension Scheme. Brewster believes that McCullan had nominated her to be eligible for a survivor's pension. However, the administrators of the scheme said they did not receive a form and therefore refused to pay her a survivor's pension.

Under regulations passed in 2009, the LGPS required that unmarried co-habiting partners be nominated by their pension scheme member partner in order to be eligible for a survivor's pension. The survivor must also show that he or she has been a cohabitant for two years before the date on which the member sent the nomination and has been in that position for two years before the date of death.

However, the Supreme Court unanimously ruled that Brewster should be allowed to receive a survivor's pension.

It is therefore important for co-habitees to fill in nomination forms to avoid cases like this, Wilkinson advises.

"The importance of completing an expression of wish or nomination form is huge in helping the trustee understand what financial interdependencies may exist, as these may not simply be with those that a person resides with," Quantum Advisory principal benefits consultant, Pauline Iles, agrees.

"If these forms are not updated and your personal circumstances change then there is a chance that the person you named on your expression of wish form could be your ex rather than your current partner and so there is a chance they will receive your death benefits while your current partner (or even children) go without," Morrissey warns.

Industry role

The saver with the complex family situation does have a responsibility to do what they can to ensure their finances trickle to the right people, but is the pensions industry doing enough to help with this?

The products available already have the flexibility required to cater for complex family and financial situations, Wilkinson says, "but I do think people don't necessarily understand the ways in which they can make their pension savings work best for their situation. They need more support and guidance about how to combine products in a way that suits them best".

Tully agrees that there are flexibilities within the pensions industry that are continually progressing. "For instance, if you go back 20 years with DB, the benefits went to a spouse of the deceased and if there was no spouse it did not go to anyone. That is gradually changing. And with annuities and drawdown death benefits, you now have much wider definitions of beneficiaries. You can pretty much leave your money to whoever you want now; it doesn't need to be a dependent or spouse or partner."

More can still be done though, with Dalriada Trustees professional trustee, Paul Tinslay, suggesting how the four Financial Conduct Authority investment pathways should have been five, with the fifth being 'some combination of the previous four', "to highlight the flexibility that members do have, instead of savers seeing just one of four outcomes".

Tully suggests the promotion of trusts as an efficient way to keep the money in a pensions wrapper. For example, it can help remove the concern with a stepfamily set-up that if the spouse receives the pension money, it then trickles down to their children, instead of including the deceased's own children.

"Trusts can be useful as this can be much more controlled, helping ensure the money is split across all the children from all marriages," he adds.

Wilkinson also suggests the improvement of guidance or products for those platonically co-habiting to support each other if one dies, without sacrificing their savings as they still have their separate families they may want the money to go to.

For Tully, it is about the pensions industry recognising that these complex situations actually exist. He says: "Pensions literature used to be of happy carefree people wandering on beaches holding hands at sunset. And that is not the case for everyone by any means."

Written by Laura Blows

A gold rush?

There have been predictions that there will be a 'gold rush' of members transferring out of DB schemes this year. *Pensions Age* asks whether you think this will - or will not - be the case?

With the large-scale increase in redundancies last year, it may give some people the opportunity to retire early. This could well result in an increase in DB transfers. If, following appropriate advice, an adviser can recommend that a transfer helps them safely facilitate early retirement, then this is a great thing.

The customer should have the capacity for loss on transfer and be able to support a long-term sustainable income. And, with the ban on contingent charging, there needs to be greater emphasis on educating scheme members on what the scheme's guaranteed benefits mean to them and how they might compare to the benefits available under a DC arrangement. We could well see a significant rise in demand for advice but not necessarily as big a rise in actual transfers. This could cause a challenge for advisers. Demand for advice will increase, but they may be hesitant in engaging with a prospective client if they feel likely that they will end up advising against a transfer. A possible solution is trustees giving some thought to offering good education materials for scheme members to prevent them incurring unnecessary advice fees, while advisers could support prospective clients to ensure they properly understand the risks before they get into the advice process.

Standard Life head of platform proposition, Alastair Black

Current economic conditions will likely make transfer values more attractive than before. For example, bond yields are at Covid- and Brexit-induced lows, which has increased transfer values. By comparison, equity earnings and dividend yields are higher in relative terms, making potential DC growth investing more attractive. The need for good advice will be even more important than ever – a difficult feat with advisers having withdrawn from the market. Despite the industry's turn to illiquid assets in recent years, schemes where sponsors could become distressed must keep their investments liquid to help fund not just transfer requests but unfortunate transitions to the PPF as well.

SEI institutional group client strategy director, Alistair Jones

It is certainly a possibility as DB schemes and their members emerge from Covid-19's impact. The outlook for sponsors may be less certain. This could affect the level of financial support available in coming years and therefore the security of member benefits. For trustees, they will need to keep a close eye on how they manage liquidity from here if transfer values are to rise. They will also need to make sure they have the flexibility to fund their cashflows without being a forced seller of growth assets if there are further market stresses.

River and Mercantile Solutions co-head, Ajeet Manjrekar

Current pressures on household income caused by Covid-19 could make it very tempting for DB members to cash in their pensions to alleviate some of the pressure. We are seeing some evidence of this as there have been reports of an increase in DB transfer requests in the wake of the epidemic. However, members need to realise that there are many things to consider before deciding on a DB transfer, such as if it's in their best interest for the long term and what the potential risks are. Whilst they may really need the cash now, any benefits to accessing their pension once it's transferred should be weighed up with the potential drawbacks such as paying significant tax on the withdrawals, and ultimately reducing the amount of money they will have in retirement. This is a complex area and members will need support to help them navigate their options. Many trustees are putting robust processes in place and providing members with access to financial education, guidance and regulated financial advice to help members understand the many options in the lead up to and at retirement.

Wealth at Work director, Jonathan Watts-Lay

Pensions history

New deal for pensions

17 January 1973 saw George Ross Goobey chairing the *Financial Times* conference on the new deal for pensions and, in his opening remarks, commenting on the Social Security Bill.

He said that, in the white paper, simplicity was to be one of the keynotes of the government's scheme. Another keynote of its approach was that there was to be the utmost opportunity for consultation with representative bodies. The trouble had been that these two principles were rather incompatible and when the bill emerged there was criticism that once again the bill was too complicated.

The government's basic principles in approaching the national pensions problem had been that of partnership with occupational pension schemes and not one of destroying them.

He then went on to air a hobby horse of his, which he knew had strong support in the pensions world: "A plea for the removal of the two-thirds limit for approved contributory pension funds. The government in its bill is setting certain minimum levels to which every employer must conform, but there seems to me no logic if there are generous employers, or should I also include funds, which have invested successfully and can therefore afford to pay very much higher pensions, to have this two-thirds limit applied," he said.

Goobey continued: "As one who has taken the greatest interest in the investment side of pension funds over the years, you might expect me to comment briefly on the investment implications of the setting up of the Reserve Scheme Fund. Various educated guesses are being made of the possible size of this fund and its annual accrual, seeking investment. I am not so appalled at the arrival of this huge investment competitor as some people are, although it must of course make a marginal difference to the present day difficulties of pension fund investment managers in finding suitable and profitable investment for their funds."

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

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

ASSET CLASSES
ASSOCIATIONS
COMPLEXITIES
CONTRIBUTIONS
GREEN GILTS
PREDICTIONS
SUSTAINABILITY
TRENDS
TRUSTEES
YEAR AHEAD

I know that face...

Answer at bottom of page

I know that face... Answer: Dalriada Trustees professional trustee, Tiziana Perella

Abenefit2u
Recruitment Specialist

Contactus@abenefit2u.com
Call us on 0207 243 3201

So much of our lives have been put on hold; don't let your career or your recruitment plans be something else you hit the pause button on!

We have exciting opportunities within Administration, Actuarial, Investments, Compliance, Accountancy, Pensions Management, Project Management, Systems, Client Relationship, Consulting…

Storms don't last forever…

Let's hope that 2021 brings happiness and good health to all.

Operations/Assistant Pensions Manager	50-70k+ben	3 Days Home Wkg	DB14927
In-house Team Leader	Up to 45k	London	DB14920
In-house Pensions Manager	80-90k pkge	Outer London	DB14874
Trustee Director	£DOE	London/Home	CE14835
Pensions Covenant Consultant	£DOE	Flexible	CE14922
Senior DC Pensions Administrator	£DOE	Hampshire/Home	CE14915
Pension Fund Accountant	£DOE	Hampshire	CE14947
In-house Actuary	£DOE	Leeds	TD14904
DB Pension Administrators	£DOE	Leeds / Hampshire	TD14836
Secretary To Trustees	£Competitive	Home-based	TD14943
Senior Investment Consultant	£DOE	London	TD14934

For more vacancies visit **www.abenefit2u.com**

BWF BranWell Ford
Pensions & Legal Recruitment

EXPERT ADVISERS IN **PENSIONS RECRUITMENT** | 01279 859000

Recruitment & Employment Confederation

christine@branwellford.co.uk

Governance Specialist
Ref: HB17777 South London To £45,000 pa
Seeking a pensions professional with a wealth of Trustee Services experience to act as a secretary to the in house schemes sub-committees. You will strategically develop the governance framework and assist on departmental projects.

DC Consultant – Financial Wellbeing – All levels
Ref: HB17756 London £Highly competitive
Rare chance to join this leading Pensions Consultancy within their Financial Wellbeing practice. This is a newly developed line of business, so we are looking for someone who can play their part in building this practice who can bring experience within financial wellbeing and employee benefits.

Senior Pensions Lead
Ref: HB17783 Kent £Highly Competitive
Support the Pensions Manager in ensuring the smooth running of the day to day administration of the pensions department. You will deal with complex manual calculations, ensure the correct pensions are being paid to members and manage two junior members of the team.

hayley@branwellford.co.uk

Trustee Services Consultant
Ref: HB17746 Surrey or Bristol £Highly competitive
Be responsible for the provision of strategic advice to trust based clients and deliver sound advice and presenting solutions, as well as providing full secretariat services. In return, you will be offered a fantastic career development and package within this leading Consultancy.

Junior Pensions Consultant (DB)
Ref: HB17754 Remote role £30,000 - £35,000 pa
Fantastic chance for a pensions professional who is looking to develop their career within a Consultant role in the Governance and Secretariat arena. You will take on secretarial services to the Trustees, as well as provide guidance to clients on scheme design matters.

Pensions Operations Manager
Ref: CB17769 Berkshire £Negotiable
You'll provide management of the pensions teams, focussing on the commercials, people, clients and processes. For the right individual, client management and fee earning work will also be involved. Strong track record is required in scheme administration with a specific focus in DC.

pip@branwellford.co.uk

Senior Pensions Administrator
Ref: CB17731 Leeds £Negotiable DOE
This is a great opportunity for an in-house or TPA pensions administrator to join this market leading Actuarial and Pensions Consultancy team. Reporting directly to the Pensions Team Leader, you will be allocated a portfolio of DB pension schemes responsible for providing a full admin service.

Senior Pensions Administrator
Ref: CB17771 Working from Home c.£30,000 pa
Looking for a new challenge? Wanting to work for a leading pensions consultancy? Our client are seeking a Senior Pensions Administrator where you will provide a full admin service to clients in addition to mentoring your colleagues. Previous DB/DC is essential.

Pensions Fund Accountant
Ref: CB17730 Birmingham c.£50,000 pa
You will play a critical role in the smooth running of this busy pension accounting team whilst preparing financial statements and reports and liaising between the accountancy and pensions administration teams. You will possess a wealth of pensions accounts experience and have experience of leading a team.

BranWell Ford Associates Ltd
4c Twyford Court, High Street, Great Dunmow CM6 1AE
T 01279 859000 **E** recruit@branwellford.co.uk

branwellford.co.uk

PENSIONSAge

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

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

Professional Services Guide

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

ACCOUNTANTS AND ADVISERS

FINANCIAL EDUCATION

INVESTMENT MANAGER

TRUSTEE LIABILITY INSURANCE

Workplace pensions that tick all the boxes:

- Knowledge
- Engagement
- Trust

Standard Life

There's a lot to look forward to