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Trustee board effectiveness: *The benefits and practicalities of implementing regular trustee board effectiveness reviews*

Saver knowledge: *The public lacks basic financial skills; how can the industry help?*

On cloud nine

As the UK pension system climbs to number nine in the global rankings, what improvements are needed to reach the top?

INCLUDING: Trustee Guide 2022

Editorial Comment

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

New year, new me!

I've never believed that, and yet every January I get suckered into thoughts of fresh starts and resolutions. This year (as is the case every year) my aim is to eat healthier and exercise more.

Except… there's an awful lot of Christmas selection boxes to polish off, and the last of the cheeseboard to consume. There's no point trying to eat healthily with these delicious temptations around; I might as well finish them off before I change my diet. And the new exercise regime won't yield results if I'm not yet improving what I eat; I might as well put that off until I can start both at once.

Before I know it, it'll be April and I'll be as fat and unfit as ever, piling on Easter egg weight on top of those Christmas pounds.

The trouble is I keep holding out for the 'right' time to completely overhaul my behaviours, as opposed to gradually adapting my habits. I should know better – the industry preaches about saving little and often to build up an adequate retirement pot, instead of the challenge of putting aside large chunks of money at once. £1 in the piggy bank, snacking on an apple instead of a Twix, can then turn into £100 a month in the pension pot, a healthy home-cooked meal. Just start to make the change; don't let perfect be the enemy of the good.

Collective DC (CDC), the legislation for which will be introduced in August *[see page 10]*, has faced much criticism for not being a 'perfect' solution. Yet this ignores the fact that the current systems, DB and DC, are both far from perfect, as each put all their risk onto one group – the sponsor in the case of DB, the saver with DC. CDC at least aims to have the pendulum rest more in the middle by pooling risk. And with Royal Mail moving to CDC, along with rumours of others keen to explore this option, improvements will naturally occur through practical use.

Dashboards, an area of much industry attention this year *[see page 25 for more, as well as an overview of the year ahead]*, also garner concern of not being 'perfect' straight away. There is worry that an incomplete solution may put visitors off returning; yet I bet those that visit in its early days are more likely to already have some level of interest in pension saving, and therefore are more likely to pay attention to the signposting that not all their pension pots may be shown. Those that are less interested may get tempted to use the dashboards further down the line, as they become embedded into public knowledge – by that time we will have improved upon its service.

Look at auto-enrolment (AE). It wasn't the ideal product at launch, with minimum contributions of a mere 3 per cent, and nor is it now at 8 per cent. But if we had held out until everyone was ready to pay 15 per cent for example, we would still be (and are!) waiting. It is unlikely the UK's 20 million workplace pension savers would all have been putting away for their retirement now without this solution.

Ten years on and improvements are still being made – as I write a private member's bill is proposing to set out a roadmap to abolish AE's lower age threshold and earnings trigger, potentially helping a further seven million people.

Our cover story on page 51 also recognises the achievements made to have the UK rise to ninth place in a global pensions index, whilst still acknowledging that this is a journey with more steps to be made.

So, for 2022, let us not wait for 'perfect' but take strides to chase that elusive, shape-shifting goal. Sitting around just leaves us unfit and bloated, with the ideal aim slipping further from our reach. Believe me – let me be a cautionary tale for the industry.

See you down the gym!

Laura Blows, Editor

COVER FEATURE

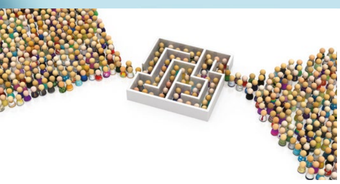
Theme: Taking stock

51

UK pension system: On cloud nine

A recent global pension index has seen the UK's pension system move up the rankings to take ninth place. While this is something to celebrate, the UK still has a lot of work to do to reach the top. Natalie Tuck reports

Highlighted features



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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

Senior Reporter
Sophie Smith
Tel: 020 7562 2425

Reporter
Tom Dunstan
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

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Managing Director
John Woods

Publishing Director
Mark Evans

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

Dateline - December 2021

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

2 December The **Pension Protection Fund** (PPF) publishes updated valuation guidance to reflect the *Hampshire* and *Bauer* judgments, and the disapplication of the PPF compensation cap. It also updates its information note for carrying out a section 143 valuation and publishes a new information note in relation to the *Hampshire, Hughes* and *Bauer* judgments in a section 143 valuation. The court rulings have resulted in a number of changes, with the *Hughes* Court of Appeal judgment confirming in July 2021 that the PPF compensation cap should be disapplied. The PPF explains that, as the PPF compensation cap no longer applies for any period, the compensation cap must not be used in the calculation of PPF compensation in s143, s152, s156 or s158 valuations. The PPF also notes that the *Hampshire* and *Bauer* judgments could give rise to additional PPF compensation.

7 December The **Old British Steel Pension Scheme** exits PPF assessment and its members will not be entering the pensions lifeboat. In a letter to members, the scheme trustees state that they have made "good progress" towards a buyout. Following its valuation, the scheme has enough money for Pension Insurance Corporation to provide guaranteed future pension payments for all members at or above PPF levels of compensation.

7 December The proportion of defined benefit (DB) scheme assets invested in bonds continued to increase in 2020/21, whilst the proportion invested in equities fell to 19 per cent, according to the **PPF**'s latest *Purple Book*. As of 31 March 2021, the aggregate proportion of schemes' assets invested in bonds had increased to 72 per cent, up from 69.2 per cent in 2020 and 28 per cent in 2006.

8 December Pensions Minister, **Guy Opperman**, writes to 44 asset managers to encourage them to allow asset owners, such as pension schemes, to have more say when it comes to voting at company Annual General Meetings. Alongside this, members of the Occupational Pension Scheme Stewardship Council (OPSC) send a letter calling for "better and more open, honest communication with clients about voting" from asset managers.

10 December Nest is expected to break even in 2024 and repay its government loan by 2038, after its latest forecast reveals that, as of March 2021, its loan liability with the Department for Work and Pensions (DWP) increased to £884m, compared to £778m in March 2020. Nest confirms that it is "well placed to repay the loan facility", with the net expenditure to be funded from the government loan facility until repaid from the protected surpluses in future years.

14 December The **Pensions Policy Institute**, in association with Aviva, launches the UK Pensions Framework, a tool designed to support the analysis of trends, issues and outcomes in the UK pensions system. It aims to help understand the changing pensions landscape by facilitating the measurement and explanation of differences in financial security and experiences that people have in later life, how they change over time, and the potential impact of new policies.

15 December The **Pensions Regulator** (TPR) delays the second consultation on its draft DB funding code until late summer to allow time to learn from the findings of DWP's consultation in the spring. Providing the update on the regulator's timeline, TPR executive director of regulatory policy, analysis and advice, David Fairs, emphasises the need to take the time to "get it right". In particular, Fairs says that it is critical that TPR's draft code and the DWP's draft regulations work together in a coherent and integrated way, and notes that the regulator wants to take the opportunity to learn from DWP's consultation on the draft funding and investment regulations. TPR previously said that the consultation was on track to take place in H2 of 2021.

15 December The **Pensions Dashboards Programme** selects Aviva, Bud and Moneyhub as the three commercial dashboard providers it will work with during its initial testing phase of pensions

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

dashboards. The programme will work with the three organisations, as well as the Money and Pensions Service's non-commercial dashboard, to support the early work on design standards and technology.

15 December The **government** confirms that draft legislation for single or connected employer collective defined contribution (CDC) schemes will come into force from 1 August, subject to parliamentary approval. In the government response to its consultation on the draft regulations, the DWP highlights the plans as a "huge step forward", confirming that it will also lay draft regulations making the necessary consequential and miscellaneous changes in February. The government has made some changes to the regulations in light of industry feedback, confirming, that it has re-drafted the definition of connected employer to be more in line with the policy intent.

16 December TPR publishes the final version of its guidance to help relevant trustees meet climate-related governance and reporting requirements introduced by the Pension Schemes Act. TPR notes that, as this is a new and developing area, not all advisers will have the right capabilities to support trustees implementing the requirements for the first time. Trustees must therefore ensure that they receive advice from appropriately skilled and competent advisers, the regulator warns.

16 December The **PPF** confirms its final levy rules for 2022/23 and revises its levy estimate down further to £390m. The rules include the introduction of a limit for 2022/23 that will ensure schemes do not see their individual risk-based levies increase by more than 25 per cent. Its consultation initially estimated the levy for 2022/23 at £415m, but the pensions lifeboat revises it down to £390m.

20 December The **Financial Conduct Authority (FCA)** publishes a policy statement confirming the final rules and guidance on climate-related financial disclosures for asset managers, life insurers and FCA-regulated pension providers. The rules took effect from 1 January for the largest in-scope firms and from January 2023 for smaller firms above the £5bn exemption threshold.

22 December The application for a judicial review of the decision to effectively replace the Retail Prices Index (RPI) with the Consumer Prices Index including owner occupiers' housing costs (CPIH) from 2030 is approved by the **High Court**. The application was made by the trustees of the BT Pension Scheme, Ford Pension Schemes, and Marks and Spencer Pension Scheme after the government confirmed that it would align inflation measures as of February 2030. The hearing is expected to take place in summer 2022, when the trustees will contest the government's case and look to defend scheme members and RPI-linked assets from the "detrimental effects" of the decision.


Caron Badkin / Shutterstock.com

22 December The **FCA** is expected to consult on a redress scheme for former members of the British Steel Pension Scheme (BSPS) who have transferred their pension by the end of March this year. The FCA highlights the BSPS as a "highly exceptional case", with the consultation on a potential redress scheme, which would be limited to BSPS transfer advice issues, being requested by the FCA's board.

News focus

CDC legislation to come into force from 1 August 2022

The DWP has confirmed that legislation for the implementation of CDC pension schemes in the UK will be introduced in the summer, with Royal Mail being the first company that will enrol its staff in the new form of pension arrangement

The government has confirmed that draft legislation for single or connected employer collective defined contribution (CDC) schemes will come into force from 1 August, subject to parliamentary approval.

In the government response to its recent consultation on the draft regulations, the Department for Work and Pensions (DWP) highlighted the plans as a "huge step forward", confirming that it will also lay draft regulations making the necessary consequential and miscellaneous changes in February.

The government has made some changes to the regulations in light of industry feedback, confirming, for instance, that it has re-drafted the definition of connected employer to be more in line with the policy intent, and to mitigate confusion that arose from the use of 'joint venture', as well as the transfer of active members between connected employers.

The authorisation and ongoing supervision of CDC schemes will be administered by The Pensions Regulator, which is expected to consult on a draft Code of Practice and operational guidance to support employers in January.

This Code of Practice is also expected to provide more detail on the processes that will be used to calculate fees for applications in respect of schemes with more than one CDC section, while the guidance will provide illustrative examples around how the fees or additional applications would be set.

Commenting in the foreword of the government's response, Pensions Minister, Guy Opperman, highlighted the development as "the culmination of four years' worth of work".

He said: "These regulations will be a huge step forward in providing a major enhancement to the existing occupational pensions landscape and a third way forward between traditional defined benefit and post-2012 defined contribution schemes.

"By allowing pension scheme members to share investment and longevity risk, and by ensuring that employers have predictable pension costs, CDC schemes will mean scheme members can be confident of an income in retirement that, whilst not guaranteed, will provide them with good value from the contributions they and their employer have made."

Opperman also said that he was "greatly encouraged" by the number of industry responses to the consultation that indicated a "real desire" to extend the benefits of CDC to more employers and their workers.

As such, he confirmed that whilst the prime focus will remain on ensuring CDC is available for single or connected employer schemes, the DWP has already begun engagement with interested parties to understand their proposals for multi-employer schemes.

The consultation also confirmed that once there is clarity as to what these parties want to achieve and how they may deliver this, the DWP will look to work to arrive at a consensus on what a potential legislative framework for these schemes might look like.

"It will be important to learn from the lessons of operating single or connected CDC schemes in live running as well as carefully consider any potential risks that may arise in extending this provision," it stated.

The update was also highlighted as "great news for Royal Mail, the Communication Workers Union and Royal Mail employees", having been the first company in the UK to look to introduce a CDC scheme for its staff.

In other news, Opperman wrote to 44 asset managers to encourage them to allow asset owners, such as pension schemes, to have more say when it comes to voting at company Annual General Meetings.

Alongside this, members of the Occupational Pension Scheme Stewardship Council (OPSC) have also sent a letter calling for "better and more open, honest communication with clients about voting" from asset managers.

Both letters have suggested that asset owners too often are not included in decision making on voting, despite them being ideally placed to do so as they represent the interests of millions of pension savers.

In light of this, they have called on fund managers to pay more attention to the voting priorities of pension schemes, suggesting that this could help pension schemes reduce risks from climate change and to make the most of net-zero transition opportunities.

"This may include taking into account clients' voting policies, and communicating back areas of misalignment in a timely manner," the OPSC letter explained.

"Given the direction of travel, it also means being open to, and facilitating, voting on specific pre-agreed resolutions according to the client's expressed view."

Signatories to the OPSC letter, which has requested a response by 24 January, include the Brunel Pension Partnership, BT Pension Scheme, the Pension Protection Fund, Lothian Pension Fund, Scottish Widows and the Tesco Pension Scheme.

Opperman's letter, meanwhile, drew attention to two key recommendations from the Taskforce on Pension Scheme Voting Implementation (TPSVI), published in September 2021, which are specifically directed at asset managers.

This included the recommendation for asset managers to offer pooled fund investors the opportunity to set an expression of wish regarding voting undertaken on the assets within the funds in which they invest.

Opperman urged asset managers to join those already bringing forward products that do not require trustees to switch to a segregated mandate in order to express their wish on voting.

Meanwhile, the 'market value' of occupational pension schemes in the UK rose to £2.48trn, as at the end of June 2021, new figures from the Office for National Statistics have revealed.

The market value, or net assets excluding derivatives, of schemes increased from £2.38trn at the end of March 2021 to £2.48trn.

The value of gross assets excluding derivatives was £2.69trn at the end of June 2021, while the value of gross assets including derivatives contracts with a positive value totalled £2.98trn.

Written by Jack Gray and Sophie Smith

VIEW FROM TPR

Last year we set bold new ambitions to create a fairer and more inclusive culture across the pensions industry.

As we start a new year, I'd like to reflect on the progress we've made. In our equality, diversity and inclusion (ED&I) strategy we pledged to work with government and industry to embed diversity and inclusion across pensions so that all savers are protected.

We want to ensure decisions made on behalf of savers stand up to scrutiny. Improving diversity across the pensions industry is fundamental to these goals.

To this end, we set up an industry working group to tackle the barriers to diversity and inclusion across the industry. Regular meetings began last January, and an action plan is now well under way.

Our volunteers are producing some fantastic materials and insights that will help support the recruitment of more diverse trustees.

The working group has four workstreams looking at the role data can play in bringing diversity and inclusion to governing bodies, developing best practice in the composition of boards, developing practical tools to share best practice on recruitment and delivering engagement with employers to help broaden the appeal of trusteeship.

There is a huge amount to do, but we must make significant change to make our industry more diverse and inclusive and where equality is a right not a privilege.

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

The Pensions Regulator
Making workplace pensions work

VIEW FROM THE PPI

Analysis of the retirement income that pension systems produce primarily focuses on two questions: Is it enough, and is it affordable? In other words, are outcomes adequate, and are they sustainable? One of the questions that hasn't always been asked however, is whether they are fair.

When the PPI designed its UK Pensions Framework this year, a key objective was to better understand policy trade-offs in the UK pension system. Trade-offs usually happen when a compromise in one objective is needed to produce desired outcomes in another.

Adequacy and sustainability are two such competing objectives. The cost of providing an adequate retirement income for everyone will not be financially or socially sustainable if it is not affordable. But what is affordable, based on resources available, might not be considered adequate. That means a compromise in how the costs and benefits of pensions are distributed is needed, and the extent to which compromises are successful will depend on whether the distribution is fair.

In recent years, measures to improve financial sustainability in the pension system have somewhat compromised adequacy, but evidence consistently shows that the impacts are not the same for everyone. That's why the framework examines fairness, along with adequacy and sustainability, in the UK pension system. Policy trade-offs will always have to be made, but focusing on whether they are fair is an important consideration in designing them.

PPI research associate, Anna Brain

PENSIONS POLICY INSTITUTE
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TPR delays second DB Funding Code consultation until summer

TPR has announced it will be delaying the second consultation on its new DB Funding Code until late summer to give the regulator time to assess findings from the DWP's upcoming consultation, which is expected to be published in the spring

The Pensions Regulator (TPR) has delayed the second consultation on its draft defined benefit (DB) Funding Code until late summer, to allow time to learn from the findings of Department for Work and Pensions' (DWP) consultation, due in the spring.

The Pensions Regulator
Making workplace pensions work

Providing the update on the regulator's timeline, TPR executive director of regulatory policy, analysis and advice, David Fairs, emphasised the need to "take the time to get it right".

In particular, Fairs said that it is critical that TPR's draft code and the DWP's draft regulations work together in a coherent and integrated way.

In light of this, he said that the regulator wanted to take the opportunity to learn from DWP's consultation on the draft funding and investment regulations.

"And we want to ensure that stakeholders have ample opportunity to engage with and input into our proposals as they are developing," he added.

Fairs also clarified, however, that it is "very much business as usual" in the meantime, confirming that the existing code and funding regime will remain in place until such time as the new legislative requirements and code have come into effect.

In addition to this, he explained that, when introduced, the changes will be forward looking, meaning that schemes with valuation effective dates on or after the code's commencement date will be affected.

TPR previously said that the consultation was on track to take place in H2 of 2021, with the code expected to be in place and operational in "late 2022 or early 2023".

In other news, TPR has published the final version of its guidance to help relevant trustees meet climate-related governance and reporting requirements introduced by the Pension Schemes Act.

TPR noted that, as this is a new and developing area, not all advisers will have the right capabilities to support trustees implementing the requirements for the first time.

Trustees must therefore ensure that they receive advice from appropriately skilled and competent advisers, the regulator warned.

The requirements apply to authorised master trusts and schemes with £5bn or more in assets, with the rules extending to schemes with £1bn or more in assets from October.

TPR's guidance describes to trustees what they need to do and report on in their annual climate change report to comply with the new legislation.

Written by Sophie Smith and Jack Gray

PPF confirms levy rules for 2022/23; levy estimate £390m

The pensions lifeboat has published its final levy rules for 2022/23, confirming that measures put in place to support schemes and employers during the pandemic will remain. It also revised its levy estimate down further to £390m

The Pension Protection Fund (PPF) has confirmed its final levy rules for 2022/23 and revised its levy estimate down further to £390m.

The rules include the introduction of a limit for 2022/23 that will ensure schemes do not see their individual risk-based levies rise by more than 25 per cent.

Its consultation initially estimated the levy for 2022/23 at £415m, but the pensions lifeboat has since revised it down to £390m.

This represents a reduction of £130m on the levy estimate from 2021/22.

The PPF's levy rules confirmed that measures introduced to help schemes and employers with the cost of the levy in 2021/22, including the Small Scheme Adjustment, the lower cap on the risk-based levy and Covid-19 payment easement, will remain in place in 2022/23.

Under these rules, the PPF estimated that more than 80 per cent of schemes that pay a risk-based levy would see their levy fall.

For schemes that do not see a reduction in their levy bill, a new limit will be introduced for 2022/23 only.

This limit will ensure that risk-based levies will not increase by more than 25 per cent compared to 2021/22.

The PPF added the limit following its own monitoring, and feedback from the industry and stakeholders, which noted the extent to which forced closure of businesses during the pandemic had resulted in downgrades in insolvency risk scores.

Its estimate of £390m reflects the introduction of the limit, as well as market movements and changes in insolvency risk scores.

Meanwhile, the PPF published updated valuation guidance to reflect the *Hampshire* and *Bauer* judgments, and the disapplication of the PPF compensation cap.

It has also updated its information note for carrying out a section 143 valuation and published a new information note in relation to the *Hampshire, Hughes* and *Bauer* judgments in a section 143 valuation.

The court rulings have resulted in a number of changes, with the *Hughes* Court of Appeal judgment confirming in July 2021 that the PPF compensation cap should be disapplied.

The PPF explained that, as the PPF compensation cap no longer applies for any period, the compensation cap must not be used in the calculation of PPF compensation in s143, s152, s156 or s158 valuations.

Written by Jack Gray and Sophie Smith

NEWS IN BRIEF

The market value of Local Government Pension Scheme (LGPS) funds increased by 23.8 per cent to £337.1bn in 2020/21, the **Department for Levelling Up, Housing & Communities** has revealed. The increase was attributed to improvements in the financial markets following the fall seen in March 2020.

The Mitchells & Butlers Executive Pension Plan has agreed a £650m full scheme buy-in with Legal & General (L&G). All scheme members are covered by the transaction, which is the scheme's first pension risk transfer deal following two months of preparation and price monitoring.

Defined benefit (DB) pension transfer values hit a record high of £270,000 in November 2021, according to **XPS Pensions Group's** Transfer Value Index. The increase was attributed to further forecast increases inflation and a slight reduction in gilt yields, and saw values pass the recent record high of £265,200 on 28 October 2021.

The total number of pension pots accessed for the first time decreased by 12 per cent year-on-year to 596,080 in 2020/21, the **Financial Conduct Authority** has revealed. Its *Retirement income market data 2020/21*, which analysed data from the year April 2020 to March 2021, showed that the number of pots accessed had declined from 673,831 in 2019/20. Of the pots that were accessed for the first time, 33 per cent were accessed by pension holders who took regulated advice, down 3 per cent from 2019/20.

VIEW FROM THE PLSA

There is an advice gap in the UK and since the pension freedoms were introduced in 2015, there is a guidance gap.

In answer to this, Pension Wise was established to help people understand their options at decumulation. Take up has not been as high as expected, with only 14 per cent of savers having the hour-long appointment. This led to the concept of a Stronger Nudge. The Stronger Nudge is where the saver is offered a Pension Wise appointment before accessing their pension or seeking to transfer it to another scheme to access it. Disappointingly, when trialled, the Stronger Nudge proposals only increased take up by 11 percentage points on the control group, at 14 per cent compared to 3 per cent. Currently savers can access the Pension Wise service from age 50 but tend to get told about it in wake up packs at 55. There is some debate about whether savers should be nudged towards taking up appointments earlier or even have automated appointments made on their behalf. The PLSA believes that Stronger Nudge doesn't do enough to bridge the guidance gap and we are concerned about the additional burden on schemes. We believe there are better ways to achieve this from increasing the scope of guidance providers to include pension schemes to introducing automated Pension Wise appointments.

PLSA director of policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Pension schemes granted RPI/CPIH judicial review

The trustees of the BT Pension Scheme, Ford pension schemes, and Marks and Spencer Pension Scheme have had an application for a judicial review of the decision to align RPI with CPIH from February 2030 approved by the High Court

The application for a judicial review of the decision to effectively replace the Retail Prices Index (RPI) with the Consumer Prices Index including owner occupiers' housing costs (CPIH) from 2030 has been approved by the High Court.

The application was made by the trustees of the BT Pension Scheme, Ford pension schemes, and Marks and Spencer Pension Scheme after the government confirmed that it would align inflation measures as of February 2030, following an industry consultation.

The trustees were previously granted more time to apply for the judicial review, after the government requested that they apply for a six-week extension before bringing any claim due to the complex nature of the case and to give government time to prepare a defence.

The hearing is now expected to take place in the summer, when the trustees will contest the government's case and look to defend scheme members and RPI-linked assets from the "detrimental effects" of a decision that they do not believe have been fully considered.

Previous estimates from Insight Investment suggested that over 10 million pensioners could be made poorer in retirement as a result of the effective replacement of RPI with CPIH.

In addition to this, the trustees warned that the reforms could "significantly reduce" the value of RPI-linked assets held by pension schemes to meet pension promises, weakening schemes' funding positions and adding pressure on sponsoring employers.

Industry experts have also previously raised concerns that the RPI reforms could prove a "major blow" to both savers and the industry, with industry research suggesting that the reforms could cost savers and investors up to £122bn.

Meanwhile, six trade unions have applied to the High Court for a Judicial Review in relation to public sector pension changes, arguing that the government is trying to make workers pay for the McCloud remedy.

The six unions, the Fire Brigades Union, GMB, PCS, the Prison Officers Association, the Royal College of Nursing and Unite, suggested that the government is trying to impose the cost of the McCloud remedy onto those who are now in the 2015 pension scheme.

It argued that this "amounts to age discrimination in and of itself", as members of the newer scheme are typically younger than members of the old scheme.

Written by Sophie Smith

Old British Steel Pension Scheme avoids entering PPF

The OBSPS has exited PPF assessment after its valuation found that the scheme had enough funds for PIC to provide guaranteed future pension payments for all members at or above PPF levels of compensation. The scheme secured a £2bn buy-in with PIC in October 2020 is expected to complete a buyout with the insurer by late summer

Michael Stubbs / Shutterstock.com

The Old British Steel Pension Scheme (OBSPS) has exited Pension Protection Fund (PPF) assessment and its members will not be entering the pensions lifeboat.

In a letter to members, the scheme trustees stated that they had made "good progress" towards a buyout.

Following its valuation, the scheme had enough money for Pension Insurance Corporation (PIC) to provide guaranteed future pension payments for all members at or above PPF levels of compensation.

The scheme secured a £2bn buy-in with PIC in October 2020 and now expects to complete a buyout with the insurer by late summer.

The OBSPS had expected to complete the deal by the end of 2021, but trustees noted that the process was "taking longer than expected" due to recent legal rulings affecting pension schemes in general.

The trustees also informed members who are receiving PPF-level benefits that they would be receiving an increase in their current level of benefits.

As the scheme has now exited PPF assessment, members may be able to transfer to another pension arrangement if they have not started receiving their pension.

However, in a joint statement, the Financial Conduct Authority (FCA), The Pensions Regulator (TPR) and MoneyHelper warned that transferring out of a defined benefit pension scheme was "unlikely to be in the best interests of most consumers".

The FCA also announced that it plans to consult on a redress scheme for former members of the scheme who transferred their pension by the end of March 2022.

The FCA highlighted BSPS as a "highly exceptional case", with previous research from the regulator revealing that nearly half (47 per cent) of the advice given to members of the scheme was unsuitable, compared to 17 per cent for non-BSPS cases.

The consultation on a potential redress scheme, which would be limited to BSPS transfer advice issues, was requested by the FCA's board.

Ahead of the consultation, the FCA has written to firms that gave advice to BSPS members between 1 March 2017 to 31 March 2018, and are therefore in the scope of a potential redress scheme, to outline its expectations.

Firms in the scope are expected, with immediate effect, to ensure they have adequate financial resources, retain assets for a potential redress exercise, and to not try to avoid their responsibilities.

Written by Jack Gray and Sophie Smith

VIEW FROM AMNT

I have been a fan of cricket for 60 years, both watching and playing. The recent revelations of racism, though coming as a shock, regrettably are not surprising as cricket has been riven by such issues for generations. These are not solely racist in character but cover all areas of diversity. In the Bodyline controversy of the 1930s, it was the Nottingham miner's son Harold Larwood who took all the acrimony from the cricket authorities and not the actual culprit; Douglas Jardine the public school captain.

The worst aspect of the cricket scandal is the seeming acceptance of prejudicial attitudes in the game making such situations the 'norm'; effectively institutionalising racism and exclusion.

Cricket is not alone in entrenching attitudes and prejudices that inevitably have a detrimental effect on organisations and the people they support. Changing such ingrained perspectives is not easy but accepting there is a problem is the first step to resolution, a step those in cricket are struggling with.

We must all recognise that our personal attitudes do have an effect on the way we act, but that acceptance should drive us to ensure we hear from different voices and opinions across the full spectrum of society. Pension funds need to ensure that they are truly representative of all their members views by having an inclusive and diverse board of trustees.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

Appointments, moves and mandates


Brendan McCafferty

The Department for Work and Pensions (DWP) has confirmed the appointment of Blueprint for Better Business non-executive director and trustee, Brendan McCafferty, as the chair of **Nest**.

The former Brightside Group and Axa chief executive officer will take over from Otto Thorensen, with his five-year term set to begin on 1 February.

Pensions Minister, Guy Opperman, said that he was "delighted" to confirm McCafferty's appointment as chair, stating that he will bring "a wealth of financial services knowledge to the role and will be a great fit".

He said: "Brendan will oversee an important five years as Nest transitions to a new service administrator. I am confident he will continue to develop its service and help millions of workers enjoy a more comfortable retirement. I would also like to thank Otto Thoresen for his service as chair. He successfully steered Nest through the ramp up of automatic enrolment and the establishment of its industry-leading responsible investment approach."


Andy Dickson

Aegon has appointed Andy Dickson to the newly created role of master trust strategic development director.

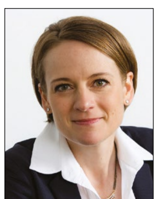
He will responsible for building on Aegon UK's brand in the DC market with a particular focus on master trust growth. He joins from Standard Life Group, where he spent over 25 years working within the DC corporate business and asset management arm, most recently as master trust head of market strategy.


Peter Birch

AJ Bell has named Peter Birch as chief financial officer.

Birch joins from Deloitte, where he is currently a financial services audit and assurance partner. He will join the AJ Bell Board and Executive Management Board to replace Michael Summersgill, who was appointed to the role of deputy chief executive officer.

Summersgill will continue to undertake the duties of CFO until Birch joins the company on 1 July.


Sonja Laud

The Investment Association (IA) has appointed Sonja Laud as new chair of the IA Investment Committee.

Laud will work closely with the IA executive team to provide advice and support. Laud, who is currently Legal & General Investment Management (LGIM) chief investment officer, replaces State Street Group executive vice president and senior adviser, Rick LaCaille, as chair of the committee.


Alex Rodger

Arc Pensions Law has appointed Alex Rodger as partner.

Based in the Leeds office, Rodger joins the firm from Womble Bond Dickinson, where he advised trustees and employers in the private and public sector on pension matters. He brings over 25 years' experience to the role, with a particular expertise in relation to scheme mergers, member complaints administration errors and buyouts and buy-ins.


Chris Hay

LawDebenture has appointed Chris Hay as pensions executive.

Hay, who will be based in the group's London office, brings over 17 years' sector experience to the role, joining the team from The Telegraph Media Group, where he served as pension transition manager and secretary to the trustee. Prior to this, Hay was a scheme administrator at Jardine Lloyd Thompson and Kingfisher PLC pension administrator.


Jonathan Ashworth

Jonathan Ashworth has been named as **Labour's** new Shadow Work and Pensions Secretary following a reshuffle of the shadow cabinet.

Ashworth replaces Jonathan Reynolds, who has been moved to the role of Shadow Business Secretary. Reynolds held the position between 6 April 2020 and 29 November 2021.

He was moved from his position as Shadow Health Secretary to become the new Shadow Work and Pensions Secretary, and will be shadowing incumbent Work and Pensions Secretary, Thérèse Coffey, who welcomed Ashworth to his new job, stating that the two have a "shared mission to improve the quality of life for millions of people in this country".

Commenting on Twitter, Ashworth said he was "excited" to be taking on the role. "With child poverty rising, in-work poverty endemic, lack of meaningful support for people with disabilities, and often a raw deal for pensioners this is a huge agenda and Labour will lead the campaign," he stated.

VIEW FROM THE PMI

Pensions Management Institute

There are now 22.5 million people saving for retirement with a workplace pension thanks to auto-enrolment.

Whilst this represents a significant achievement, there are still many people unable to accrue adequate pension coverage. A recent report by Now Pensions and the PPI found that 2.8 million people remain without adequate retirement savings. Alarmingly, this number is growing.

Many of those affected are outside full-time employment. It is important to note that carers and part-time employees are predominantly female. The report also notes that those from ethnic minorities are also likely to be disproportionately affected.

A contributory factor is the auto-enrolment thresholds. Whilst those part-timers who qualify as non-eligible jobholders may join an employer's scheme – and enjoy the same statutory pension rights as their full-time colleagues – they are required to join the scheme proactively rather than be enrolled automatically. Another factor is the earnings thresholds for contributions.

The government's long-awaited reforms to auto-enrolment will do much to provide a better deal for low earners. However, a Minister whose remit covers not just pensions but also financial inclusion could perhaps address many more of the issues which currently lock low-earners out of workplace pension saving.

PMI director of policy and external affairs, Tim Middleton

Market commentary: Long-term inflation

Whether current inflation spikes are set to become a long-term norm has started to cross pension funds' minds.

"There is a lot of attention on the moves at the short end of inflation, but pension funds really focus on the much longer end of inflation, and the upward trends there have been attracting attention," Insight Investment, senior market strategist, David Jamieson, says.

"Following the RPI reform, pension schemes are looking at the level of 30-year inflation in 10 years' time – that is CPI – which is about 3 per cent at the moment, a percentage point above BoE's stated 2 per cent inflation target.

"This 1 per cent premium is linked to supply and demand effects, rather than to Brexit, or to a bedding down of inflation."

According to Jamieson, of concern for pension schemes is that the UK index-linked gilts (linkers) market is shifting from a feast into a famine.

"The last £4bn of 50-year linkers syndication was 16 times oversubscribed – the biggest it has ever been in the history of syndications. While this would lead anyone to believe we are in a feast, unfortunately investors received very small portions of the issuance as a result of this excessive oversubscription. Now they are going into a famine, whereby there are only two index-linked gilt auctions for the rest of this fiscal year to April.

"This linkers famine translates into huge volatility in inflation and nominal rates with significant implications for pensions schemes, especially leveraged ones, where they experience swings in collateral requirements. Pension schemes with liability caps will be less sensitive to the impact of inflation rises, however their decreased demand for linkers will still outstrip the massive reduction in supply, leading to lower real yields," he explains.

The rising acknowledgment, even by central bankers, that the level of inflation being observed is not transitory should be watched very carefully by UK pension trustees, Cambridge Associates managing director, Himanshu Chaturvedi, says.

"If long-term rates rise due to longer-term inflation expectations becoming unanchored, schemes running leveraged liability hedging portfolios could be hit by significant collateral calls, which might require partial liquidation of growth portfolios just when their valuations are being impacted by the phenomenon of rising rates," he warns.

Yet markets have adjusted accordingly to the discussions of a potential prolonged period of elevated inflation, State Street Global Advisors EMEA head of liability-driven investment, Jeremy Rideau, says. However, 2022 is likely to see central bank actions in the major developed markets, which should help to tame the market's medium-term inflation expectations, he adds.

HSBC Asset Management global chief investment officer, fixed income, Michael Cross, is doubtful that pension funds even need to be concerned about long-term inflation. "High inflation will pass and return to target because major central banks have the tools and the determination to make that happen," he says. "Inflation is primarily being driven now by supply-side developments, rather than generalised demand over-heating. So their priority is to ensure it doesn't become embedded in expectations of future inflation. Central banks will aim to calibrate their policy responses carefully, to steer inflation expectations without derailing economies that are still vulnerable from the continuing pandemic."

Written by Laura Blows

Market commentary: Swinging back

As higher inflation continues, talk is turning to the possibility of the Bank of England (BoE) moving to quantitative tightening (QT), and what this would mean for pension funds.

"Whether or not BoE embarks on QT is linked to its expectations for inflation; it is more likely to tighten monetary policy if it believes higher inflation is becoming embedded," Cartwright director of investment consulting, Sam Roberts, says.

The market expects that the BoE will do some policy tightening over the next 12 months, State Street Global Advisors EMEA head of liability-driven investment, Jeremy Rideau, predicts.

So if QT was to occur, what would this mean for pension funds? SEI investment director, UK institutional group, Cai Rees, believes this would be positive for pension schemes, stating: "We do not see *[QT]* as the beginning of a significant tightening cycle to high rates, but rather the ending of emergency measures to a new, but still relatively supportive monetary environment. It is this kind of stability from central banks that will prove welcome for pension funds."

According to Rideau: "Most pension schemes are not fully hedged, so if rates were to increase more than is currently priced in by the market, funding levels would increase on the back of lower liability valuations. Reductions in quantitative easing (QE) programmes will likely be combined with continued high levels of gilt issuance, which will also have an impact on markets."

This impact includes higher interest rates, as the supply of bonds would outpace demand from investors, who will likely transfer from fixed income assets to financial instruments that can provide inflation protection. A rise in 'risk free' rates (the benchmark against which all assets are judged) would mean a fall in the value of most investments," Barings

Real Estate head of European research and strategy, Paul Stewart, warns.

"Higher rates imply a fall in a pension fund's value. However, higher rates also mean a corresponding fall in liabilities (via a higher discount rate/lower PV) for schemes that have immunised their portfolio from interest rate risk," he adds.

However, pension funds should not be concerned yet, as HSBC Asset Management global chief investment officer, fixed income, Michael Cross, notes that BoE has been clear that interest rate rises will be its primary tightening instrument, and that it will not consider selling QE assets until Bank Rate has reached at least 1 per cent. "UK pension funds can expect any QE sales to be gradual and predictable, and aimed at increasing the supply of duration and safe assets without disrupting markets," he states.

Insight Investment analysis suggests that passive quantitative tightening planned by the BoE – letting its portfolio mature over time – could reduce its balance sheet by half by 2030 without requiring active bond sales.

"We still anticipate £200bn worth of net gilt issuance from the next tax year in April – the biggest ever. With no offset from QE, we think demand from pension funds, insurance companies, bank treasuries and overseas is unlikely to fully absorb this issuance," its senior market strategist, David Jamieson, says.

Written by Laura Blows

VIEW FROM THE SPP

Investors have sought greater returns from various sources, given that yields on traditional assets have remained at historic lows. In doing so, they have increasingly been allocating money to private markets. But, there has been little flowing towards agriculture; an asset class that can provide an attractive and diversified source of returns.

Investing in agriculture involves the production of raw materials to sell further down the supply chain. The two main routes to investing include farmland and forestry.

Agriculture enhances a portfolio through adding diversification, as historically the sector has a low or negative correlation with traditional asset classes. It also offers returns that are broadly linked to inflation, as farmland, forestry and the underlying commodities generate value in real terms.

There are a number of trends that support the sector, the most significant one being population growth. By 2050, the population is estimated to reach 9.5 billion, from nearer eight billion today, driving up the demand for food and housing (timber). There is also a massive shortfall in supply with the amount of arable land declining rapidly.

An investment into agriculture could be used as protection against highly carbon intensive portfolios. The preservation of natural resources is part of the solution to address climate change.

SPP Investment Committee chair, Neil Davies

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

VIEW FROM THE ACA

The ACA's survey underscores several messages about the DB Funding Code that have been fed back in TPR's earlier consultation. What may come as a surprise is how unified and strong we found industry opinion is: 'Bespoke' must mean bespoke. 'Fast track' journeys must not raid employers for cash that is already expected to come from investment returns.

Presuming employer support ceases to exist once a scheme is mature wouldn't be realistic.

Respondents were also clear that trustees should maintain absolute discretion over investment decisions – hopefully the anticipated regulations on the funding and investment strategy provisions of the Pension Schemes Act will help to clarify that this will continue to be the case.

As an industry we find ourselves between a rock and a hard place on getting the new DB funding regulations finished, after the understandable delays caused by Brexit and the economic consequences of Covid-19. TPR is clear that we're to operate under the current regulations in the meantime, but the reality is an awkward limbo, with an eye to what is coming down the track. Having waited this long, the ACA urges TPR to continue listening to industry feedback, so that its new funding code doesn't repeat mistakes of the past, like the disastrous Minimum Funding Requirement.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

In my opinion

On the need for asset managers to better reflect pension scheme voting priorities at annual general meetings

"This is about giving pension savers a voice in how their hard-earned savings are being looked after. 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, encouraging engagement with companies to ensure they are fit for purpose in the 21st century. I see no reason why trustees shouldn't be able to determine their own high-level policies – on areas such as climate risk management, diversity, or pay – and find an asset manager to implement it."

Pensions Minister, Guy Opperman

On figures from the Financial Conduct Authority, which showed that the number of pension pots accessed for the first time fell 12 per cent in 2021

"It is encouraging people have exercised restraint during a period of stock market volatility. However, there has been an increase in those regularly withdrawing at an annual rate of 8 per cent or more. The rate at which you withdraw income in retirement is a crucial consideration to ensure you have enough money to maintain an income throughout life. Taking out too much too quickly means people could outlive their retirement savings."

Aegon head of pensions, Kate Smith

On private sector DB membership falling by 2.5 million in the past decade

"DB schemes are an endangered species. It's clear from this data that DB pensions are increasingly reserved for public sector employees – for private sector employees they are becoming a relic of the past. Instead of having a pension based on final salary and length of employment, more people's retirement income will be determined through DC schemes. And instead of providing a guaranteed level of income, it will depend on how much they contribute, and how the investments grow. It means we hold the responsibility for ensuring we can afford to retire how and when we want to, so the sooner we get to grips with our pension, the better."

Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey

On renewed calls to expand the Online Safety Bill from the Draft Online Safety Bill Committee

"The committee were unanimous in their conclusion that we need to call time on the Wild West online. For too long, big tech has gotten away with being the land of the lawless. A lack of regulation online has left too many people vulnerable to abuse, fraud, violence and in some cases even loss of life. The era of self-regulation for big tech has come to an end. The companies are clearly responsible for services they have designed and profit from, and need to be held to account for the decisions they make."

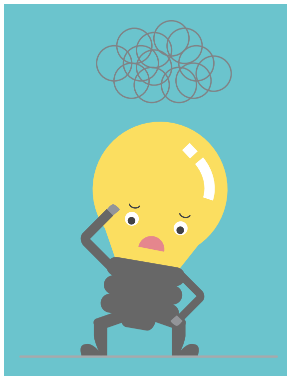
Draft Online Safety Bill Joint Committee chair, MP Damian Collins

On pension tax relief totalling £42.7bn in 2020/21

"The raw 'cost' of pension tax relief is always going to appear eye-watering, and the 2020/21 estimate of over £42bn certainly falls into that category. What is often missed in analysis of pension tax relief – in particular by those who eagerly push for radical reform such as scrapping higher-rate relief – is how that relief is distributed. Dealing with DB schemes – the majority of which now reside in the public sector – has always been the biggest challenge to seismic pension tax relief changes both practically and politically, and these figures lay that challenge bare."

AJ Bell head of retirement policy, Tom Selby

Soapbox: A stupid question?



When the pensions industry discusses the savers that it is trying to engage with, it can often feel like we are talking about strangers from another planet, rather than our friends, family and co-workers. It can be even easier to forget that every statistic represents a real person, with real financial strains and stress.

Instead, an attitude of 'us versus them' can quickly emerge, with those 'in the know' placed at an advantage to those who are still trying to navigate the complex rules and loopholes of the financial world.

This attitude is perhaps most clearly seen on social media platforms, as figures from financial services are able to share their unfiltered views on the latest industry research, which often centres around the continued lack of understanding of various financial concepts.

But some of these discussions risk alienating savers and make them feel judged, rather than supported.

Younger people, in particular, are often thrown into the limelight for having a poor understanding around issues such as the impact of inflation on savings and the cost of living. This is compounded by stereotypes, which more often than not place the blame for financial stressors and challenges directly back on young people themselves.

But if there is a lack of knowledge amongst this generation, it should come as no surprise, given research from Cushon found that under-35s are almost twice as likely as those aged 65 and over to have not been taught about finance at school (28 per cent compared to 15 per cent).

Yet younger savers do want to engage with their finances, with analysis from Now Pensions revealing that 88 per cent of students want to learn more about money and saving at school.

And conclusions drawn from broader research trends around financial understandings on issues such as inflation may be misleading. A recent study from Ipsos Mori, for instance, found that, in 2021, Britons aged 16-34 were most likely to be influenced by unemployment levels (38 per cent), average salaries (35 per cent) and house prices (35 per cent), when comparing the state of the economy, whilst those aged over 35 are most influenced by inflation and prices, with different generations clearly guided by the issues that are most important to them.

Whilst there may be differences in perspective, generational tensions don't need widening further, so it is important to consider the experiences and context behind the research without judgement.

At school we are often told that there are no bad questions. Perhaps this is a phrase that the financial services industry could do well to remember as we enter a new year, with a number of exciting, but complex, changes waiting to be shared with the wider world.

Everyone has been unsure at some point, so avoiding judgement and creating an environment where people want to learn is crucial, whether that is about the impact of inflation on their daily life, or the impact of choosing a sustainable fund for their pension.

The problems arising from a lack of pensions knowledge are already well known, but savers will never get the right answers if they are afraid of asking stupid questions.

Written by Sophie Smith

VIEW FROM THE ABI

The pandemic has demonstrated the value of having assets or insurance to rely upon. It allowed many to save more, but also exposed and exacerbated inequalities in financial resilience. Recent ABI polling found that one in five working age adults would not have enough money to cover their bills for a month if they could no longer work. A quarter would only manage financially for up to three months.

Several current policy priorities need to consider the broader picture of financial resilience. The Pensions Minister's plans for an 'automatic enrolment 2.0' review and the Work and Pensions Committee's inquiry will need to acknowledge that pensions can't solve everything. The government and FCA should go further in their work on advice and guidance, to enable providers and MoneyHelper to do more to support their customers in specific circumstances. The FCA's and TPR's joint work on the pensions consumer journey could be revisited to take a cross-cutting, strategic look at how consumers experience pensions and savings through life.

As well as government and regulators, the industry has a great opportunity to help people harness their savings to build resilience for when they need it in future. At the ABI's Annual Conference in February, we will be exploring what are the crunch points and how can the industry help.

ABI head of long-term savings, Rob Yuille

ABI

Together again

Pensions Age looks ahead to the return of in-person industry events during 2022*

Pension Age Awards

23 February 2022

Great Room, Grosvenor House Hotel, Park Lane, London

The shortlist has now been published for the 9th annual Pensions Age Awards. Hosted in the stunning Great Room of Park Lane's iconic Grosvenor House Hotel, this exciting event will see UK pension funds and providers receive hard earned accolades across a whole host of disciplines, from consultancy, investment and administration, to innovation, communication and diversity. A must-attend event for anyone involved in the UK pensions arena.

https://www.pensionsage.com/awards

The Sustainable Investment Summit

24 March 2022

Waldorf Hilton Hotel, London

Sustainability has become one of the biggest and most important topics in the investment space, as investment managers, pension funds, insurance companies, charities and corporates realise that being ESG aware is no longer a 'nice to have' but a 'must-have'. This one-day summit, covering ESG, SRI, impact investing, sustainability and governance, will offer delegates the up-to-date knowledge and guidance they need to help them understand all aspects of the sustainable investment market, whilst networking with their peers.

https://sisummit.net/index.php

Pensions Age Spring Conference

28 April 2022

London Hilton Tower Bridge

The Pensions Age Spring Conference covers the entire spectrum of pensions, from a DB and DC perspective, and is a key event for all those working in the pensions sector, from pension managers, trustees, CIOs, consultants and providers. With expert speakers presenting on topics such as pensions legislation, regulation, investment, administration and innovation, this one-day conference is essential for those wanting to stay up-to-date as well network with their peers.

https://www.pensionsage.com/springconference

PMI – DC and Master Trust Symposium

11 May 2022

(Hybrid event: London and virtual)

The DC and Master Trust Symposium builds on expertise in auto-enrolment and DC governance best practice and draws on the current issues and challenges facing employers, trustees, and DC pension fund members.

PLSA – Investment Conference 2022: A new boost

25-26 May

Edinburgh

We're entering a new era for pensions investment. After the government's rallying cry to ignite an investment 'big bang', coupled with rising inflation and the continuing economic reverberations of the pandemic, how can pension investors adjust to the new environment, meet their responsibilities, and rise to the challenge?

The PLSA's Investment Conference is back in Edinburgh in May, bringing together the PLSA members who invest UK savers' money to reconnect in-person with schemes and providers, and hear the experts discuss issues ranging from climate-aware investing to value for money.

Pensions Age Northern Conference

7 June 2022

Park Plaza, Leeds

Following in the footsteps of our London conferences, the Pensions Age Northern Conference, hosted in Leeds, brings together key speakers and delegates from across the pensions sphere to discuss all the major topics relevant to those running UK pension schemes today. Hear from regulators, investment experts and providers while networking with pension managers, scheme trustees, CIOs and consultants at what has become a popular event for the industry. Topics range from regulation, investment, scheme management, communication, technology and innovation.

https://www.pensionsage.com/northernconference

PLSA – Local Authority Conference 2022: Local government, global impact

13-15 June

Gloucestershire

The LGPS holds considerable clout on the world stage. Its health and performance have huge ramifications, not just for the scheme's more than six million members, but also the global economy.

The local authority pensions community has a depth of connections and creates an atmosphere that just can't be replicated online. In another major year for the LGPS, over 400 of the scheme's key figures will get together for the first time in two years to tackle the latest developments: new climate-related reporting requirements, the pandemic's long-term impact on scheme finances, and the government's invitation to fuel an investment 'big bang' pending.

*All information is correct at time of writing but may be subject to change

PMI – Pensions Aspects Live
29 June 2022
(Hybrid event: London and virtual)
The PMI's annual conference, the award-winning Pensions Aspects Live, is one of the highlights of the pensions calendar. The conference and exhibition draw on the current issues and challenges facing employee benefit consultants, administrators, trustees, lawyers and members.

European Pensions Awards
7 July 2022
Marriott Grosvenor Square
Now in its 15th year, the European Pensions Awards are a celebration of the hard work and dedication displayed by pension schemes and providers from across Europe. At a glittering evening gala, trophies are presented to over 30 key players from across Europe who have displayed excellence, innovation and a genuine passion for providing exceptional service in everything they do, be that as a consultant, pension fund, asset manager, law firm, communication specialist or other pension provider. The deadline for entries is 11 March 2022.
https://www.europeanpensions.net/awards

PMI – Trustee Workbench
September 2022
(Hybrid event: London and virtual)
Trustee Workbench is the go-to event for pension trustees, whether professional, member or employer-nominated. This prestigious event builds on expertise in helping trustees succeed in their roles and draws on the current issues and challenges that trustees are facing today.

Pensions Age Autumn Conference
15 September 2022
Waldorf Hilton Hotel, London
The annual Pensions Age Autumn conference brings the industry together after the summer break to hear from regulators and policymakers about the key issues that anyone involved in running a pension scheme needs to know about; offers the chance to hear from expert speakers on areas relevant to DB and DC schemes including ESG, asset allocation, investment trends, technology, communication, consolidation and more; and provides an opportunity to network and exchange ideas with pensions industry peers.
https://www.pensionsage.com/autumnconference

PLSA – Annual Conference 2021
12-13 October
Liverpool
The biggest event in pensions brings together everyone from across our industry to find answers to the practical issues of today and discuss the global trends of the future for pensions and society.

Delegates can expect the usual line-up of expert speakers from inside and outside pensions – and the return of the wow-factor you get from seeing industry leaders and household names in the flesh – as well as fantastic networking opportunities. And, like the PLSA's other conferences in 2022, there will be a few new developments to make the return to face-to-face for PLSA events extra special.

Pensions Age Scottish Conference
9 November 2022
Venue TBC, Edinburgh
Pensions Age is bringing its popular London conference to Scotland for the first time. Covering all the main aspects of pension provision, from investment and scheme management to technology and administration, this one-day event will bring together key speakers from a range of pension disciplines and will provide the perfect opportunity for anyone involved in pension provision to learn, share ideas and network with their peers.
Visit www.pensionsage.com for updates

Irish Pensions Awards
17 November 2022
Shelbourne Hotel, Dublin
A key event in the Irish pensions calendar, the Irish Pensions Awards kick off the festive period with an evening gala dinner, celebrating the best of the best in Irish pension provision. Coveted trophies are handed out in recognition of those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence and professionalism in everything they do. A true celebration of excellence in the Irish pensions space.
https://www.europeanpensions.net/irishawards

PMI – ESG and Investment Conference
December 2022
London
The PMI's ESG and Investment Conference will look at the key investment issues which decision makers within pensions are facing, with a focus on ESG and climate change. The insight and knowledge shared by the top ESG speakers will highlight the latest developments in this topical and fast-moving area, while creating a platform for in-depth and constructive discussions.


LGIM co-head of DC, Stuart Murphy, and Nest Insight director of research and innovation, Jo Phillips

ESG and pensions engagement

Pensions Age **editor, Laura Blows, discusses whether ESG really is the silver bullet to pensions engagement, and whether events such as COP 26 have amplified saver interest, with LGIM co-head of DC, Stuart Murphy, and Nest Insight director of research and innovation, Jo Phillips**

Two years ago, Nest Insight asked people what they thought about responsible investment and environmental, social and governance (ESG) issues in the context of pension saving. The responses were mixed, so in 2021 Nest Insight decided to test it out in practice, reveals Nest Insight director of research and innovation, Jo Phillips, in the *Pensions Age* podcast, *ESG and pensions engagement.*

"We ran a randomised control trial of different emails with some of the least engaged pension savers – people who are actively contributing to their pension but who have never logged into their account," she explains.

"We put out the usual activation email, which talks about the money held in the pension as 'savings', up against two different versions of an email that talked about Nest's responsible investment approach – one which talked quite generally and one which gave more specific examples of how Nest encourages companies to act sustainably. We also included a more generic investment email and had a control group to measure the responses against."

While people may have expected the responsible investment emails to perform better at engaging people with their pension, Nest Insight found that, although all the emails increased account registrations versus the control group's rate, the basic 'savings' email was the best at getting people to log in for the first time, Phillips reveals. However, people who are already environmentally engaged did respond better to the general responsible investment email, "so if you know an individual is likely to care about these things it could be a good way in", she adds.

LGIM worked with Nest Insight to test out its own research, that 83 per cent said they would engage more with their pension if they knew it was having a positive impact, and 25 per cent saying they would even pay more in.

"Eighty-three per cent of members told us they would engage more, but do they actually engage more when you communicate with them on these issues? From the findings, I don't think engagement peaked as much we would have hoped in the trials, but it was really positive to see those that are already engaged with ESG, do really care," says LGIM co-head of DC, Stuart Murphy in the podcast.

The medium for communicating with members can also have an impact on engagement levels, Murphy suggests.

"It is important to communicate with individuals in ways they recognise and are familiar with. I believe this is why we have seen so much success with the rollout of Tumelo to our member base," Murphy says. "Tumelo is a fintech platform that allows members to vote on their key ESG issues. It has been a year and a half since we rolled this out to our first pilot scheme and have seen almost 17,500 votes cast overall, which is more than any other provider."

The platform has been particularly effective with groups where engagement has often been lowest, such as amongst people who are just starting on their pension savings journey and those with smaller pots, in temporary or part-time employment, he adds.

Big themes in the press also impacts voting engagement, Murphy states, noting that voting soared during the weeks leading up to COP 26, with issues around climate change particularly popular.

However, issues around pay are actually the most popular amongst voters, with climate-related resolutions coming in as a close second, he adds.

Phillips notes that more immediate ways of describing issues were ranked as more important than more abstract ways of expressing them. For example, 'protecting natural habitats' ranked higher than 'biodiversity', while 'reasonable executive pay' and 'availability of good hospitals' ranked higher than 'reducing levels of health issues in the world'.

Therefore, "I believe personalisation is key to good engagement", Murphy says, highlighting how its video benefit statement stats recently had a 43 per cent email open rate; and of that, 97 per cent watched the video and a further 77 per cent clicked off to take further action. "This to me, is a breakthrough for the pension industry. If we brought more of this personalisation to life but around the key ESG issues members care about, I'm hopeful engagement would peak."

To listen to the podcast, please visit www.pensionsage.com

Pensions in 2022

With an eventful 2021 behind us, bringing with it a swathe of new regulations and consultations, 2022 is already shaping up to offer more of the same. Francesca Fabrizi reflects on some key themes for the coming year

It's beginning to look like another busy year in pensions. As the Covid-19 pandemic rages on, creating never-ending uncertainty across the globe, the UK pensions industry should be braced for a further 12 months of developments across both the defined benefit (DB) and defined contribution (DC) space. "There are indeed a great many things for schemes to be thinking about in the year ahead," says PLSA deputy director, policy, Joe Dabrowski. "Whether it is the spectre of rising inflation, employer covenants, a recovering economy, or the long list of regulatory 'must do's', such as TCFD reporting, pensions dashboards preparation or GMP equalisation, schemes will have plenty to occupy their time in 2022."

Regulation-wise, several developments have been pushed back from 2021, notes Sackers senior partner, David Saunders, so there are any number of changes vying for a suitable landing slot in 2022. "DWP changes on the cards include regulations on the new funding and investment strategy, which will act as a catalyst for further pensions regulator action, with a second consultation on the revised DB Funding Code.

"Implementation of the new single code, with new requirements for an effective system of governance and own risk assessments, has also been deferred from 2021 and is currently scheduled to come into force in the summer. With new notifiable events, stronger nudge requirements and simpler annual benefit statements also on the horizon, to name a few, 2022 is going to be yet another bumpy ride for pension schemes and their advisers," adds Saunders.

We take a look at some of these key themes in more detail.

DB Funding Code

Following months of ongoing discussion, the second consultation relating to The Pensions Regulator's (TPR's) revised DB Funding Code has been delayed until "late summer 2022".

The consultation, says DLA partner, Matthew Swynnerton, is expected to cover the final legislative package, the draft code of practice and the proposed regulatory approach, as well as an impact assessment and supporting analysis.

Where the new code ends up, says Dabrowski, will likely determine the next – and critical for many – five to 10 years of scheme management. "It will also shape many schemes' discussions with their employer and sponsor.

"The consultation process for the new Funding Code was also launched at the beginning of the pandemic, and it is likely to be operational towards mid-2023. It feels like much has changed for employers and schemes over this unprecedented period. The government's appetite for pension funds to invest in productive finance much more also adds a fresh dynamic to it all. Getting the right outcome will be key for all those with an interest in DB," he concludes.

Notifiable events

To date, a lot of attention has been focused on the regulator's new criminal powers under the Pension Schemes Act 2021; however, argues Swynnerton, the notifiable events changes are likely to have a greater potential to affect corporate transaction planning on a day-to-day basis. There is no clear confirmation in relation to the timing of the notifiable event changes, he adds, but they are expected in the first half of 2022.

"New notifiable events include the sale by the employer of a material proportion of its business or assets and the granting of security by the employer over its assets," explains Swynnerton. The new notifiable events, and the existing notifiable event of sale of a controlling interest in a sponsoring employer, will need to be notified to the regulator at an early stage, once a decision in principle in relation to the event is taken, and information in relation to the event will also need to be notified to the trustees, he adds.

"This will need to be factored into transaction planning and will result in a need for increased dialogue with the trustees and regulator, and buyers are also likely to approach transactions with increased caution unless the position in respect of the trustees and regulator has been resolved."

Transfer regulations

Changes to statutory transfer rights for scheme members came into force on 30 November, with the regulations introducing a system of red and amber flags, which gave trustees the power to refuse transfers where there's a heightened risk of a scam.

There are a number of known issues with the regulations, says Swynnerton, such as the use of green lists, overseas investments and discretionary transfers, that will need to be thought through by trustees and providers. "Implementing the new conditions will be onerous and schemes will need to update their transfer processes and communications. Many trustees will be scheduling meetings with their administrators early in 2022 to discuss how they are adapting their processes and the extent to which the trustee board will need to be involved."

Pensions dashboards

The much anticipated pensions dashboards will move several steps closer in 2022 having now moved, says Pensions Dashboards Programme principal, Chris Curry, from the 'preparation phases' towards 'starting to build the central digital architecture that will make pensions dashboards work'.

"It's been an exciting year for the programme and there's no sign of the pace reducing in 2022", says Curry, with the momentum likely to increase further, "as the central digital architecture comes together and we work with our volunteer data and dashboard providers".

Pasa has published a '*Data Matching Convention Guidance*' for dashboards, while the PLSA has released a pensions industry guide, '*Pensions Dashboards A-Z*', which identifies key issues that must be resolved to make the initial pensions dashboards a success.

Illiquid assets in DC

The 2021 Autumn Budget shone the spotlight on DC investment, with the government confirming it would consult on further changes to the regulatory charge cap for pension schemes in an effort to unlock institutional investment to drive innovation.

To date, the bulk of DC default fund investment has been focused on liquid, daily-traded assets, says PLSA head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark: "There are many historical reasons for that but, given the long-term focus of pensions, investing in a wider range of asset classes could deliver real benefits for DC."

In particular, she states, access to illiquid, private market investments such as real estate, infrastructure and private credit offer diversification, higher returns and inflation protection. "As ever, schemes will have to think carefully about balance between risk and return, the profile of their membership and more – but greater diversity in DC investment is an important trend for the future."

DC value for money

The FCA and TPR's September 2021 joint discussion paper, *Driving Value for Money in defined contribution pensions*, outlines a framework for consistent reporting on core components of value for money, such as investment performance, scheme oversight (including data quality and communications), and also costs and charges, explains Harrington-Clark. "It is positive to see both regulators working together on this crucial topic. We'll expect to hear more on the next steps in 2022 and will be playing in our views as their thinking develops."

Small pots

"Auto-enrolment is now nearly 10 years old and part of the fabric of UK pensions," says Harrington-Clark. "One of the side effects of the highly effective policy initiative over time has been the increasing volume of 'small pots'. These are difficult for individuals to track and manage, and have cost attached for providers that affects value for members, both past and present."

Small Pots Co-ordination Group chair, Andy Cheseldine, comments: "The small pots problem is more than just one problem with multiple causes and, understandably, it has much more than just one solution.

"In our 2021 interim report, the Small Pots Coordination Group noted there were more than three million deferred savers, invested in default options, with pot sizes of under £100; 10.5 million with pot sizes under £1,000; and if we do not do something, there could be 27 million pots under £2,000 by 2035.

"In 2022 our working groups will continue to focus on data, transfer solutions and member detriment. We expect to report again in Q2 2022 with a focus on potential quick wins."

The Local Government Pension Scheme (LGPS)

The LGPS will be in the spotlight in 2022, with several relevant policy areas set to develop over the coming months. "The PLSA is keeping its ears close to the ground on how some important policy areas are developing for its LGPS members, and will continue to engage and intervene with stakeholders where appropriate," says PLSA head of DB, LGPS and investment, Tiffany Tsang.

"We are carefully monitoring the progress of the Public Service Pensions and Judicial Offices Bill, relating to equal treatment of all members of public service pension schemes.

"TPR's Single Code of Practice is another priority. Clarity is still urgently needed around various issues, including how the term 'governing body' will be applied to the LGPS, as it could refer to multiple entities," she says.

A stronger nudge

From 1 June 2022, personal pension and stakeholder pension providers will be required to give members a 'stronger nudge' to take guidance from Pension Wise, which will apply, explains Aries Insight co-founder, Ian Neale, when the member has decided in principle to access their money purchase pension savings, including where the member is seeking to transfer their benefits in order to access those pension savings.

"For this purpose, a provider should assume that any policyholder aged over 50 who is seeking to transfer their benefits is doing so in order to access their pension savings. Providers will be required to not only explain to the policyholder the nature and purpose of the Pension Wise guidance, but also offer to book the guidance session for the policyholder and, where the policyholder accepts this offer, to take reasonable steps to book such an appointment at a suitable time for the policyholder."

Simpler annual DC benefit statements

From 1 October 2022, AE schemes that provide only money purchase benefits will be required to provide simpler annual benefit statements for members, which must be produced in line with statutory guidance. Neale comments: "Whilst the requirements here are certainly rather clearer than the 'conditions for transfers' regulations, schemes affected by this new requirement may wish to start planning for the new requirements well in advance of the change coming into force."

Climate change reporting

Climate change had a lot of airtime in 2021, with more to come in 2022. PTL client director Richard Butcher comments: "If we haven't already set climate objectives, then we should be doing so – 2022 will be a year of execution. There are some challenging intellectual points still to deal with in relation to climate too, not least of all how you measure carbon-offsetting and so on, and the metrics and language that you're going to use."

In addition, the Occupational Pension Schemes (Climate Change Governance and Reporting) (Amendment, Modification and Transitional Provision) Regulations 2022 draft regulations are expected to come into force from 1 October 2022, says Neale. "Schemes that are in scope for the 2021 regulations must set a minimum of three metrics to enable them to identify and assess the scheme's climate-related risks and opportunities."

Diversity & Inclusion (D&I)

The themes of diversity and inclusion (D&I) gathered pace in 2021, even if the pensions and wider financial services industries still have some way to go. At the close of 2021, TPR executive director of regulatory policy, analysis and advice, David Fairs, reflected on the progress that has been made in relation to trustee boards, and highlighted areas for improvement. "Trustee boards that are not diverse risk knowledge gaps, entrenched ideas, biased thinking and poor decision-making, which puts savers at a disadvantage.

"To be clear, diverse trustee boards may feel more uncomfortable, and that's not a bad thing. There will be more debate and challenge, board meetings will take longer and have more disagreement. The trustee chair might have a tougher time building consensus. However, that will ultimately lead to better decisions, even though it won't feel as straightforward as when everyone just nods decisions through."

Association of British Insurers executive sponsor, diversity & inclusion, Dr Yvonne Braun, also expects socio-economic diversity to be a key theme for 2022 in the wider financial services arena.

"The financial services space does not yet offer equality of opportunity; almost 90 per cent of senior positions are held by people from higher socio-economic backgrounds (defined by parental occupation at age 14), compared to a third of the UK workforce. It also takes employees from lower socio-economic backgrounds 25 per cent longer to get promoted, which is unrelated to performance.

"This is not only deeply wrong but a colossal waste of talent. I'm proud to be a member of the City of London Corporation's taskforce to tackle this."

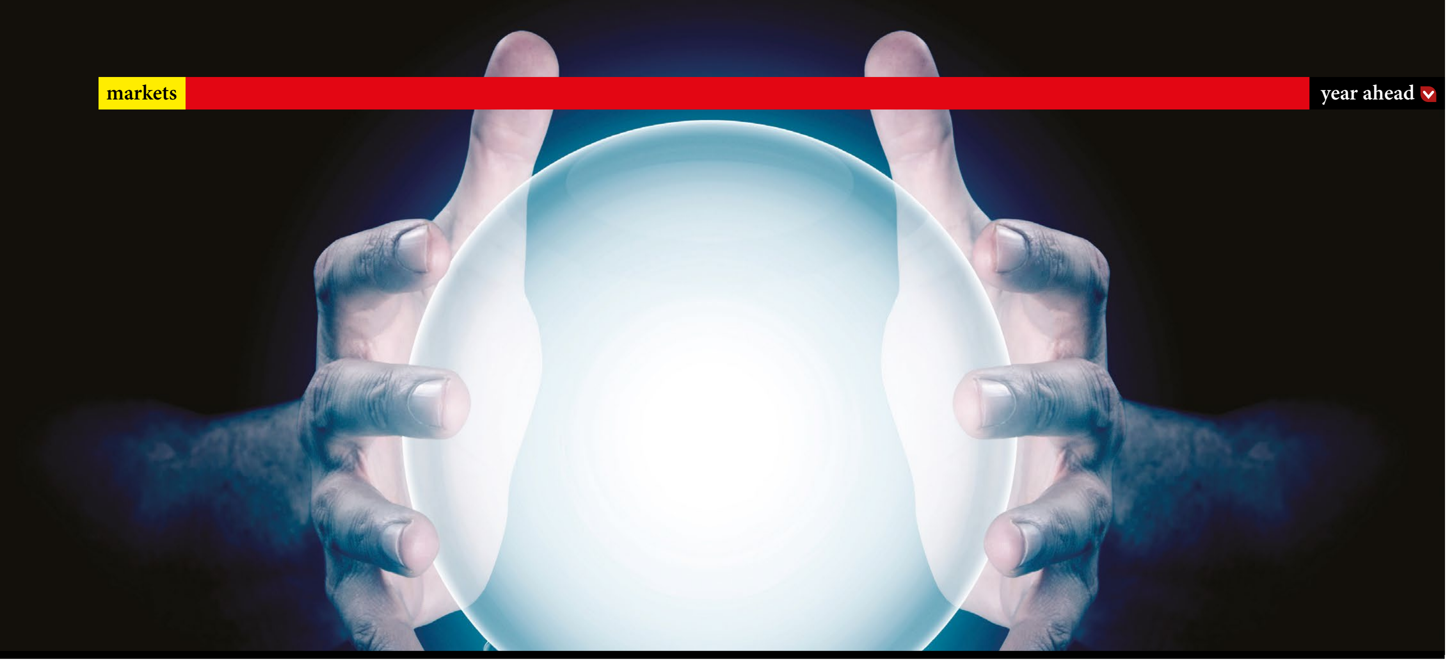
Covid-19

As new Covid-19 variants continue to scupper a return to normality, a question mark hangs over the impact on pension scheme productivity and innovation: "There are two aspects to the pandemic that concern me," says Butcher. "First is from an operational perspective. All the people who were administering pension schemes in 2020 went home and started to operate from home, and the industry is to be congratulated with the way that it executed that. There was no noticeable degradation of service.

"But is that sustainable over the long term? I do wonder if we continue to operate from home whether our long-term productivity will suffer to the detriment of members. What will almost certainly suffer operationally is our ability to innovate, because it's getting people together into a room to kick ideas around that produces process improvements.

"The second aspect is the impact on the companies that we look after or the pensions of the companies that sponsor the pension schemes that we look after – some companies are going to thrive in this, but there are companies that are really going to suffer. It's going to be very serious for some of our clients and that could mean a worse outcome for members."

Written by Francesca Fabrizi



Changing trends

Following yet another unprecedented year in 2021, Sophie Smith looks ahead at what the markets could hold in store for 2022

Following yet another unprecedented year, many may find the usual crystal ball predictions for the year ahead more challenging.

Legal & General Investment Management real assets strategy and ESG director, Rob Martin, however, suggests that recent years have emphasised that even for long-term assets, an "agile and forward-looking mindset is rewarded".

"We see a range of diversification opportunities across real estate, infrastructure and the broad spectrum of private credit," he says, noting that the government's commitment to transition to net zero means a supportive environment for the long-term growth of these asset classes.

However, whilst Martin notes that real estate and infrastructure can provide a buffer to inflation. He clarifies that not all assets perform equally, suggesting that investors will have to design their exposure with hedging in mind. And whilst inflation remains a key concern across the market, asset classes could also face a range of different challenges in the new year…

Fixed income

In relation to fixed income, Natixis Investment Managers, portfolio manager, solutions, Jack Janasiewicz, suggests that bonds will continue to be challenged throughout 2022, just as they were in 2021.

"With solid corporate earnings and a continued global economic recovery that will see monetary policy begin the year highly accommodative, it is not hard to see rates drifting higher," he explains.

"Couple that backdrop with low yields and tight spreads in a historical context and it's easy to see why fixed income is set to be uninspiring. To add to the headwinds, bond market duration continues to extend, offering up even less reward for each incremental unit of risk one takes to earn extra income."

This is echoed by AXA IM Alts global head of structured finance, Deborah Shire, who agrees that several headwinds remain, suggesting that "our baseline view is a dented recovery supported by prudent monetary policy normalisation".

"Against this backdrop, traditional fixed income has traded at near post-global financial crisis lows, leading many pension schemes into alternative credit asset classes," she says. "Global secured assets have been attractive, as investors take advantage of benefits such as robust structural protection of secured quality assets, yield pick-up from traditional fixed income, an enhanced diversification profile, and predictable cashflows."

Adding to this, M&G head of institutional portfolio management, David Lloyd, suggests that inflation is currently a "primary determinant of bond market prospects", clarifying however, that whilst inflationary pressure's are present, questions remain as to whether this is a transient episode and if monetary policy responses will be effective.

He says: "Despite recent moves in bond markets, valuations and compensation for risk – real yields, term premia and spreads – remain skewed to a benign outcome. Should the market lose faith in this, a continuation of recent moves, and bouts of volatility, are more than likely."

Franklin Templeton's Fixed Income Group head of European fixed income and senior vice president, David Zahn, echoes this, stating: "Inflation will probably be more persistent than originally expected with ongoing covid developments pushing inflation higher. The central bank response to this will be paramount with the Fed moving first to tighten policy, followed by the Bank of England and the ECB remaining the most dovish of the three.

"For bond markets this is going to make for a volatile transition with a move to higher rates in the cards but with the volatility in risk assets leading to an underlying bid. That said, interest rates should be higher at the end of 2022."

Equities

The role of equities in the pensions space is seemingly shrinking, with the Pension Protection Fund's latest *Purple Book* showing that the proportion of DB pension schemes invested in equities had fallen to just 19 per cent in 2021, compared to 61 per cent in 2006.

Insight Investment head of solution design, Jos Vermeulen, suggests that this migration out of equities into contractual assets such as credit is likely to continue as funding levels improve and schemes mature.

"Given the limited universe of UK assets, pension schemes are likely to also look abroad and include the use of, for example, new asset classes for UK pension schemes such as US municipal bonds," he says.

Martin Currie head of global long-term unconstrained, Zehrid Osmani, however, says that, overall, given the more prolonged positive economic cycle predicted, and the ongoing low-rates environment, there will still be a supportive backdrop for equity markets.

He explains: "Given the higher equity valuations, we expect 2022 to be a year of lower returns for investors, after what has been a strong 2021 for equity returns globally. Monetary policy normalisation will continue to bring volatility, and will maintain the bull-bear debate between growth and value.

"The lower earnings growth expectations in 2022, and risk of margin pressure from the higher frictional inflationary pressures, do emphasise the need to focus on companies with superior pricing power and therefore lower downside risk to margins, and companies offering more consistent growth profiles."

Property

The property market is also expected to face shifts this year, as Nuveen Real Estate head of research, Stefan Wundrak, says that whilst the main differentiator for investment performance over the past two years has been along sector lines, this performance divergence among property types is not expected to be repeated to the same degree in 2022, with sectors having repriced to their expected medium-term potential.

"Lower cap rates for logistics and residential reflect structural tailwinds, while the headwinds for the retail sector are now largely priced in," he explains. "As a result, property type return spreads are likely to converge in 2022. Beating the market just by overweighting the sector with the strongest occupier tailwinds is a strategy past its peak in our view."

Octopus Real Estate head of residential development, Andy Scott, suggests that whilst Covid looks set to hang around for some time, the fundamentals for residential property offer "plenty of opportunity for investors in 2022 and beyond".

"For instance," he says, "the UK still has underlying low interest rates, Help to Buy remains in place until 2023, alternative solutions are coming

to the fore to take over and there is a high supply of mortgage finance being pumped into the sector.

"At the same time, the pandemic has fuelled a desire for different housing requirements, such as gardens or office space. Combined with delayed starts to new housing schemes, these factors are driving strong demand for housing and developers are chomping at the bit to cater for this interest. This presents an attractive opportunity to invest in residential debt in particular, as developers seek lending support from long-term, flexible non-bank lenders."

Commodities

WisdomTree Europe head of commodities and macroeconomic research, Nitesh Shah, suggests that broad commodities are undergoing a renaissance.

"The asset class has bounced back vigorously from the pandemic lows in April 2020 (60 per cent rise in the Bloomberg Commodity Index between 27/04/20 and 02/12/21)," she points out.

"Although the Omicron Covid variant places some uncertainty around the strength of the rebound in the near term, it is clear that demand for oil, industrial metals and agricultural products is strong, while supply has been constrained.

"Supply constraints may continue into 2022 as moving goods is still difficult and investment in capital expenditure resource extraction remains low. Large infrastructure spending and an energy transition may favour the metals space in particular over the coming decade."

Written by Sophie Smith

Summary
• Brexit and the Covid-19 pandemic caused the majority of government pension policy development and implementation to be paused during 2020.
• This has led to a backlog of regulations that are being pushed through at the same time, creating capacity concerns.
• The Pension Schemes Act added a significant amount of workload to trustees already dealing with issues such as GMP and digitalisation, on top of coping with the impact of the pandemic.
• Trustees need to keep track of all the changes happening within the industry, and prioritise the most time-sensitive and important initiatives.

A regulatory bottleneck

Jack Gray analyses the number of new regulations and consultations pension scheme trustees are having to contend with, and discusses how they can keep up with the increased workload and responsibility

Entering the New Year is often associated with a clean slate, but pension scheme trustees may not be feeling this way as we begin 2022. Regulatory initiatives that have been dragging on for years continue to add to trustees' workloads, alongside a swathe of new regulations and consultations issued by the government and regulators.

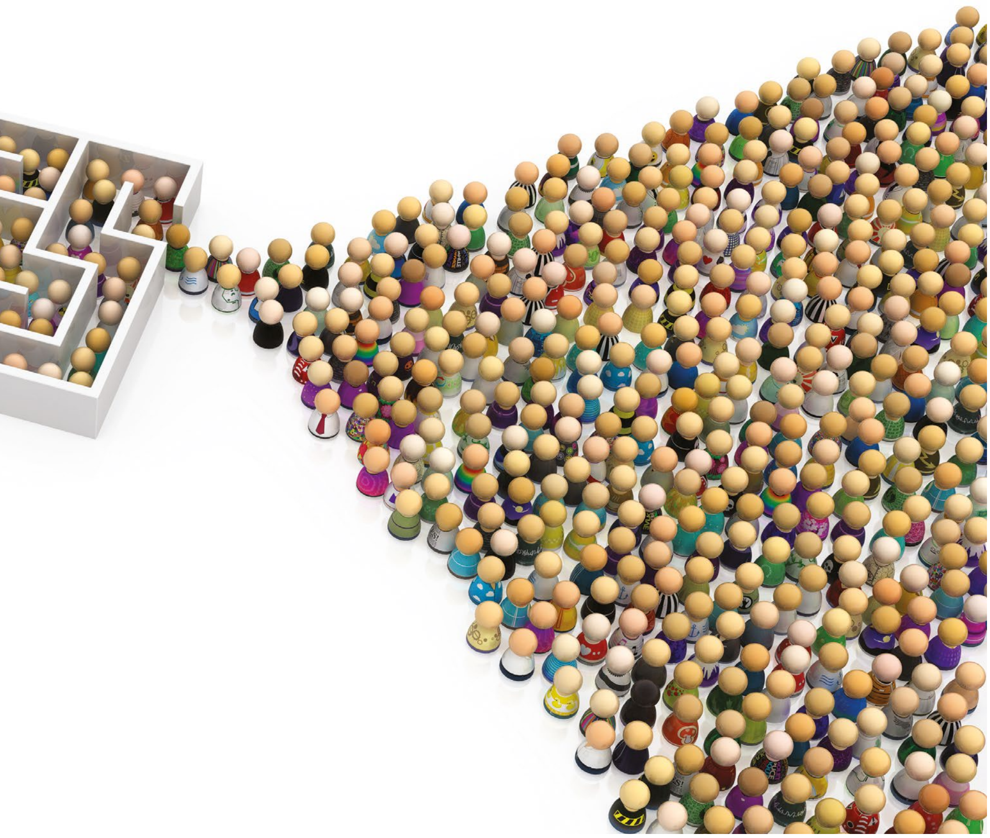
Brexit and the Covid-19 pandemic effectively put policy changes on hold for much of 2020, as parliament was understandably preoccupied with addressing the issues arising from both. However, this has led to a bottleneck of new regulation and legislation as the government and regulators attempt to push through changes to the pension system.

Bottlenecking

Regulations introduced by the Pension Schemes Act, such as climate risk disclosures, pension scam transfer blocking powers and pensions dashboards, alongside long-standing initiatives like GMP equalisation and digitisation, are creating a high workload for trustees. With continued work on consolidation and defined benefit (DB) superfunds, and the proposed introduction of simpler annual benefit statements and a statement season also ongoing, the industry has voiced concerns about a capacity crunch that the sector may not be able to handle, which is in turn increasing responsibility on trustees' shoulders and making the role less appealing to newcomers and existing trustees alike.

"The crunch is being felt across the board," warns Association of Consulting Actuaries (ACA) chair, Patrick Bloomfield.

"There is a policy part of the industry who have had a really tough couple of years working with government departments trying to understand and shape these bits of legislation and regulation as they are coming out and now it is beginning to flow through into the operational side of businesses, with trustees and their different service providers needing to put these things



framework is critical in helping to shape that.

"We do need to acknowledge, however, that extra time commitments are particularly challenging for any lay trustee who also has a day job to consider. The role is certainly not getting any easier."

Bloomfield argues that the issue is not with the regulations themselves, but the pace at which they are being introduced: "We're in a really tough situation because the regulatory change that's happening is generally good, well-intentioned, and will make pensions and savings better," he says. "It's about the pace of it all and how indigestible it's all been for the industry.

"A couple of things that have recently come up are statement seasons and simpler annual statements. They are both really interesting, valuable initiatives, but trying to squeeze those in alongside preparing for dashboards is going to add to the capacity crunch in a way that I'm not sure the industry can handle."

20-20 Trustees trustee director, Angela Winchester, agrees, describing the number of open consultations and publications that are going to impact trustees and business as "ridiculous".

"I think that there probably have been too many regulations introduced," she continues.

into action or prepare for them.

"Brexit and the pandemic caused a lot of things to go sideways because parliament was dealing with those and that's fair enough, but it has meant we have two or three years of pension policy that is still lingering around and needs to be brought over the line."

Aegon head of pensions, Kate Smith, adds that the knock-on effect of the pandemic has meant that proposals have been pushed into 2022, which, along with other planned and new activity, has created a congested regulatory change roadmap.

"There has been another explosion of regulation in the past couple of years, in part due to the Pension Schemes Act 2021, but the burden on trustees seems only likely continue to increase," notes Linklaters partner, John Sheppard.

"You just have to look at climate change, where the ink is barely dry on the new governance and reporting regulations and the government is already consulting on making further changes."

Necessary change

Although some argue that the pace of regulatory change is too much for professional trustees to handle, Ross Trustees trustee director, Grant Suckling, does not believe this is the case: "I don't think there are too many regulations for trustees to keep up with. A well-run scheme is based on a foundation of solid governance and the regulatory

"To a certain extent everything was paused in the first year of Covid. The regulators said: 'We're going to delay everything for six months then we'll come back and look at it'. We are at the back end of this, and I think we are seeing the very start of some regulatory convergency."

Knock-on effect

The amount of regulatory change in the pensions industry is having a knock-on effect for pension trustees. The expertise needed is increasing, which is leading to a greater focus on professionalisation. Many warn that member-nominated trustees are being put off by the rising level of knowledge required, the increasing amount of time needed to

fulfil the role successfully, and the added responsibility and stress that the role now entails.

Furthermore, attracting new professional trustees may prove to be more difficult as the workload and expertise level increases, as well as the increased responsibility put on their shoulders by pension freedoms.

"If you think about the trustee context, the level of inquiries and scam potential of pension freedoms put a huge amount of pressure on pension schemes' everyday operations, and that has rattled back onto the administrators that run schemes on behalf of trustees," explains Bloomfield.

"Trustees are the administrators, but they appoint someone to do it on their behalf, so trustees are accountable for these things. It's a really nervous, overloaded time and it's putting off a lot of individuals."

Not all are equal

Some regulatory changes may be more difficult to adapt to than others. Winchester notes that there is a lot of work to do around the new effective system of governance and the own risk assessment (ORA), which "a lot of people are wringing their hands with at the moment".

"The other issue that is never going to go away is ESG and everything around that," she continues. "One of the challenges that a lot of trustees have is there is so much noise out there about ESG and climate change. I think there are still a lot of providers, investment managers and asset managers that haven't quite worked out what they are doing themselves.

"Those two things *[governance and climate]* alone are a huge amount of the obligations, knowledge and new regulations coming in, but they are not the only two things."

Suckling also cites the effective system of governance and ORA requirements as good examples of regulations that, although extremely important, are absorbing trustees' time.

"Well-funded schemes are able to factor in responding to these requirements, but smaller schemes with limited resources may find it harder to allocate the appropriate time," he adds.

"There is a danger of paying lip service to change and treating regulations as a tick-box exercise without fully engaging with the implications."

Bloomfield states that the policy issue he is most concerned about for 2022 is dashboards, as it is potentially the most important transformational and positive experience that UK savings will have this decade: "If we don't do it well and it starts off on the wrong foot that will be a real own goal and it will take us time to recover, but it's incredibly hard to get over the line because of the decades of legacy complexity."

Moving with the times

To keep up with the changes, industry figures have called for proactivity from trustees, regulators and the government. Keeping track of new publications is imperative in not becoming liable for breaching regulations, argues Winchester, while Sheppard urges trustees to take advice, get regular training and complete TPR's online Trustee Toolkit.

"We have seen a marked increase in trustee boards wanting us to provide regular trustee training to make sure they are up to speed on recent developments," Sheppard continues. "Trustee boards are likely to lean more and more on their professional trustees, but non-professional trustees need to make sure they know enough to carry out their responsibilities to members.

"A more measured approach by government, with more than a cursory cost/benefit assessment before bringing in new regulation, might bring some respite. Clear, practical guidance from both TPR and the DWP would also help trustees better understand what is being asked of them."

Smith agrees calling for "a more joined-up approach" across the government and regulators to help trustees focus on providing the best outcomes to members.

Suckling adds that although lay trustees are not expected to be experts, they need to feel comfortable that the right information and support are in place: "Help is at hand for trustees through in-house pension teams, advisers and, of course, professional trustees," he says.

"The media play an important role on keeping trustees on top of what's coming down the line and highlight the successes or issues schemes are encountering."

It is also important for trustees to be ruthless in what they focus on, argues Bloomfield: "There are a huge number of things on the go but not all of them are today's problem. Decide what you can park and focus on the things you need to focus on.

"Also, being an early mover is time consuming and expensive. If you can, rely on your service providers to let them develop the thinking and bring the costs of delivering some of these things down. Spread out the pace with which you embed things into your schemes to fit the pace at which service providers can do it for you and help you manage your costs."

Written by Jack Gray

Consultancy via Southend-on-Sea

Pensions Management Institute director of policy and external affairs, Tim Middleton, discusses his accidental entry into the world of pensions, his love of photography and his suffering as a Southend United fan

What's your employment history (including jobs outside of pensions)?
My first proper job was as a component buyer in a factory in Southend. After two years, I saw an advert in the local paper for technical staff for a firm of actuaries. I applied out of curiosity as much as anything, and found myself working for Bacon & Woodrow, who these days are part of Aon. In the classical manner, I had started a pensions career by accident. At B&W, I completed my PMI exams and became active in the London regional group.

I later had spells at Mercer and Barnett Waddingham. Then one day I had a call from Vince Linnane, who was then CEO at the Pensions Management Institute. He explained that the PMI was creating a new role of technical consultant and asked if I would like to do it. I've been at the PMI since 2009.

What's your favourite memory of working in the pensions sector?
Possibly 'A' Day. It was a time of massive transformation which required everyone in the industry to relearn everything they knew about pension tax rules from scratch. There was a very real sense of achievement when the day finally arrived, and all of the preparatory work was finally put to use.

If you did not work in pensions, what sector do you think you would be in instead?
It's very difficult to say, given that I have spent almost all of my adult life working in pensions. I suspect I may have wound up in the Civil Service.

What was your dream job as a child?
At various ages, I wanted to be a soldier, a professional footballer and a film star, although not at the same time. But not a pensions consultant.

What do you like to do in your spare time?
I like to travel and I'm a keen photographer. I also like to go to the theatre and visit my local pub.

Do you have any hidden skills or talents?
I'd like to think that I can take some good photographs.

Is there a particular sport/team that you follow?
I am a long-suffering supporter of Southend United and have endured back-to-back relegations from League One to National League with remarkable good humour. I also enjoy goading Keith Hoodless about the continuing misfortunes of Leeds United.

If you had to choose one favourite book, which would you recommend people read?
Very difficult. I would probably go for something by Thomas Hardy – possibly *Jude the Obscure*.

And what film/boxset should people see?
A very impressive series was the documentary that Ken Burns made in the nineties about the American Civil War. I would recommend that to anybody.

Is there any particular music/band that you enjoy?
Again, this has changed over the years, but over the past couple of decades I've greatly enjoyed the music of Richard Thompson. It was very poignant that Peter Weiner chose two Fairport Convention songs for his funeral at the beginning of last year.

Sherlock_wijaya / Shutterstock.com

Who would be your dream dinner party guests?
I would go for Peter Cook, Nye Bevan and Marilyn Monroe.

Is there an inspirational quote/saying you particularly like?
"Kelly then made a low noise and opened his mouth and covered the small man from shoulder to knee with a coating of unpleasant buff-coloured puke." *At Swim Two Birds*, by Flann O'Brien

Written by Jack Gray

Trustee Guide 2022:

A brighter future

Featuring:

- The big issues for pension trustees in the coming year
- Whether investing via low carbon indices goes far enough
- The compelling ESG case for bulk annuities
- How to improve retirement outcomes in the year ahead and beyond
- Why so many still do not plan for retirement
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Trustee topics for 2022

What will be the big issues for pension trustees in the coming year? *Pensions Age* spoke to a range of companies and industry bodies to gain some insight into the challenges and the hopes

New governance requirements, evolving investment strategies, and the need for good quality data to help drive initiatives such as the pensions dashboards and GMP equalisation: These will be among the priorities that pension trustees will be grappling with in 2022, according to industry experts.

Prominent among the issues raised are governance and investment strategies specifically around DB pension schemes. The new DB Funding Code of Practice consultation from The Pensions Regulator is expected in 2022, and this forms the backdrop for many comments about the year ahead.

Cardano Advisory director, Emily Goodridge, says she expects that the role of covenant assessments will change, with less focus on the rating and more on what sponsor-strength means for the strategies set by DB trustees. "TPR's much-awaited new DB Funding Code of Practice can be expected to require a better articulation of how scheme risks are supported by the covenant, forcing trustees to justify their risk management and journey planning decisions. Even where schemes meet TPR's lower-scrutiny 'fast track' criteria and covenant may be less of a concern, trustees will be reminded it is only a regulatory risk filter and that doing the right thing to protect members will mean going further."

Meanwhile, Aon partner and head of UK retirement policy, Matthew Arends, observes that 2022 will mark 25 years since the implementation of the "little-lamented" Minimum Funding Requirement (MFR), adding: "My fear is that TPR's new DB Funding Code will turn out to be MFR2 and we will, in effect, turn back the clock 25 years on the funding regime. TPR can avoid this by dropping its requirement to measure bespoke compliance with the new regime by reference to the new fast track compliance option. Fast track has a lot of attractions and meets the stated policy aim, but not if it is also used as a yardstick for bespoke compliance."

Many schemes are now much better funded than they were, according to Willis Towers Watson head of retirement, Great Britain, Rash Bhabra, and the focus is therefore increasingly on each scheme's ultimate objective. "2022 should be another busy year for the risk transfer market as schemes reach important milestones on the road to making pensions secure. More effort is also going into enhancing members' experience. Where this involves communicating and expanding options available to reshape retirement benefits it can lead to a reduction in risk," says Bhabra.

End game

Adding a buoyant buyout market and the likelihood of more and more schemes discussing end game strategies to the introduction of the funding code leads APPT chair, Harus Rai, to conclude that

Hopes for CDC schemes

"One big hope for 2022 is that Royal Mail's collective defined contribution scheme is both successfully launched and acts as a positive first mover to encourage others. There's also the hope that the government's commitment to introduce regulations for other types of CDC scheme, such as master trust CDC schemes, and to provide increased flexibility for the concept, bears fruit in 2022."

Aon partner and head of UK retirement policy, Matthew Arends

"we are likely to see a lot of work being done over the next 12 months to make sure schemes are 'buyout ready'".

There is a clear trend, according to Arends, towards more UK DB pension schemes opting for buyout as their long-term target rather than self-sufficiency. Arends says that consequently it's hard not to imagine that trend resulting in significant bulk annuity transaction volumes in the next 12 months. "While more schemes are undoubtedly seeing the way to buyout as their correct course of action, for others it's helped clarify their wish to run on a low-risk basis, either temporarily or in perpetuity, even if they could afford to buy out."

Goodridge goes on to predict that potential regulatory approval of the first DB consolidators in 2022 will kickstart a wave of consolidation discussions driven by covenant concerns, while the Pension Schemes Act 2021 will double down on DB pensions governance requirements for corporates and require greater information sharing and communication between trustees and their sponsors.

Economic indicators

For PTL client director, Clare James, the one important action that all trustees of DB schemes should be considering as soon as possible is reviewing their investment strategies to ensure they are fit for purpose, against the backdrop of a changing economic outlook, with rising inflation and consequent expected rises in interest rates.

Those economic indicators include an annual CPI increase to October 2021 of 4.2 per cent, the highest level it has been since November 2011, says James, while the RPI, to which pension benefits are more often linked, increased by 6 per cent in the year to October 2021.

"Trustees would therefore do well to review the level of interest rate and inflation risks they are running in their schemes and consider what, if any, action may be appropriate," she says. "For example, there might be scope to adjust the level of LDI inflation hedging to increase the level of inflation protection afforded to the scheme."

Data quality

Both the perennial subject of GMP equalisation and the approaching introduction of the pensions dashboards are identified by many commentators as being of importance in 2022, and facilitating those initiatives will be the collection, storage and use of good quality data.

"Vital to the successful execution of nearly everything, quality of data seems to become more important each year," says Arends. "The task of addressing data accuracy will not look so dull if a scheme faces the nightmare of inaccurate data when it comes to complete a member options exercise, buy a bulk annuity, perform GMP equalisation and so on. And don't forget that the pension dashboards are all about data. The bottom line is that having better, cleaner data is key to schemes' ability to make better decisions on their way forward."

Bhabra says the company's surveys show that equalising pensions in a way that balances pragmatism with risk is a major item in most trustees' in-trays, and he hopes that legislation to make GMP conversion easier should help schemes settle on a preferred approach.

Rai also identifies both GMP equalisation and pensions dashboards as key subjects of focus for trustees in 2022. With the former, many schemes will be engaged in dealing with the practicalities, deciding not just on which method to adopt, but also putting in place the building blocks to tackle the issue over the next 12 months.

"There is no overnight fix and, for those schemes affected, this is a huge project that will take diligent planning and execution. It has the potential to be an expensive exercise, so careful managing of budgets will be required."

Rai observes that the pensions dashboards will require input from individual schemes, that there are probably more questions than answers currently, but that things should become clearer over the next few months. "Over the course of 2022, schemes will need to consider not just how they ensure that they provide the information that is needed within any stated timescales, but also how they ensure that the quality of those inputs meet the standards that will be required by the DWP."

There is no doubt that after a challenging 2021, trustees will be kept on their toes throughout 2022 also, needing to pay close attention to new regulations and new expectations.

Written by Andy Knaggs, a freelance journalist

Responsible investing

"Discussions on how pension schemes can support the drive to tackle climate change have resulted in several consultation papers being published and more are expected over 2022. In the next 12 months, schemes will continue to monitor these carefully to understand the impact any changes might have on them, as well as putting in place procedures and policies to tackle these."
APPT Chair, Harus Rai

"One of the most significant new responsibilities for trustees will be the extension of Taskforce for Climate-Related Financial Disclosures (TCFD) reporting. From October, schemes with assets over £1 billion will be required to comply, and smaller schemes will also need to start preparations for when these new duties are cascaded further."
Pensions Management Institute director of policy and external affairs, Tim Middleton

For professional investors

Diversified private markets: Sustainability+?

Trustees face increasing pressure to conform with ever-changing ESG and climate reporting requirements and demand from members. Consequently, DB and DC schemes embrace ESG-aligned benchmarks with enthusiasm, but does investing via low carbon indices go far enough?

The International Energy Agency (IEA) has highlighted the need for $4 trillion annual investment by 2030 to facilitate the clean energy transition and meet the global aspiration for net-zero emissions by 2050. Is there therefore a case for trustees to consider making explicit allocations to climate change related investments beyond simple low carbon passive solutions? The MSCI ACWI Low Carbon Leaders Index (in US$ terms) returned 16.5 per cent in 2020 versus 16.3 per cent for the MSCI ACWI Index. Over the same period BNPP AM's active Energy Transition Fund net of fees returned 164.6 per cent (in € terms) versus 6.7 per cent for the MSCI ACWI Index. Allocating capital to ESG and climate aligned thematics can add genuine value for members and more explicitly direct capital to climate change investments.

Whilst such approaches offer the opportunity to capture what will be a multi-decade trend in equity markets some investors are wary of the volatility associated with equity investments so are there alternatives for trustees seeking to better align portfolios to the Paris Agreement?

Negative real yields, negative cashflows, pressure to diversify risk exposures, funding ratio/price volatility, a focus on costs and changing investment regulations are additional pressures that trustees face when considering investment strategy. These make holding listed equities harder, while low bond yields add to the challenge of sourcing adequate real returns. In this context, one way to improve the risk/return and climate profile of institutional portfolios is to capture illiquidity premiums by investing in diversified private debt and private equity portfolios that also directly finance the creation of green assets, aligned to the Paris Agreement.

The challenge

Many institutional investors have shunned the volatility associated with listed equities and have simply invested in other asset classes. For example, defined benefit pension funds have been steadily moving out of traditional listed equities and into fixed income, index-linked and corporate bonds over the years. By 2020, their equity allocation stood at less than 20 per cent *[Pension Protection Fund, Purple Book, 2021]*.

As an alternative, many institutional investors started investing in UK gilts and listed high-quality corporate bonds. However, their nominal yields have steadily fallen over the past 20 years (with the exception of 2008/2009 during the height of the global financial crisis). Consequently, for the past few years, real yields have been either low or negative (depending on their maturity).

The solution

Private markets can be an attractive substitute to listed equities and bonds, particularly when combined to form diversified portfolios and allow schemes to own directly assets that are linked to the energy transition.

- **Private equity** (PE) is defined as capital invested in companies that are not publicly traded. This asset class includes traditional leveraged buyouts and venture capital (VC) as well as infrastructure (infra) equity and direct real estate (RE) investments.
- **Private debt or credit** is defined as capital invested in the debt of private companies. Private debt is not traded or issued in an open market. It generally includes asset classes such as corporate lending (to SME and mid-market companies), real assets such as infrastructure debt and commercial real estate (CRE) debt.

Whilst offering lower immediate liquidity (as most of these assets are valued once a month or once a quarter and are usually held to maturity) private debt and equity may offer a number of advantages over their listed equivalents.

- Higher returns, captured through an illiquidity premium.
- Lower volatility and a lower market beta.
- Potentially more targeted environmental, social and governance (ESG) oriented investments (based, for example, online by-line selection of well defined green, sustainable and social projects).

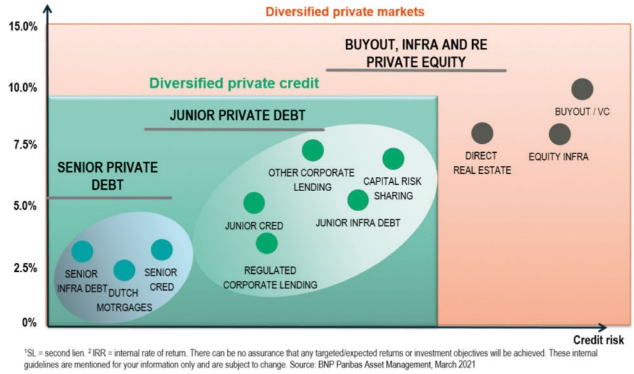
The investment universe

Chart one provides an overview of the investment universe encompassing diversified private credit and equity:

Strategies for investing in private credit and debt

In practice, asset managers have developed different types of investment strategies to meet investors' objectives

Chart one



Source: BNPP AM, November 2021

when entering the private credit and private debt universe:

• **Diversified private credit** strategies generally aim to incorporate various types of real asset debt and corporate lending with some structured finance sub-asset classes and to capture a credit illiquidity premium. They offer a blend of senior and mezzanine investments, countries, currencies, credit ratings and liquidity. They can be structured as cashflow matching portfolios and can be suitable for mature defined benefit pension schemes (cashflow negative with a large majority of retirees).

• **Diversified private markets** strategies add exposures to private equity, direct real estate and infrastructure equity to a diversified private credit portfolio. They aim to capture a blended illiquidity premium. They are structured as alternative growth engines and are suitable for defined benefit pension schemes with active members and defined contribution pension plans with long time-horizons. They typically offer higher expected returns with lower volatility levels than their listed counterparts.

Because of their nature, these strategies are customised to individual client needs with varying features:

• The investment universe can be narrow (for example, focused on corporate lending) or wide (including semi-liquid asset classes such as leveraged loans).

• Fund design – they can be open-ended or close-ended, unitised as a Luxembourg RAIF or a UK-based LP.

• The strategic asset allocation (SAA) can be directive or just indicative, with loosely set ranges allowing for active asset allocation over time.

• They can be evergreen or established only for a pre-determined amount of time.

• They can rely on a fund-of-funds structure or include only single-line investments.

• Diversified private credit and private market strategies can be structured as bundled solutions with streamlined custody, depositary, fund and loan administration services. This helps avoid the complexity of managing multiple illiquid mandates and funds with different service providers. Many institutional investors that pursue a diversified approach are struggling to efficiently manage the complex capital call schedules, as well as principal and interest payments.

For all these reasons, diversified private credit or private market approaches have advantages over investing in single asset classes as well as over listed asset classes.

Other benefits

Beyond the much improved risk/return profile that can be obtained at the portfolio level by combining different private debt and private equity sub-asset classes, it is worth noting that there are other important benefits.

Relative value based asset allocation can be achieved across the investment universe. Depending on the manager and the investment vehicle, the solutions also benefit from holistic risk, liquidity and cash management by a single team, ensuring consistency and coherence.

Diversified private debt and private market solutions have established strict governance arrangements that enhance the flexibility of the SAA and allow for innovation and nimble assessment of investment opportunities as they appear. For example, an annual or semi-annual investment committee meeting can be convened to assess new asset classes, eg credit risk sharing, as they arise or full discretion can be afforded to the asset manager.

Crucially in the context of the pressures faced by trustees, ESG and climate change considerations can be embedded in the private debt and equity transaction filtering and selection process. This provides investors with greater confidence in the quality of their investment portfolios, and a better alignment with pension scheme members beyond passive index or active thematic equity options.

Written by BNP Paribas Asset Management's Phil Dawes, Global Head of Consultant Relations and Head of Sales (UK & Ireland), and Julien Halfon, Head of Pension and Corporate Solutions

The compelling ESG case for bulk annuities

As the global economy pivots to net zero, long-term investing has become yet more challenging. Scale matters – and Aviva, a whole of market de-risking provider – can help schemes of all sizes achieve long-term sustainable outcomes

The traditional arguments for pooling the resources of defined benefit (DB) pension schemes through bulk annuity deals have been economic – lower costs and reduced risk. But the rapid acceleration of ESG investing is bringing a whole new set of reasons.

The old economic arguments are not undermined — indeed, they are more vital than ever. But they are now reinforced with additional reasons that go to the heart of a pension scheme's purpose.

Aviva's annuity asset origination director, Marcus Mollan, says that only the largest and most sophisticated institutional investors can most efficiently finance the innovative transactions that deliver long-term attractive cash flows while helping to decarbonise the economy.

He says the large number of small DB schemes "face challenges in terms of efficient investment, and in terms of the value that can be created from investing those assets from the viewpoint of society".

These goals, he says, are complementary. With time horizons that may extend decades, he says it is vital that investments must take into consideration the changes in both climate and regulation that may happen a long way into the future.

Aggregation of smaller DB scheme assets into the bulk annuity portfolio of a large insurer such as Aviva means "those assets can be invested more efficiently. We can bring much greater firepower to bear when making investment decisions".

Innovation in action

As an example of the complexities of these new investments, Mollan points to the recent innovative deal made by the Aviva annuity business and Aviva Investors with the UK's largest port operator, Associated British Ports, and BNP Paribas. This swap transaction sees the port operator get a discount to its borrowing rate provided it meets certain ESG performance measures, including significantly cutting carbon emissions (both its own and those of direct suppliers) by 2030.

ABP is already one of the UK's largest corporate solar energy producers; the deal gives it a clear financial incentive to continue its aggressive carbon reduction campaign. For Aviva Investors, Aviva's asset management arm, the transaction delivers what head of structured and private debt, Munawer Shafi, described as "tailored sustainability considerations, without compromising on outcomes for borrowers or risk-adjusted returns for our clients".

Mollan comments: "Not even all insurance companies have the ability to do that sort of transaction, and most pension schemes find it even harder."

Mollan gives insights into the complexity of Aviva's investment process in the ESG era. For annuities, the insurance firm invests almost exclusively in investment-grade assets with contractual cash flows. Conventional investment thinking would label these as "very safe" — but with investment horizons in decades it is vital to assess the risk that climate change poses. This can be a physical risk, such as a property investment at risk from extreme weather, or regulatory risk as governments apply sticks and carrots to drive down carbon emissions.

Decarbonisation targets

Aviva has set itself challenging targets for decarbonising its portfolio: not only net zero by 2040 but intermediate targets that are tougher than that required by the Paris Agreement, such as a 60 per cent cut by 2030. These may seem distant, but many of the investments Aviva makes today will still be in the portfolio at that date. Action is needed today.

With investment at scale, it is possible to create frameworks that deliver across multiple investments. For example, Aviva Investors has committed to achieving net zero across its entire Real Assets platform by 2040, which represents approximately £50 billion of assets. This includes developing a proprietary framework for sustainability-linked real estate loans that encourages borrowers to achieve key sustainability targets such as gains in energy efficiency and installation of on-site renewables. The programme, which aims to originate at least £1 billion of loans by 2025, most recently provided £200 million of refinancing to Primary Health Properties plc on behalf of Aviva's annuity business.

Large organisations also have the resources to participate in global initiatives. Aviva, for instance, is a signatory to the United Nations-backed Principles for Responsible Investment, the Finance for Biodiversity Pledge, the Powering Past Coal Alliance, and many other organisations. Such initiatives bring transparency and reassure those who have a pension pot invested with the firm that it is being managed responsibly.

Nuanced decisions are often needed. For example, natural gas is a cleaner fuel than coal, meaning that some gas investments are allowed in the portfolio, but Aviva still needs to undertake a careful evaluation to balance the merits of any such transaction. Aviva has rejected some transactions due to concerns about the risk of methane leakage, since methane is a potent greenhouse gas.

Clearly, energy investing in the current environment requires deep expertise. Mollan says that with long investment horizons, all investments need scrutiny. Climate change will affect whole economies; even government bonds need to be considered through an ESG lens. "Pretty much every long-term investment that we make now, which is pretty much every investment that we make, needs an ESG assessment," he says.

Meaningful engagement

Stewardship is another task that is more effectively done at scale. Engagement not only helps manage risk, but it can also drive investment performance. Aviva can point to many success stories of engaging through its in-house asset manager, Aviva Investors, using its voice to deliver positive change at the companies it invests in. As an active investor, having scale improves the level of influence in being able to build a better and more sustainable future. The alternative is divestment, but doing this means they lose their voice as an investor. Staying invested in a company and speaking up on key issues and resolutions as a shareholder arguably makes more of a difference than walking away, although it is also important to be prepared to divest when an engagement programme has not delivered the results that were hoped for.

The Pension Protection Fund's (PPF) *Purple Book 2021*, the most recent version of the industry's authoritative factbook, estimates the number of DB schemes eligible for PPF protection at 5,220 as of 31 March 2021.

"Some may have in-house investment professionals or large, efficient mandates with external managers," says Mollan. "So they could, in principle, do some of this activity. But the vast majority of those 5,000-plus pension schemes couldn't do it themselves —and there would be significant overheads to them paying an investment manager to do it."

Drill down into the *Purple Book* data, and the lack of scale becomes clearer still. Although giant schemes such as the BT Pension Scheme with its 280,000-plus members get the most attention, they are atypical. 80 per cent of schemes have less than 1,000 members. And 36 per cent of schemes are tiny, with less than 100 members.

Mollan says: "Each of those has their own management structure, their own set of trustees, and in many cases, they're investing, usually with advice from professionals, on their own account. I think that's an inherent inefficiency in the way that pension assets of working people are invested in smaller schemes."

Even before interest in ESG accelerated, smaller schemes were feeling the strain. Managing funding constraints is only one of their many challenges – the constant shift in regulation, keeping down costs, trustee recruitment and training – the overall picture is daunting!

But the real problem, is that small schemes may find it increasingly challenging to access investments that potentially offer higher returns and the new era of ESG and sustainable investing could exacerbate the matter.

There is also the bigger picture to consider. Although mindful of returns, there is a belief that scheme members want their pension savings to work building a better, greener world for future generations.

Mollan says that funds locked up in smaller schemes may struggle to do that: "Those assets can be invested in a more efficient way." If moved under the control of an insurer via bulk annuity transactions, "we can bring significant scale and expertise to the investment decisions we make and the industries we are able to finance from those assets".

Aviva director, annuity asset origination, Marcus Mollan

Better outcomes

Jonathan Watts-Lay considers how to improve retirement outcomes in the year ahead and beyond

The pandemic has clearly affected people's retirement plans in different ways. We carried out research into this and found that more than a fifth (22 per cent) of workers approaching retirement (age 50+) say it made them want to retire earlier and as soon as they can. Conversely, 13 per cent wanted to delay retirement because they realised they enjoy working. However, just over one in 10 (11 per cent) said that they've had to delay retirement as they can no longer afford to. A study by Fidelity suggests 38 per cent of people will put back retirement by around two and a half years.

Whilst this uncertainty can make retirement planning very challenging, what is clear is that pension scheme members are going to need more support than ever as they prepare how to take their retirement income. After all, a report that we produced with the Pensions Management Institute indicated that trustees have great concerns for their members in the run up to their retirement, and it's easy to see why.

Tax implications

In particular, the research found that nine out of 10 trustees (89 per cent) worry that their members will not understand the tax implications of accessing their pension. This may be because members don't necessarily realise the multiple tax considerations to be aware of.

For example, the Financial Conduct Authority (FCA) recently revealed in its *Retirement income market data 2020/21* that 341,404 pots were fully withdrawn in 2020/21. Whilst 108,869 of these were worth less than £10,000, 1,499 people fully withdrew pots worth more than £100,000. Unfortunately, this could mean that many will be paying more tax than needed, ultimately resulting in less income in retirement than what could have otherwise been achieved.

Making retirement savings last

Another concern identified by our survey was that six out of 10 (60 per cent) trustees fear their members will run out of money too soon in retirement. Withdrawal rates could be part of the problem and the FCA's data shows that many retirees continue to draw down their pots at rates of 8 per cent and over.

For example, 43 per cent of regular withdrawals were made at an annual rate of 8 per cent or more of the pot value in 2020/21, up from 42 per cent in 2019/20. Not only this, even fewer took advice than a year earlier. This could be a very risky strategy with many retirees finding themselves running out of money sooner than expected.

Coupled with this, many people live longer than they expect, and so members may underestimate how long they think their savings 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 per cent to 10 per cent. This raises questions around not only what decisions members make at the point of retirement but also the future decisions as they progress through retirement.

Pension scams

Our survey also found that nearly all (94 per cent) of trustees are concerned about their members being scammed out of their savings. This is not surprising when we consider that more than £2 million has been reportedly lost to pension scammers between January and May 2021, according to Action Fraud. It also stated that during this period average losses totalled almost £51,000 which is more than double the average in 2020 (£23,689).

The new regulations that came into force in November, giving trustees and scheme managers the power to intervene and stop suspicious transfers, are really good news for pension savers and an important defence against scammers. However, whilst it might be an effective measure to help prevent pension transfer scams, there is still the issue of members needing a clear understanding of whether the pension transfer they are planning to make is suitable.

Furthermore, it's noteworthy that whilst The Pensions Regulator recognises that not every pension scam can be prevented, it does ask trustees, providers and administrators to pledge to do more to protect scheme members and follow the principles of the Pension Scams Industry Group Code of Good Practice, which is based on three key principles, including 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

The FCA's latest retirement income market data shows that there were over 30,000 defined benefit (DB) to defined contribution (DC) transfers during 2020/21. Our survey found that this is an area of great concern for trustees, with 80 per cent of them having worries about members not understanding the risks around transferring out. This isn't surprising given that XPS Pension Group reported that in November 2021, half of prospective transfers showed one or more warning signs of a potential scam or likelihood of poor member outcomes. Ensuring access to appropriate advice is key, which is of course a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

What role do employers and trustees play?

Trustees and employers play a key role in ensuring members make informed choices concerning their pensions. This includes providing financial education and guidance as it can help members understand their options and what red flags to look out for. It can also help them to decide if they would like further support such as regulated financial advice.

There is currently no legal obligation to provide access to regulated financial advice to members and for a long time there has been a concern that it carries risk. 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.

It seems that this way of thinking is now becoming common place as on a positive note, our survey found that retirement support provision is on the up, with 49 per cent of trustees providing financial education (3 per cent in 2019), 46 per cent providing financial guidance (28 per cent in 2019) and 3 per cent providing facilitation to regulated advice for members at retirement (21 per cent in 2019).

Carrying out due diligence on providers can make the process far more robust. This should include checking that any financial education and guidance providers are workplace specialists with experience in providing support to members. This can help members understand key issues at retirement such as tax implications, risks around DB transfers and how to spot a pension scam. Due diligence on regulated advice firms should cover areas such as qualifications of advisers, the regulatory record of the firm, compliance process eg compliance checks on 100 per cent of cases, pricing structure, and experience of working with employers and trustees. The responsibility for the regulated financial advice given to members, and the consequences of that, will then rest with the chosen provider and not the trustee or employer.

Retirement planning is a specialist topic that many understandably don't have the skillset for. Ultimately, ensuring robust processes and providing members with access to appropriate support before they access their pensions, will lead to better outcomes for all in the year ahead and beyond.

Written by Wealth at Work director, Jonathan Watts-Lay

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The need to plan

If retirement planning brings lots of benefits, why are many of us still not doing it?

Planning can make a hugely positive difference to retirement outcomes. Yet most people are not planning enough.

Planners generally expect to retire earlier, enjoy retirement more, expect their money to last for longer and are more confident making financial decisions.

These findings are from Standard Life's *Consumer Attitudes Report, Bringing retirement into focus: 2021*, which surveyed around 5,000 people in the UK in August 2021.[1]

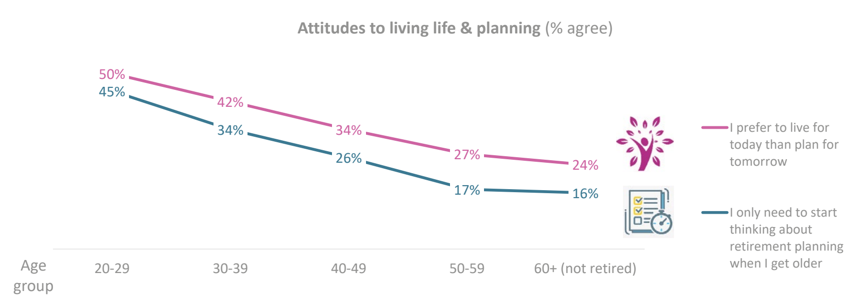
Almost three-quarters (73 per cent) of people say they're doing little or no planning to understand the amount of money they'll need to live on in retirement. And 29 per cent of people say they have done no planning.

Women, Gen Xers and low-affluence participants are among the least likely to plan for their long-term financial futures.

Even between the ages of 50 and 59, 17 per cent of people maintain they only need to think about retirement planning when they get older. It is clear that despite the benefits of planning, barriers exist.

This naturally raises the question: how can we encourage employees – irrespective of their income, wealth, gender or socioeconomic status – to plan more for their retirement?

Figure 1: Many people put off planning for retirement – well into their 40s.



Articulating the power of planning
It is vital to articulate better the benefits of retirement planning and then give employees the tools and confidence to plan properly. The following three steps may help:

1) Understand your workforce
People all have different needs and aspirations. Age, gender and socioeconomic position can play a role in how people approach financial planning. It's vital to understand how these factors affect a person's confidence in their knowledge of pensions, their expectation and experience of retirement.

Conducting a detailed segmentation analysis can provide a more granular understanding of your workforce, thereby allowing you to cater more effectively for different employee needs.

2) Tailor communications according to different employee needs
Better targeting of existing educational material such as milestone communications, webinars and pension and retirement calculators can help kickstart the engagement that can lead to more planning and better outcomes.

The PLSA's recently updated Retirement Living Standards (Standards) can help to make communications more relatable, by helping people to picture the lifestyle they want when they retire and understand the cost.

The Standards, based on independent research by Loughborough University, are pitched at three different levels – minimum, moderate and comfortable. They include a series of examples, which show what kind of living standard different people could have in retirement depending on their salaries, household and savings.

3) Help employees to make informed decisions in the build-up to retirement
Of course, the more holistic one's financial planning, the better. Retirement planning should consider more than just pensions, and include any debts, expenses, or other sources of income, as well as particular needs employees may have.

Being mindful of employees' short-, medium- and long-term needs – and how these may vary – could help employees to engage more with long-term savings and planning.

At Standard Life we have expanded what we offer this year by trialling a number of engagement and planning tools, including the Homebuyer Hub, introducing an online coaching app to help people plan how to save for their first home, and Money Mindset, an open finance platform.

We will also be developing our guidance proposition and introducing MOTs. By helping people to feel confident and empowered to make financial decisions across all life stages, we can help to build trust and engagement with their retirement savings.

Written by Standard Life head of proposition deployment, Donna Walsh

In association with Standard Life

[1] In August 2021, Standard Life commissioned an independent online survey of nearly 5,000 people from around the UK. We supplemented this with focus groups to explore issues coming out of the survey in more depth. The research looked to cover a broadly representative sample of UK adults aged 18 to 80-plus, covering a range by income, savings, region, gender, ethnicity and other key attributes.

Net zero through fiduciary management

Sophie Dapin explores transitioning to net zero through fiduciary management

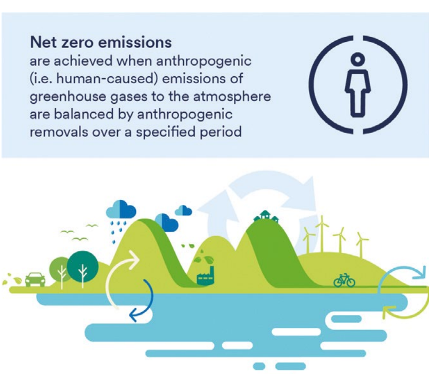
This year, we have seen a flurry of governments, companies and pension schemes the world over announcing net-zero carbon targets. These targets play a crucial role in global efforts to limit warming in alignment with the goals of the Paris Agreement.

But it is not just the Paris Agreement and the 2021 COP 26 climate summit that have sped up the race to net zero when it comes to UK pensions.

It is increasingly recognised that UK pension schemes need to ensure their portfolios are positioned both for the risks and the opportunities ahead while, at the same time, complying with an increasing amount of regulation.

The term 'net zero' gets discussed all the time, but what does it really mean? Here's how the Intergovernmental Panel on Climate Change (IPCC) defines it[1]:

Net zero emissions



For a pension scheme to achieve this, the aggregate emissions across all its underlying portfolios need to achieve this.

We will now explain why trustees should care, actions to take and how fiduciary management addresses key challenges.

Why should pension scheme trustees care?

Climate change will be a defining driver of the global economy, society and markets. All investors, including pension schemes, won't be able to avoid its impacts and accompanying risks to investment portfolios.

Trustees must ensure sure that when reallocating from fossil fuels to low carbon, portfolios tilt towards the likely winners from the climate transition and avoid the worst losers.

Crucially, as well as risks there are also opportunities. Pension schemes have significant influence over the flow of investments in the economy and are well placed to invest in opportunities that will lead towards a lower-carbon economy.

Regulation is also key in the drive towards net zero for pension schemes. Recently, the UK became the first major economy to ensure pension funds are legally required to report on the risks of climate change within their portfolios. Schemes over £1 billion will report in line with the Task Force on Climate-Related Financial Disclosures (TCFD).

Part of this regulation is the 'metrics and targets' requirement. The Pensions Regulator has given examples of targets a scheme may consider in its guidance and some are explicitly related to carbon reduction. For example, one target they suggest is to "reduce their carbon intensity by 15 per cent by 2023 and align with their decarbonisation trajectory up to 2030"[2].

Although encouraging schemes to set decarbonisation targets is helpful, there are risks involved. For example, indiscriminately adopting this approach can lead to overvalued securities like those from the dot com bubble, with potential for a strong market correction occurring. The technology, media and telecom sectors have changed the world, but not before significantly impairing value for investors.

What should pension scheme trustees do?

The first step is to ask the right questions. Before embarking on this journey, trustees need to build their own capabilities and ensure that their providers can demonstrate 'climate competency'. Trustees need to be confident that those providing advice to the scheme have the knowledge and expertise to manage climate-related risks and opportunities.

An investment-led fiduciary management approach can provide significant efficiencies for trustees. With the fiduciary manager directly responsible for the engagement with underlying companies and their emissions targets, compared to having a separate adviser and asset manager, this provides a direct link to those underlying companies.

There are three key questions that trustees should ask their providers:

Three key questions for trustees

Stopping at 'what are the emissions of the portfolio today?' and focusing only on minimising today's emissions is a risk. This could encourage behaviours that lead to overly-concentrated portfolios in certain sectors. It also risks missing out on the bigger picture.

It is crucial for pension schemes to focus on the journey to net zero, rather than solely focusing on being net zero today.

If you move the portfolio too early there are diversification challenges given the current small pool of companies with credible net zero plans. However, if you move too late, there are risks to the value of the assets the scheme invests in.

How might a fiduciary arrangement approach help?

A fiduciary management approach provides significant benefits regarding net-zero targets. It delivers these benefits across three key areas:

1- Effecting real change

Setting a net-zero target should not just focus on changing a portfolio to improve current scores. This is about engaging with companies to improve the portfolio by effecting change to the real economy. Simply divesting from some carbon-intensive companies and passing them on to another buyer won't suffice.

Pension scheme trustees are in a unique position to bring about this kind of change if they put their assets to good use under an effective stewardship programme. For example, Schroders have written to the leaders of UK FTSE 350 companies, calling on them to prepare and publish their plans for decarbonisation. We are then able to track progress across the market.

2- Data

It is not a straightforward task to collect, process, understand and report on the data needed to form a full picture of your portfolio's net-zero status.

Today's carbon emissions and intensity data form a good starting point for analysis, but are backwards looking and far from the whole picture.

We have invested heavily in our proprietary research and tools to deal with data challenges. This helps our fund managers across asset classes to better understand the risks climate change poses to investments and to integrate this into their investment decision-making.

3- Applications across different asset classes

Understanding the application of net zero across different asset classes is an immense challenge for pension schemes. Company emissions data is more mature for listed equities and bonds,. Pension schemes typically have high allocations to alternative asset classes where this methodology is less well developed.

Recognising this, the Institutional Investors Group for Climate Change have produced a Net Zero Investment Framework [3]. This is a useful tool for pension schemes and currently covers how to approach net-zero investments in listed equities, corporate and sovereign bonds and real estate.

Our closeness to the underlying data and integrated approach means we are able to consistently apply this framework across our fiduciary management client portfolios.

Conclusion

Transitioning in a few decades from a global carbon-powered energy system, built up over hundreds of years, to one that is carbon-free, will require significant and rapid transformation to the global economy. Pension scheme trustees need to be prepared for the impact on their portfolios.

Having the right governance structure in place to deal with this is crucial. There are significant benefits to an integrated and investment-led fiduciary management approach.

Written by Schroders fiduciary manager, Sophie Dapin

In association with Schroders

[1] https://www.ipcc.ch/sr15/chapter/glossary/
[2] https://www.thepensionsregulator.gov.uk/en/document-library/consultations/climate-change-guidance/guidance/targets
[3] https://www.iigcc.org/resource/net-zero-investment-framework-implementation-guide/

Company Profiles

BNP Paribas Asset Management

BNP Paribas Asset Management (BNPP AM) is the investment arm of BNP Paribas, a leading banking group in Europe with international reach. BNPP AM aims to generate long-term sustainable investment returns for its clients, based on a unique sustainability-driven philosophy. BNPP AM's investment capabilities are focused around five key strategies: High Conviction Strategies, Private Debt & Real Assets, Multi-Asset, Quantitative & Solutions (MAQS), Emerging markets and Liquidity Solutions, with investment processes incorporating quantitative and fundamental analysis. Sustainability is embedded within BNPP AM's strategy and investment decision-making. Among the leaders in thematic investment in Europe, BNPP AM contributes to the energy transition, environmental sustainability and the promotion of equality and inclusive growth. BNPP AM currently manages EUR 502 billion of assets and benefits from the expertise of around 500 investment professionals and over 400 client servicing specialists, serving individual, corporate and institutional clients in 69 countries.

Source: BNPP AM, as at 30 September 2021

BNP PARIBAS ASSET MANAGEMENT

Aviva

Aviva Plc is a savings, retirement and insurance business, with a heritage stretching back over 325 years. It's one the UK's leading insurers and the largest corporate pension provider, with almost £90 billion of pension scheme assets under management. Aviva is the UK's number one individual annuity provider and has £70 billion of annuity assets. Aviva has a long track record in promoting sustainability and is one of the first major insurer worldwide to target net-zero carbon emissions by 2040.

Aviva has a strong balance sheet with a Solvency II cover ratio more than twice the regulatory requirement (Q3 2021). Our financial strength is demonstrated by our ratings AA- (Stable) by Standard & Poor's, AA- (Stable) by Fitch, and Aa3 (Stable) by Moody's (Q3 2021).

Defined benefit solutions from Aviva

It takes financial confidence to provide the certainty employers need in an uncertain world. And it takes the scale and expertise of one of the UK's leading insurers to deliver the defined benefit solutions that help safeguard the interest of your members. This is where Aviva can help.

With over 15 years in the market, our dedicated team has completed more than 600 transactions for schemes of all sizes.

Your members will be able to speak to defined benefit experts from our in-house teams whenever they need to contact us. We've been looking after customers for more than 325 years, making sure we're here when they need us most.

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.

AVIVA

Company Profiles

WEALTH at work

WEALTH at work is a leading financial wellbeing and retirement specialist – helping those in the workplace to improve their financial future.

Established in 2005, we work with hundreds of organisations across both the private and public sector by offering financial education, guidance and regulated financial advice.

Our financial education and guidance services are delivered on a bespoke basis and can be specifically designed to help the entire workforce make informed decisions about their finances.

For example; financial education services cover everything from debt and money management through to optimising employer sponsored benefits and retirement. This can be delivered face-to-face or online and utilises digital nudge technology to encourage employee engagement and participation. A telephone helpline is also provided following this.

Support is also provided through the creation of digital content such as webcasts, animations and interactive tools including the Financial Healthcheck.

All our interactions are measured and can be benchmarked against the industry standard to fully understand the impact. This is of particular importance when meeting financial wellbeing objectives.

Financial guidance services provide one-to-one support on a range of financial subjects which can be accessed face-to-face, via telephone or a virtual call.

As well as this, we provide regulated financial advice supporting those who need specific recommendations regarding their savings and investments, including those who need to make important decisions about their retirement income options. This service also supports those in retirement who may need to adapt their retirement planning in line with their changing needs.

In addition, we also have broad experience in a number of specific projects where we support employees in financial decision making, including; defined benefit pension closures; the introduction of pension changes such as the implementation of a new scheme, share scheme programmes and offering financial helplines to EAP providers. Our services also cover specialist topics including; lifetime allowance, annual allowance and help with redundancy plans.

WEALTH at work®

KNOWLEDGE | EXPERIENCE | OPPORTUNITY

Standard Life

Standard Life is a trusted brand, looking after peoples' life savings and retirement.

Today, we proudly serve millions of customers, who come to us through advisers, through their employer pension scheme and directly.

Standard Life is part of Phoenix Group, the largest long-term savings and retirement business in the UK. We're proud to be building on nearly 200 years of Standard Life heritage together.

Our products include a variety of pensions, bonds and retirement options to suit you and your client's needs, as well as other ways to invest and save for the future. We're proud to offer a leading range of sustainable and responsible investment options.

We also support our customers on their journey to and through retirement with comprehensive, easy-to-understand guidance. Helping them to invest in the right way, and plan a future to feel confident about.

Standard Life

Company Profiles

Schroders

At Schroders, our purpose is to provide excellent investment performance to our clients through active management. By serving clients, we serve wider society. Channelling capital into sustainable and durable businesses accelerates positive change in the world. Funding the future is a privilege; we use it wisely and responsibly.

For our UK pension scheme clients, we bring more than 60 years of experience in managing pension assets and liabilities. Through a combination of specialist investment expertise and dedicated Fiduciary Management and Portfolio Solutions capability, our focus is on partnering with our clients to fully understand their position and assist in achieving their objectives. Our clients draw on a wide range of Schroders investment capabilities, including multi-asset, global equities and fixed income that sit alongside £50 billion of specialist expertise across private assets and alternatives delivered through Schroders Capital, our private market division.

Our Portfolio Solutions capability is dedicated to investment strategy and risk management, focussing on working with clients to structure and design outcome-orientated portfolios, including fiduciary management, LDI and cashflow- driven Investment strategies. With approximately £70 billion in UK pension fund assets under management, we offer size, breadth of capability, global reach and over 200 years of investment experience.

Schroders

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 Tom Dunstan, 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.

PENSIONS*Age*

Summary
- The UK has moved up the rankings of the Mercer CFA Institute Global Pension Index, largely due to automatic enrolment (AE).
- However, it was downgraded for having freedom and choice at retirement; which raises the question, what defines a good system?
- Each index, institution and individual will have their own opinion but there is consensus that AE has been a policy success in the UK.
- Now more focus needs to be put on expanding the breadth of AE, focusing on more collective schemes that pool risk, and strengthening communications.

UK pension system: On cloud nine

A recent global pension index has seen the UK's pension system move up the rankings to take ninth place. While this is something to celebrate, the UK still has a lot of work to do to reach the top. Natalie Tuck reports

The UK has one of the largest pension markets in the world but in recent years its pension system has stagnated in the mid-to-high teens of global pension rankings. In 2021, however, the UK jumped six places to take ninth place out of 43 retirement income systems compared by Mercer and the CFA Institute – one of the most respected indexes.

Overall, the country was awarded a B grade and described as a "system that has a sound structure, with many good features, but has some areas for improvement that differentiates it from a A-grade system".

What is good?

While global pension indexes are a good indicator of a country's standing among other systems, it is important to remember that the definition of 'good' differs between organisations and individuals. No two indexes are the same, and other experts will have differing opinions. For example, in the Natixis Investment Management Global Retirement Index 2021 the UK placed 18th out of 44 countries analysed.

It's noticeably lower than the Mercer CFA Institute index ranking, most likely because it focuses more on retirement itself, taking into account finances in retirement, as well as health, quality of life and material wellbeing.

LCP partner, Steve Webb, explains that it comes down to how you define good: "Mercer is perfectly entitled to have a view about what a good pension system looks like, but this means it tends to mark down national systems that don't fit its mould. An obvious example would be when it marked down the UK following the freedom and choice reforms because people now build up a pension pot rather than being forced to turn it into an annuity. I happen to think that makes the pension system better overall, but Mercer disagreed."

Indeed, Mercer senior partner, David Knox, says that the UK could improve its score by "restoring some requirement for part of people's retirement savings be taken as an income – that is, ensure the focus is on retirement income not just accumulation".

Like Webb, Pensions and Lifetime Savings Association (PLSA) chair and Aviva managing director, workplace, Emma Douglas, also thinks that freedom and choice has been good for the UK: "If something hadn't been done, we would be having so much more outrage now… I think it has made people feel that their pension is their own money."

AE: A standout reform

While there may be disagreement on certain aspects of the UK's pension system, such as freedom and choice, there is a policy success that experts, and indexes, do agree on – automatic enrolment (AE).

According to Knox, AE was one of the main factors for the UK's improvement on the Mercer CFA Institute index: "The first thing to note is the UK score is improving due to the introduction of AE; the consequential increase in coverage; the increase in contribution rates and the subsequent increase in the level of assets, when expressed as percentage of GDP."

It is not just Mercer that acknowledges its success. Webb, who was Pensions Minister during a large part of the policy's rollout, says: "We've gone up in the rankings because of AE – roughly 10 million people are newly saving for a pension – and because mandatory contribution rates have been increased to 8 per cent of qualifying earnings."

But why has it been so successful? Douglas explains that its success is driven by regulation: "Auto-enrolment used regulation, used that behavioural finance nudge principle, absolutely in favour of people. It was such a game changer."

It's not just the UK that appreciates its own success; Ireland having seen how well the policy has worked in the UK, is looking to replicate that success itself. Irish Association of Pension Funds CEO, Jerry Moriarty, says: "Looking from an Irish perspective where we have been speaking about AE for so long without actually getting it in place, the success of AE in the UK has been very impressive.

"While you could argue about some of the detail and whether contributions are adequate, the fact that millions of people are saving for retirement who otherwise wouldn't have is a very impressive achievement. I do think we could really do with a similar approach in Ireland and just get it started."

UK shortfalls

On the flipside, those working in the UK pensions sector tend to agree that the UK's biggest issue is on pensions adequacy when compared with other countries. For example, Douglas highlights Australia as a "great pension system" as it has enough money being contributed. She notes, however, that it "hasn't solved everything" because there are issues with what to do at the decumulation stage.

"I think what I'm worried about most *[in the UK]* is that we're going to end up with a lot of people retiring on far less than what they thought they would end up with. It is that generation in the middle – some of Generation X and older Millennials – who won't have had AE for the whole of their career but they probably won't have DB either and they are very unlikely to have property to fall back on. There is going to be a generation that is not going to have very much money at retirement and I think that is going to be a massive shock."

When asked what the UK needs to improve on, PTL director, Richard Butcher, replies: "Adequacy, fundamentally. AE was great, but the AE amount of contribution was never designed to provide somebody with an adequate income in retirement. It was only designed to get them a certain way there with private saving theoretically filling up the gap. Private saving isn't filling up the gap. What we need to do is, over the longer term, increase the level of AE contributions if we're going to have people receiving an adequate income in retirement."

A 2017 review of AE set out several ways to widen and broaden the AE policy, which Douglas backs implementing. "We really should be thinking about removing that lower earnings limit so that people can join from the first pound; it would help a lot of the part-time workers, many of whom are women. We know that the gender pension gap is a massive issue so that would really help with some of the unfairnesses in the pension system."

The gender pensions gap is indeed a global problem, but the Mercer CFA Institute index highlighted the UK as a country that has similar employment rates amongst women and men, but a significant gender pension gap.

The index report highlighted "design features" in pension systems that tend to aggravate this issue. It noted that eligibility restrictions in some pension arrangements require a minimum income or a minimum number of hours to be worked, with the UK being one of those countries. The index report stated that 23 per cent of employed women and 13 per cent of employed men in the UK do not meet the minimum income requirement to join a pension scheme.

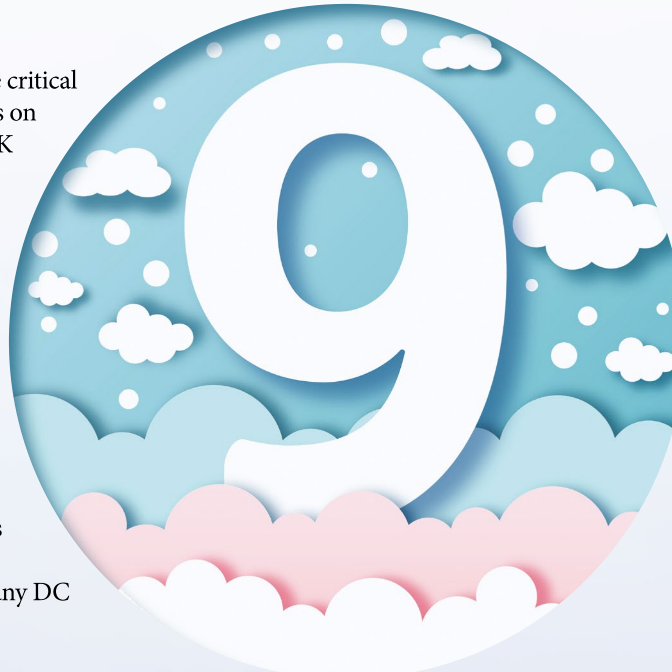
Douglas thinks that other recommendations from the review would also help to close this gender gap: "Joining from 18 rather than 22 would also be brilliant because those early years contributions are again really helpful to women who might be taking some time out later."

There is also the question of contributions. It is widely agreed that the current minimum of 8 per cent is not going to be enough for most to secure an adequate income in retirement. Many believe that 12 per cent is an ideal contribution, but that this should be done gradually.

"The PLSA's view is that we would love it to get to 12 per cent and be split more equally between the employer and employee – so 6 per cent each. We would look to get to that gradually. I think also at 12 per cent, we will need to make sure that there's some mechanisms in place so that we avoid over saving for those people who are lower earners and are likely to remain low earners for the rest of their working lives," Douglas says.

With the UK battling Covid-19 with the rest of the world, and the added impact of Brexit, Butcher says that now is not a good time to be increasing employer costs. "I think it's sensible to have that deferred until say the second half of this decade. But we need to increase contribution rates if we're to get people having an adequate income in retirement. At the moment we're unlikely to, and it's really only the residual DB liabilities that are still sitting in the system that are keeping retirees solvent."

However, others are more critical with the UK's lack of progress on pensions. Webb says: "The UK government lacks a sense of urgency; DB is dying rapidly, but DC is not rising rapidly enough to take its place…. when the Department for Work and Pensions does a 2017 review of automatic enrolment but keeps saying it is not going to be implemented until 2025 you can see that there is no urgency in getting to grips with the woefully inadequate level of contributions into many DC pensions."



CDC: Waiting in the wings

One of the countries that regularly ranks as one of the top performing pension systems is the Netherlands; the Mercer CFA Institute index ranked it in second place, only behind Iceland, in 2021.The country is a trailblazer for collective-style pension schemes, such as collective defined contribution (CDC) schemes, which pool members' money into a single fund. The schemes allow members to share the risks of investing and longevity and achieve lower costs from economies of scale.

The UK government has just announced that its own CDC legislation will come into force on 1 August 2022, with Royal Mail looking to be the first company to introduce such schemes; could this be the boost that the UK needs to its pension schemes? The UK has a relatively individualised pension system compared to others and Webb believes a collective system could help members benefit from greater scale and more risk pooling and sharing.

He also points out that the UK is looking to consolidate the large number of pension schemes into far fewer schemes, including economy-wide master trusts. This is also an area where Douglas, who despite initially having some reservations about the concept, can see CDC working in the UK.

She thinks it could play a part in the decumulation stage, as an alternative to annuitisation, paying an income post-retirement. However, she worries about its place in the UK as, like in the Netherlands, it is often operated at scale.

"I think you do need either a massive employer like Royal Mail or an industry collective, or of course what we are now seeing as the big pension schemes in the UK, a master trust. There is certainly something to look at there. I do worry that it maybe does not work as well if people are constantly changing jobs and switching in and out of it because what is your transfer value, how do you calculate that fairly? There is a lot to think about, there is a lot to work through of the mechanisms of how it would work but I do think now it is something that we need to investigate more fully to see what place it has in the UK."

Written by Natalie Tuck

Summary
• Implementing a trustee board effectiveness review can help improve the smooth running of the board and identify any risks/challenges.
• A review may be conducted through self-assessment or with external reviewers.
• A 'light-touch' review is recommended annually, with a more thorough review every three years.
• Trustee board effectiveness reviews are currently only implemented by a minority of schemes, but this is set to increase not least due to increased regulator attention.

Time for reflection

Laura Blows explores the benefits and practicalities of implementing regular trustee board effectiveness reviews

Pension scheme trustees have such ever-increasing workloads that adding another task to the list, to navel gaze at how well they are achieving their goals, may seem like too much of a luxury. Yet regularly taking stock may actually save the board time in the long run.

Trustee board effectiveness reviews

A trustee board effectiveness review may explore practicalities like the frequency of meetings and the organisation of papers. It can also look at the structure of the trustee board, such as the use of sub-committees, trustee skillsets and key person risk, and consider broader issues, for instance if there are any behavioural biases that occur when decision making.

All board members should be involved in the assessment, together with key support personnel, such as the scheme secretary and pensions manager, Dalriada professional trustee, Leanne Coomber, suggests. "It is also useful to ask advisers for their views from an outsiders' perspective," she adds.

Process

The simplest way to start a trustee board effectiveness review is through self-assessment.

This can be a discussion instigated by the chair, but often involves answering a questionnaire – a template for this can be found on TPR's website, Coomber says. It will usually involve around a dozen questions that explore board effectiveness with a scaled scoring system and room for comments, ITS director, governance services, John Lovell, states.

"Many boards will find it most productive to have responses anonymised, as well as someone independent collating the results. They will then provide an average score for each question, alongside insights into any common themes emerging from the comments. Ultimately, the chair should own this process and commit to taking forward any actions, focusing on the areas with the lowest scored answers," he adds.

This self-assessment can be completed reasonably quickly, within a few weeks, Hymans Robertson head of governance consulting, Laura Andrikopoulos, suggests.

It is generally recommended that this 'light touch' assessment takes place annually, with a more in-depth review occurring every few years, or during a period of transition, such as a reduction in the number of trustees, a merger or the appointment of trustees.

This may involve the use of external reviewers, because, as Isio head of governance consulting, Claire Whittaker, says, "trustees reviewing themselves isn't just like marking their own homework, they also get to set the exam questions, come up with the answers and decide the pass mark. And if they get a poor grade, they may have little idea how to improve".

An external body will already know what the scheme should look at, she adds, as well as being able to 'benchmark' the scheme against other similar ones.

It may involve meeting observations, interviews, group exercises and scenario role playing, such as a cyber-attack or sponsor crisis, Andrikopoulos says.

Muse Advisory senior adviser, Julia Land, quotes one experienced chair, who recently said: "We want a review every three years to objectively hold up the mirror, done by an intelligent review team who have the emotional skill to engage well with us, tell us some things we may not know, that we will pay attention and listen to. We have a good board but we don't know all the answers."

According to Whittaker, a review really "should be continuous, kicking off with a detailed effectiveness review, then keeping the agreed actions front and centre of the business plan over the following year".

Findings

The findings of the review will depend upon the scheme, but may commonly discover training needs, skills gaps, new objectives (eg improving engagement with the sponsor), positive and negative behaviour trends, and the need for contingency plans. Coomber gives the example that many schemes have not officially recorded a deputy chair, should the chair be unavailable at short notice. "This is a relatively easy and inexpensive item to record and a good point to evidence an effective trustee board", she says.

The need for structural changes, such as introduction of sub-committees or working groups to reduce the amount of detail required in board meetings and utilise different trustee skillsets more effectively, may also be discovered, Whittaker adds.

"Reviews will result in a range of findings," Lovell says. "These often concern practicalities, such as the timely circulation of papers, meeting frequency and timings, but will also include more material matters. For example, recommendations may be made around the need to refocus board discussions, the way advisers interact with the board, or how the chair manages meetings and ensures all board members are included in debate."

According to Land, a good review helps the board to take stock and agree 'what next' for the scheme.

She gives the example of a board review helping one scheme be able to secure a buyout more swiftly, by increasing the board's focus on readiness to transact, resulting in it working more robustly with the sponsor and getting scheme data cleaned up.

Challenges

Despite the benefits a trustee board effectiveness review can provide, research from Willis Towers Watson in June 2021 found only half of pension trustee boards reviewed their effectiveness annually, with just 29 per cent of boards currently using some form of external validation to independently review their effectiveness.

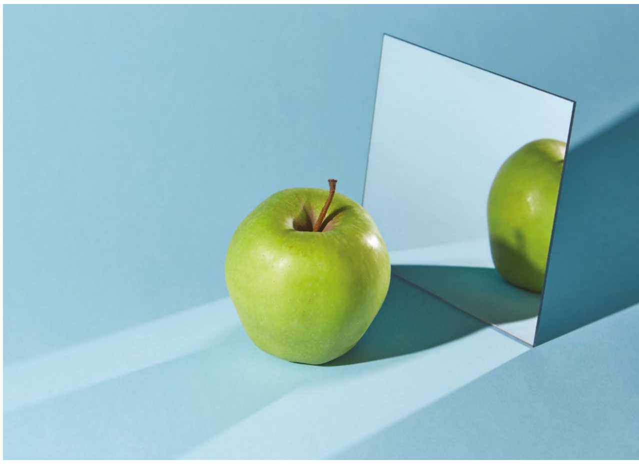
"In my experience, most larger schemes with assets over £1 billion will conduct board effectiveness reviews regularly," Lovell says. "It is also common for smaller schemes, although they will naturally tend to have smaller governance budgets, meaning the practice becomes less consistent."

Cost is often a key concern preventing trustee board effectiveness reviews, despite "a good review paying for itself in terms of improving governance and outcomes for members", Whittaker states.

Timing is another factor, she acknowledges, with boards wanting to wait until appointments are filled and projects are finished, "but we all know that there is no such thing as a quiet moment in pensions".

Another reason for the lack of reviews may be that one has been conducted previously, but no actions implemented, "causing faith to be lost in the process", Lovell suggests.

It just being a tick-box exercise is a concern of PTL managing director, Richard Butcher; the risk that a trustee board may simply have their consultant write a paper to be signed off by the board.



"*[Trustee board reviews]* are rising up the agenda, but my concern is that it won't be given proper consideration by some trustee boards," he adds.

Andrikopoulos does not feel this is a cause for concern – or at least not yet.

"Box-ticking is a more of a risk once *[board reviews]* become more established. It is still relatively new for a lot of trustee boards, so I find the trustees doing it enjoy getting a chance to reflect," she explains.

Increasing focus

Trustee board effectiveness reviews may well become more established soon, not least because a recent survey from Hymans Robertson found that trustee confidence in their scheme's effectiveness declined over the past year, with 100 per cent of trustees agreeing that there is room for improvement, compared to only 10 per cent in the previous year.

Butcher considers trustee board effectiveness reviews to stem from the regulator's requirement that DC master trusts implement reviews as part of its systems and processes, and spreading out from there, while Andrikopoulos attributes it to an increasing professionalism of trustee boards.

Coomber highlights that the Pensions Act 2004 (as updated by Statutory Instrument 2018/1103) requires trustees to operate an effective system of governance. "An important part of an effective system of governance is to be able to evidence that the trustee board itself is effective," she explains.

"The Statutory Instrument also requires schemes with 100 members or more to produce an own risk assessment (ORA), including how the trustees have assessed the effectiveness of their risk-management system.

"The law requires that the ORA must be prepared at intervals of not more than three years, although in the draft of the new code, TPR is indicating the ORA will be required annually."

According to Lovell, "while we are all gaining a better understanding of what the ORA will look like, the operation and effectiveness of the board itself is fundamental to the 'effective system of governance' that it assesses. This means it would be logical for the trustee board to carry out some form of self-review at regular intervals for it to complete the ORA."

However, as Land reminds, "a review should be designed to assist the board to identify or confirm its strengths and gaps, ways to make smooth progress for the scheme and keep risks to that progress on the radar.

"It's not something to fear and it isn't a test."

Written by Laura Blows

Rising to the challenge

SPP president, James Riley, speaks to Laura Blows about the industry's challenges for the year ahead

As 2022 begins, what do you think will be the major issues for the pensions industry this coming year?
Looking forward to 2022 one of the key issues for the pensions industry will be its capacity to deliver everything that's required of it. We are already seeing Guaranteed Minimum Pensions (GMP) equalisation absorbing a huge amount of available resource and 2022 will be when work on the dashboards will really need to begin.

It's wonderful to be part of a thriving industry and I'm sure we'll rise to the challenges coming up. But 2021 saw a raft of consultations, and there's a risk that the important is crowded out by the urgent – but perhaps less important. An example of this would be 'statement season'. While it may be nice for members to get all their pension statements in a one-month period, these risk creating a lot of work (and paper, which is hardly eco-friendly) to deliver a 20th century end result that duplicates what the dashboards seek to achieve for the 21st century.

From a technical perspective, I see the key challenges as setting the foundations for delivering the dashboards, ensuring we are better supporting DC members in decumulation, how the new criminal sanctions and notifiable events regimes bed down and the ever-looming threat of a pensions tax grab. At risk of adding to the industry's list, I do hope 2022 will be the year the government gets on with implementing the *2017 Auto-enrolment Review* and having a debate on appropriate auto-enrolment contribution levels, but then again that was on my 2021 wishlist.

Of course, this year will continue with a lot of the trends from 2021, particularly that of consolidation. We have recently seen the first DB superfund authorised – what impact do you think superfunds will have on the industry?
You're right, 2022 looks like the year the government will be delivering on it promises from 2021, including both the Pension Schemes Act and more broadly. Alongside the issues I mention earlier, we are still waiting on regulations covering DB funding and the regulator's DB Funding Code. It remains to be seen whether the code, in particular, will be operational in 2022.

On superfunds, if I'm honest, I'm a sceptic. For the right pension scheme, they offer an attractive alternative to insurance buyout. However, there's a unique fact pattern for a superfund to be an appropriate solution – the scheme needs to be sufficiently well-funded to be attractive to a superfund yet at the same time the chances of achieving buyout need to be remote. I'll be happy to be proved wrong though.

Slightly more broadly, I do worry that the topic of consolidation has been hijacked by superfunds. There is much more to consolidation than separating the sponsor and pension scheme. Considerable value, from lower administration costs and economies of scale, can be derived from operational consolidation, where many schemes are run under one umbrella – such as a DB master trust – while retaining the employer link. This is particularly true, if there was a straightforward way to harmonise the benefits of the various schemes.

DC is also seeing a drive for consolidation, with schemes below a certain size having to justify that they provide value for money/members or consider consolidation. What is your view on this approach to encouraging DC consolidation?
DC consolidation is a seductive idea, but care is needed – bigger isn't always better! We believe that schemes significantly below the £5 billion mark can provide good value for money for their members. And the government must be completely clear that its primary purpose in seeking consolidation of medium-to-large DC schemes is to improve member outcomes, and that other considerations such as reducing the regulatory oversight

burden or seeking to unlock DC pension assets to invest in UK infrastructure to 'build back better' come secondary to this.

The effect of the employer meeting pension running costs, in single employer trusts, on member outcomes is important. Virtually all such trusts are structured so that the employer pays for administration costs and advice to the scheme. By contrast most other types of pension vehicle directly charge pension savers. These charges cause drag on the growth of pension pots, which scale, and governance standards, cannot necessarily overcome. Transition costs for consolidation exercises are also a material consideration and again ultimately impact on pension pots.

Finally, while as a society we applaud the aims of The Pensions Regulator and the FCA's joint discussion paper: *Driving value for money in defined contribution pensions,* we have concern that they are utopian. Having considered the pros and cons of the ideas set out in the paper, it is difficult to conclude that there are any practical ways of achieving them.

For those for whom it is the right answer, consolidation could happen more rapidly, and the real issue of small pots addressed, if there weren't so many blocks and complications in pensions and tax legislation – partly caused by legacy issues. If the government does want schemes to consolidate rapidly, it should look to simplify and remove these obstacles.

Climate change and ESG issues are sure to continue being a focus for pension funds this year. I believe the SPP recently created an ESG guide for pension trustees. Please could you explain what is featured in the guide and how it benefits trustees?

Rightly ESG and climate change will remain right up trustees' agendas in 2022 and beyond. October 2022 will see many more funds fall under the TCFD requirements. And there is much more that the industry can and should be doing in this area.

That said, meeting their ESG obligations can seem daunting for pension scheme trustees. This is particularly true for trustees of small- to medium-sized schemes with smaller budgets and that are predominantly invested in pooled funds, who believe their options for action are limited.

This SPP ESG guide is aimed at the trustees of such schemes. It seeks to give them high-level guidance on their legal obligations, what actions they can practically take depending on their investment structure, and how best to engage with advisers and investment managers. We hope it provides practical support in navigating this ever more complex and regulated area.

2022 will also surely see focus on pensions dashboards ramp up, if the industry is to be ready for its launch in 2023. How likely do you think it is that dashboards will launch on time – are there any potential stumbling blocks? And what should pension schemes do to prepare?

2022 will be a make-or-break year for delivering the dashboards in 2023. There's been lots of activity from the Pensions Dashboards Programme in 2021 but schemes do not yet have enough information to be able to properly start to prepare.

The missing information includes what final data standards will be, what pension figures will need to be provided, how members will be matching with their pensions, when staging dates will be, what technology schemes/providers need to connect to, and who's liable if members are given incorrect information – or indeed someone else's information.

The SPP and its members are hugely supportive of the dashboards. It's a once in a generation opportunity to engage pensions savers. But without answers quickly, there is a real risk that the industry will not have time to prepare, risking at the very least the current timescales. Member support will be critical for the dashboards' success and so it is vital that they have a positive experience. If that isn't the case, the viability of the dashboards themselves are at risk.

But what is it that's so challenging? Well let's pick a couple of items. Firstly, matching. The dashboards are not like open banking. In open banking you provide details of your bank accounts and they are aggregated in one place. With a dashboard, you enter your details, and it will search all the schemes linked to the dashboard and look for your pensions. But what happens if it finds someone who seems like you but is not you? Does it show the pension or not? Make the matching criteria too strict and you won't see all your pensions. Make it too lax and you risk seeing someone else's. Setting the correct threshold is surely something for government, yet it seems to be being passed to individual schemes.

Then we get to what pension figure should be shown. A dashboard will show one figure per scheme and this needs to be meaningful to members and consistent across schemes. Looking at a DB pension, at what date should the pension be shown? The date of leaving, the current date, projected to retirement? What happens if different parts of the pension are payable unreduced at different ages? Or if there is a step down when the state pension becomes payable or a step up at GMP age?

The key to success is not to try to do too much at outset. Asking schemes to provide DB figures for at least 80 per cent of members may be achievable, but 90 per cent, for example, could place a huge burden on the industry, resulting in failures to comply and incorrect information being produced. Better to have a system that works for the majority than one that doesn't work for anyone.

Written by Laura Blows

Summary
- Sufficient education must be seen as a follow up to auto-enrolment.
- The pensions industry must recognise the risk low-levels of financial literacy can pose.
- The industry must step up to encourage informed choices.
- Responsibility must be shared, but the pensions industry is set to benefit the most from a well-informed public.

The education challenge facing pensions

With auto-enrolment resulting in millions of new pension scheme members, ensuring that the public has the basic skills and confidence to manage their pension is a responsibility for educators and the industry alike

With over half of Britons not looking for any pensions information, the need to build the foundations for life-long financial literacy is stronger than ever, according to industry experts.

"As a society, we are painfully unaware of the huge benefit that pensions will have for us later on," says PensionBee CEO, Romi Savova, as the area is "viewed as one of the least interesting financial products to engage with, and often thought of as complicated and boring".

Yet for a record number of people, getting to grips with their pension, how it works, and how to engage with it is a challenge that many do not have the knowledge to do.

A bigger problem than ever

Over 10.2 million more people are now saving for retirement on the back of auto-enrolment. While this has been heralded as a huge success by the government, the 'set and forget' mechanisms have resulted in automatically enrolled savers tending to have lower levels of engagement with their pension than those who actively signed up themselves, according to Nest Insight.

The challenge now for the industry, according to experts, is to find ways to establish the building blocks of financial literacy. It is hoped this will give members the knowledge and confidence to engage with their pension and make effective decisions throughout their retirement planning journey.

In the Great British Financial Literacy Test, conducted by Freetrade, 48 per cent of respondents could not answer basic questions about personal finance, while 80 per cent struggled to answer questions about retirement.

The root cause is "systemic" according to Pension Playpen CEO, Steve Goddard, and is related to a "lack of education on financial products generally at schools, colleges and universities, combined with families being unable or unwilling to disclose what they do know, or do not know, about their pension savings to their kids."

In an Ipsos Mori survey, 90 per cent of people in England admitted to learning 'nothing at all' or 'not very much' about finance during their school education.

Savova says that poor levels of financial literacy undoubtedly translates into low levels of engagement in pensions.

"This can have disastrous consequences, as if a saver is disconnected from their pension, unsure how it works or how it may benefit them in the future, it's impossible for them to know how much they should be saving for later life," she says.

"More concerningly, this may lead to savers opting to keep their money for 'now' and not contributing to a pension at all."

Moreover, research points towards the fact that people feel disengaged from their pension at an early age – a behaviour that perpetuates into adulthood. Research by Infinite Global and YouGov found that among 18-24 year-olds, 71 per cent of people are not looking for any information about pensions. The rate is even higher, at 83 per cent, for those in full-time education.

The result of this is a "lack of understanding of the pension system", Savova says, and can leave savers at greater risk of being tripped up.

"Whether this be by hidden fees, complicated transfer processes or excessive exit fees, not only can this eat into a savers' pension balance over time but it may prevent them from taking action to achieve better retirement outcomes," she adds.

Industry to bear the brunt

All of this points towards a scenario that the pensions industry should be concerned about, says Premier Pensions head of DC consulting and technology, Sue Pemberton. She says that there are "so many reasons" why the pensions industry needs to take action to address the consequences of low levels of financial literacy.

Royal London consumer finance specialist, Sarah Pennells, echoes this sentiment, saying that without a basic understanding of what a pension is and how it works, it is "difficult for savers to make informed choices and they may struggle to achieve the best outcome for themselves" – a scenario detrimental for savers and the industry alike.

She continues: "We also know from our own research that a quarter of men and over a third (37 per cent) of women do not know the value of their pension savings. If you do not know how much you have in your pension, it makes it harder to work out whether you are paying in enough to give you a good standard of living in retirement. As an industry, we need to improve peoples' understanding and get across the powerful impact their pension can have both in terms of their own standard of living and the world they will retire into."

This lack of understanding can manifest into actions that can prove costly for savers, says Pemberton.

"A significant proportion of people are taking their tax-free cash before retiring, putting it in the bank where they do not use it and wasting the opportunity for growth. Years' worth of growth is being wiped out by poor decisions being made at retirement and greater understanding could avoid much of this," she says.

Conversely, Pemberton points towards the fact that people are more likely to be able to disseminate between legitimate and fraudulent information. As a result, she says they will be more likely to "see through a scam if they are financially aware". It's a vital skill to have, she says, as scammers are "becoming more and more sophisticated".

Pemberton adds that by reverting to a focus on financial literacy and education, the pensions industry, as a whole, can benefit.

"People always hit out at the pensions industry or government when things go wrong, and in some cases, they are justified. However, in many cases, problems stem from a lack of engagement with material that the industry has done its best to make clear and often the reason for this is a lack of confidence.

"The pensions industry has attempted to simplify communications and improve access to help, but people still need to read the material, use the technology or speak to someone and many people do not have the confidence to do this," she says.

Taking responsibility

It is evident that there is not a quick fix for the issue of financial literacy, and neither is there a simple way to establish the building blocks for life-long education. As such, promoting financial literacy requires a joint effort, says Poise Financial Planning director, Graeme Inglis, with schools, the government, the FCA and the pensions industry all having their part to play.

Finding ways to improve engagement and understanding of the pensions industry amongst young people is also crucial. The plot of Netflix's *Squid Game* was a lesson in how not to manage long-term finances, yet the streaming platform can play a role in setting the agenda for financial literacy, says Goddard. Alongside public service broadcasting, there is a need to find innovative ways to "inform a wider audience and break down barriers" through educational content, he says.

Pemberton adds that a uniformed and cohesive approach to educating young people is needed, with the approach of life-long learning manifesting throughout an individual's career.

She says that financial literacy education needs to "start with schools, and where possible parents, but continue with government awareness programmes, the industry and employers – more needs to be done at every stage to prepare and equip people for the decisions ahead".

But above all else, there is an industry-wide duty to inform and educate.

Pemberton says: "It's in the industry's best interests to actively encourage and support savers in understanding and prioritising their pension savings, with experienced teams on hand to help when needed.

"Only by doing this can we build up a sense of ownership over one's pension, resulting in savers making more informed financial decisions, and tackling the chronic under-provisioning that currently exists in pensions."

Written by Tom Higgins, a freelance journalist

Intervening for members

The Pensions Regulator (TPR) director of enforcement, Erica Carroll, speaks to Jack Gray about the regulator's use of anti-avoidance powers after the Silentnight Group's DB pension scheme was severed from its sponsoring employers' business by a pre-pack administration

Can you please give some background on the Silentnight case and explain why enforcement action from TPR was necessary?

We opened our investigation into the possible use of our contribution notice (CN) power in 2011, following Silentnight's entry into administration. The insolvency came about a few months after HIG, a private equity firm, had acquired Silentnight's bank debt.

Due to the funding position of the scheme, Silentnight's entry into administration would lead to members transferring to the Pension Protection Fund (PPF) (and receiving PPF compensation rather than full scheme benefits), unless substantial additional funding could be obtained.

After an initial investigation, we concluded that a CN might be an appropriate power to pursue. If successful, this would lead to a cash payment being due from the target to the scheme and would be consistent with our statutory objectives of protecting members' benefits and reducing the risk of compensation being required from the PPF.

Once it was decided that action was necessary, what steps did TPR take? Were the steps taken typical for this kind of case?

There are a number of legal tests that have to be satisfied for a CN to be issued against a target. As is typical in our investigations, the first step was to gather information in order to better understand the background circumstances. This included voluntary requests for information as well as using our powers under section 72 of the Pensions Act 2004 to compel the production of information and documents. Although not available to us at the time, the Pension Schemes Act 2021 has given us the ability to compel people to attend interviews and provide answers to our questions in these kinds of cases.

Through our investigation, we obtained vast sums of complex financial information. We engaged expert advisers to support our analysis and establish our case. Once we were satisfied that we had the evidence to demonstrate we met the legal tests, we issued a warning notice. This first warning notice was based on an argument that HIG had underpaid when acquiring the Silentnight business.

Our regulatory procedure allows targets, and any other directly affected parties, to make representations to us about the case set out in the warning notice. We received extensive representations from both HIG (the targets) and the scheme trustees, supported by further evidence. We then investigated those representations.

The trustees' representations prompted our consideration of an alternative way to put forward our case, namely that, if HIG had not become involved in Silentnight, the company could have refinanced and supported the scheme into the future enabling the scheme to provide its members with full benefits. After further investigation, again with the assistance of experts, we were satisfied there was sufficient evidence to meet the threshold test and decided to issue a second warning notice for the use of the same CN power but seeking a higher amount. That second warning notice was then the subject of representations by HIG and the trustees.

We referred our case to TPR's Determinations Panel, but the case settled before the panel hearing began.

The case began in 2011 and was settled in 2021. Is this the typical length for this kind of case? If it was longer than usual, what factors led to the case running for 10 years?

Given the breadth of cases we have across our criminal and regulatory powers we don't have a 'typical' length for cases. They vary due to factors such as the complexity and volume of evidence, number of expert witnesses involved and, often in our larger cases, legal challenges through the courts. We always aim to achieve outcomes as quickly as possible but given the size and complexity of some cases, including Silentnight, they do take a number of years to complete.

However, it's fair to say that this case took longer than most. Part of the reason for that was the complicated background facts and the number of expert witnesses relied on by TPR and the targets.

But the issuing of the second warning notice also made the case take longer, both because there were additional procedural steps that needed to be undertaken, and because the targets sought to judicially review that decision. The court refused to grant permission for judicial review because HIG would be able to pursue its allegations before the Determinations Panel, which could decide on the legality and fairness of the second warning notice accordingly.

Was there anything unusual/atypical about the case?

Yes, there were a couple of features of this case that were unusual. Firstly, the association of the targets in this case to the scheme employer was disputed, and some of our arguments were novel, which we maintain validly established the targets' association.

Secondly, while our cases often feature some evidence from experts, in this case both TPR and the targets relied on evidence from several experts from different fields. This meant that there was a huge volume of expert evidence that the panel would have had to consider had the case not settled.

Did you find anything particularly challenging in this case? What did TPR learn during this experience that it might take forward in future cases?

With each significant case we run, we seek to embed learning and examine how things could be improved next time.

Most of our previous cases have involved clear-cut routes to establishing association or connection, such as being owned by a common shareholder. The targets' application for judicial review gave us an additional challenge that we don't face in most cases. However, we dealt with the application robustly and dispatched that challenge. We remain of the view that we can lawfully issue multiple warning notices in relation to the same power and the same background facts.

What was the outcome of TPR's actions, and did they satisfy the relevant parties?

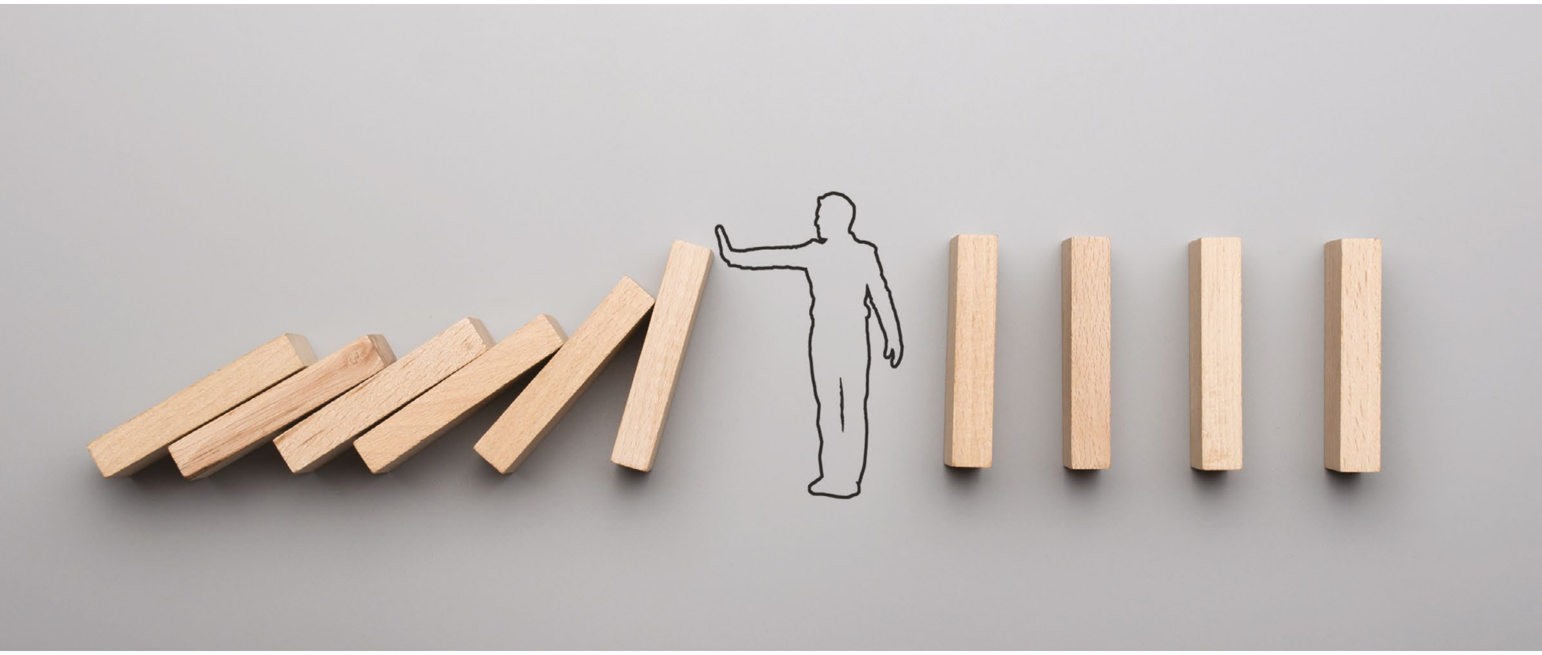
In this case, we agreed a settlement with the targets of our regulatory action. The agreement reached was that we would withdraw our case if HIG paid £25 million to the scheme. As such, together with the liquidation proceeds from Silentnight's insolvency process, the scheme has received approximately £35 million in total.

While this sum is insufficient to eradicate the deficit on a PPF basis, it is a substantial sum that will support the PPF in providing benefits to savers in the scheme.

In reaching settlement we considered various factors, including the value of the financial sum being made immediately available to the scheme, the risk of litigating complex regulatory action with the potential for prolonged periods of legal challenge, resulting significant costs and continued uncertainty for savers.

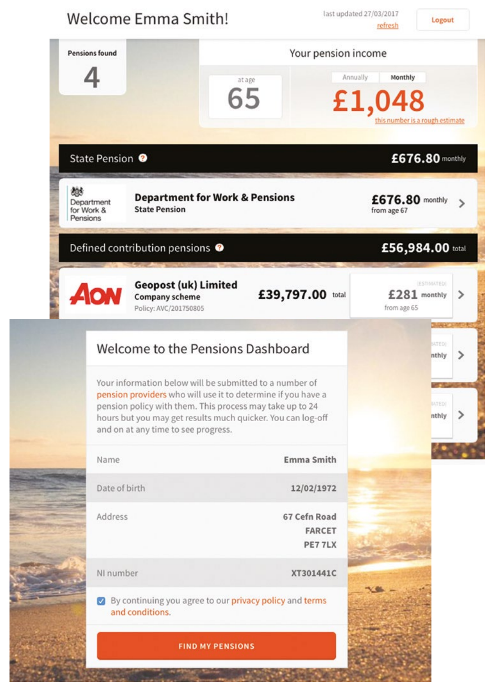
While we are always committed to pursuing good enforcement outcomes through the use of our powers, we will settle cases when we consider it will enable us to reach an appropriate outcome.

Written by Jack Gray



Getting ready for pensions dashboards

Jonathan Hazlett and Alicia Cain provide their top five actions for pension scheme trustees to get ready for pensions dashboards



We've seen rapid advancements by the Pensions Dashboards Programme (PDP) in 2021. It won't be long until pension scheme trustees need to start connecting to the pensions dashboard ecosystem. Connection will be staged according to scheme type and size with the first compulsory connections starting in the spring of 2023.

We're expecting draft regulations to be published any day now. The draft regulations will set out details of the obligations that will fall on pension scheme trustees. While we wait for these, we recommend:

Review your scheme data

Dashboards will only be able to match your scheme data to find requests if it's complete, accurate and in the correct form. The PDP has issued a data standards guide to explain the data elements that you'll be expected to provide. You should identify who actually holds that data (if it isn't you), as you'll need to engage with them. This may involve insurers or external AVC providers. You should review your scheme's data against the items that'll be required for the pensions dashboards and identify any gaps. You should put a plan in place to complete the gaps. If you still hold records in paper form, you ought to consider how you'll make them digitally available so that the data elements are picked up in any find request.

Evaluate your software

You need to start considering how you'll connect your data to the pensions dashboards ecosystem. You should work with your software provider and/or scheme administrator to identify what will be the best approach for your scheme to match find requests with the data you hold. You should evaluate your software and IT systems in light of the high volumes of traffic that will come from the ecosystem and consider the impact that this will have on system performance. You should work with your software providers to determine this and implement any upgrades.

Update your scheme policies

You should review your scheme's policies to ensure that they're robust and will enable you to transfer data securely to the pensions dashboards. In particular, you should ensure your scheme has policies on data protection, IT and cyber security as well as data monitoring and review. These will be needed in any event to comply with the new effective system of governance requirements. For your data protection policy, you'll need to identify what lawful basis for processing you can rely on to share members' data with pensions dashboards. You'll also need to update your scheme's privacy notice to cover this. You may want to consider telling members about the pensions dashboards in an upcoming member newsletter.

Review your contingency plans for data breaches or cyber-attacks

In the event of a data breach or cyber-attack, it'll be important that you have an audit trail demonstrating the steps you took to keep members' data safe. You should review the systems you have in place to prevent or mitigate the chances of a cyber-attack. You should ensure that you have a continuity plan for dealing with a cyber-attack, including safeguarding personal data.

Consider your own liability

Trustees will be liable for non-compliance with their obligations in respect of pensions dashboards. This could arise through inaccurate data or system constraints. The Pensions Regulator will be able to issue compliance notices or financial penalties for non-compliance. Trustees may also find themselves liable for data breaches if, for example, a false positive match were to occur due to inaccurate data or because your systems are not robust enough to prevent a cyber-attack. You should review your contracts with your scheme administrators and / or software providers to consider liability for non-compliance with legal obligations in respect of the pensions dashboards and any data breaches.

Written by Osborne Clarke head of pensions Jonathan Hazlett, and associate director, Alicia Cain

Pie crust promises

Summary
- Pension trustees must consider a range of factors, including the definition of net zero and their motivation, when setting a net-zero timeline.
- Climate objectives are becoming a more common criteria in tender processes, with providers playing a key role in achieving operational net-zero goals.
- There are concerns over the unintended consequences of setting a net-zero commitment, including around DB endgame planning and creating a global transition.

As the number of pension schemes and providers committing to net zero grows, Sophie Smith looks at whether this will be a real catalyst for change, or whether these promises will be easily made, and easily broken

Over the past year, the number of pension schemes and providers making commitments to net zero has ballooned, with the Aviva Investors *Real Asset Study*, revealing that 67 per cent of all pension schemes now have some form of net-zero commitment in place, up from to 47 per cent in 2020.

However, there has also been an increasing focus on making sure that these commitments are genuinely robust and meaningful, with the details of these objectives facing growing scrutiny. So where should trustees start when selecting the ingredients for an appropriate climate objective?

Aviva Investors head of UK and multinational DB pensions, Matthew Graham, suggests that there are two main considerations for trustees, both of which influence the timeframe a scheme allows itself to fulfil its net-zero commitment.

"The first is the measure of net zero trustees are committing to, whether they focus on Scope 1 or Scope 2 emissions or take a wider view of the supply chain to include Scope 3 as well," he explains. "The deeper the ambition, the longer the timeframe will likely need to be as it requires working with a greater number of stakeholders and to source a much broader range of the right data.

"A second consideration is what approaches to achieving net zero are at the disposal of trustees. The shorter the timeframe, the fewer tools there are likely to be. A target of net zero by 2025 can only really be achieved by adopting an exclusion-based approach and, whilst this would address the net-zero ambition of the scheme, it doesn't address the wider net-zero needs of society or contribute to positive change."

Choosing the right recipe

Graham suggests that, in contrast, setting longer-term commitments can allow schemes to invest in activities and providers that are helping to accelerate, and benefit from, the transition to a low-carbon economy.

However, Mercer UK sustainability integration lead, Vanessa Hodge, argues that focusing on a target that is very far in the future could come at the expense of delaying action today, arguing that this is "the important element".

"Trustees need to avoid carbon myopia and resist the temptation to focus solely on reducing carbon exposure," she says. "They must be mindful of their broader strategic investment objectives when setting out their net-zero commitment timeline, managing exposure to climate-related risks and taking advantage of transition opportunities."

Yet Hodge agrees that wholesale divestment would have "insignificant real-world impact", suggesting that a more impactful approach would be to contract with asset managers who will seek out and invest in the companies that will be part of the climate transition.

Barnett Waddingham associate and head of sustainable investment research, Eva Grace, meanwhile, argues that whilst timeline can be important, it may be "somewhat of a red herring".

"Companies are in control of their emissions, but pension schemes do not control the business strategies of the companies that they invest in, and therefore don't control their emissions," she says. "Therefore, if a pension scheme wants to be 'net zero' long in advance of global consensus (2050ish), then it could limit their investible universe."

Instead, Grace suggests that trustees consider the motivation behind their climate objective, explaining that if it is aiming to help the world achieve net zero, then it may want to invest in strategies that help fund the transition, and accept that their investments will have high emissions today, and in the medium term, as a result.

"The UK can only meet its net-zero target when the entire economy achieves net zero so there is merit in working collaboratively and supporting industry initiatives," she continues.

Adding to this, Hodge emphasises that climate change is a global issue, warning that trustees need a good

understanding of any unintended consequences of action taken as part of a decarbonisation strategy.

"As an example, looking at climate metrics in isolation may lead to the conclusion that removing an allocation to emerging markets is a quick way to reduce climate risk," she say. "This ignores the strategic reasons for investing in emerging markets and the need to support these regions to help with their transition away from fossil fuels."

"Trustees face a difficult question when it comes to choosing how they wield their considerable influence and assets," agrees Ross Trustees associate, James Fitzsimmons. "For example, should they engage with assets and funds that have not yet met their ESG goals and/or operate in sectors that create high levels of pollution, or exclude them? When considering a just and/or global transition, it does not seem to be acceptable to leave an area to fall behind."

However, Grace suggests that this is where investing in the transition itself can play a role, explaining that by providing funding to companies that are high emitters now, but have credible plans to reduce their emissions over time, investors can allow them time to have more of a chance at a just transition.

"Of course, there are some companies that will not survive this transition," she clarifies, "so it's about making sure your investment manager engages with their portfolio companies to identify and avoid these."

In addition to this, Sackers partner, Stuart O'Brien, draws attention to the practical implications of net-zero commitments, noting that trustees will also need to be mindful of their fiduciary duty when making such targets.

He says: "Broadly speaking, a trustee statement that it will pursue a net-zero strategy will still leave a wide discretion as to the methods by which the trustee will, in practice, decarbonise the scheme's investment portfolios in a way that is consistent with achieving global net-zero greenhouse gas emissions by 2050. In other words, the making of the commitment should not fetter the trustee's future investment discretion."

Appointing a like-minded sous-chef

However, the definition of net zero that a scheme decides upon could impact whether it will need to include its supply chain and if questions regarding the alignment of interests across different groups are needed, according to Graham.

"In this situation, schemes might consider working with providers that at least understand their net-zero commitment or ambition and can help them to align better with those interests."

O'Brien also warns that trustees will need to consider whether they are setting mandates with managers that incorporate net-zero strategies in terms of scheme assets, or selecting third-party advisers and other providers that have their own net-zero commitments vis-à-vis their business operations. "In relation to the former, trustees need to bear in mind their fiduciary duties as set out above", he says, clarifying that they "probably have a lot more discretion in relation to the latter".

And Fitzsimmons says that it is becoming more common during tendering exercises for third-party service providers to highlight their own environmental targets and roadmaps for carbon neutrality.

"Fund managers in particular often lay out how their strategies and asset allocations are making a difference and are increasingly a deciding factor in trustees' selection criteria," he says, noting that administration and communication can also have a "huge impact" on member behaviours, particularly those in DC arrangements.

DB arrangements, meanwhile, may have other areas to consider when setting net-zero targets, as Hodge identifies climate risk management capabilities as a key criteria in the selection process for placing business with an insurer.

She says: "Trustees with a long-term objective to buyout should assess the climate-related risks in their investment strategy, and the exposure of the corporate sponsor to climate risks, to better understand the likelihood of the funding plan getting derailed by a climate shock event."

Avoiding a sour taste

Graham also argues that "it is right to ask whether the fiduciary duty of scheme trustees extends to ensuring that the net-zero path they put members on is upheld by the insurance company member liabilities are being transferred to".

And there may soon be regulatory requirement for this, as Fitzsimmons notes that the reporting framework laid out by the TCFD will require schemes to publicly report on the climate change risks associated with trustee decisions.

"The requirements will introduce new monitoring standards that will be embedded in virtually all key areas of scheme governance and will be at the forefront of trustees' minds when it comes to activities such as choosing an insurer responsible for providing members' pensions after a scheme has wound up," he states, suggesting that this increased reporting will help trustees better understand the challenges and implement successful strategies.

In the meantime, however, he warns: "Misaligned assets that experience unwanted volatility at the wrong point in time can be very problematic when purchasing annuities and will need to be carefully considered."

Indeed, Grace also raises concerns that having an ambitious net-zero commitment could limit the buyout provider options available to schemes.

"For example, if a pension scheme has a 2030 net-zero commitment, will it only be able to buyout with insurers who have a net-zero commitment of 2030 or sooner?" she queries. "This is a bit of a far-fetched example, but we do think that trustees should try to foresee any unintended consequences of their commitments.

"On the positive side, as insurers 'green' their portfolios, pension schemes with more sustainable investments may see closer buyout pricing alignment and be more attractive to insurers (particularly those schemes seeking in specie buyout transfer)."

This is echoed by Legal & General ESG investment manager, Matyas Horak, who explains that trustees pursuing a net-zero strategy should be helpful as they then own assets that an insurer would wish to hold.

He warns, however, that the 'in specie' transfer of assets could present a challenge, as insurers will not want to add high carbon-emission assets to their investments.

"Trustees would either need to sell these ahead of paying the premium across or would need to pay the insurer the transaction costs for selling the assets if the assets are transferred in specie," he continues. "There is clearly a wider risk to the pension scheme if the assets become 'stranded'."

K3 Advisory, managing director, Adam Davis, suggests that pension scheme trustees are increasingly considering insurers' positions regarding ESG factors, clarifying that the situation is "more complex and involves more thought" for full buyouts.

Despite this, Davis emphasises that, ultimately, buyout is about securing individual scheme members' benefits and making retirement provisions secure.

"Members shouldn't be penalised as a consequence of decisions made by the trustees or the scheme's sponsoring employer," he says. "If an insurer has concerns with the trustees' investment strategy then buyout is a neat way of solving it, as the scheme's assets will usually be sold and the insurer will then invest in line with their own ESG principles."

This is echoed by Rothesay head of investment strategy, David Land, who stresses the need to work with pension schemes to support them in their journey to secure members' benefits in full.

"If one scheme has a more carbon intense portfolio than another this wouldn't currently impact our decision to quote so long as the scheme met our liquidity criteria," he says.

"Our expectation is that shortly after taking on any pension scheme we would transition their portfolio/premium received to our target portfolio, and in this regard liquidity is our key requirement. Therefore, the key thing for trustees is to ensure that any assets they hold are liquid."

Written by Sophie Smith

Complementing, not contrasting

Pete Carvill explores how pension schemes can use a mix of LDI and CDI strategies

Summary
- LDI and CDI strategies are complementary, not binary.
- The majority of DB schemes are now implementing LDI strategies, with CDI use growing.
- Increased inflation should not be a huge issue for well-hedged schemes.

The challenge for defined benefit (DB) schemes is not to make as much money for their pensionholders as they can, but to ensure that what goes out meets and matches expectations. It is a balance and an aim that takes expertise, knowledge, and experience in order to get right.

Two strategies by which funds have tried to achieve this aim in recent years have been liability-driven investment (LDI) and cashflow-driven investment (CDI).

First, some definitions. Abrdn says of LDI strategies: "These seek to invest in assets that will mirror the interest rate and inflation exposure within the liabilities. They therefore act as a hedge against movements in the liabilities."

Meanwhile, the same company defines its counterpart thus: "A CDI strategy selects assets that provide contractual income to match, as far as possible, the future expected cashflow requirements of the pension scheme. By matching cashflows, the assets are intended to be held to maturity and so provide a greater level of certainty over return."

Who is using these strategies?

Assessing the popularity of both strategies is difficult, but there are some indications as to how they are used across the UK's DB schemes. A recent report from Mercer called *Investing in the Future,* published in 2021, found that the majority of pension schemes in the UK used LDI strategies to hedge liability risk. Mercer found, through its survey of around 460 schemes, that more than 80 per cent of funds with between €50 million and €2.5 billion in assets were using LDI strategies.

This proportion, however, dropped among the smaller schemes. Just over two-thirds of those with fewer than €50 million in assets reported that they implemented LDI strategies. Going up in increments (€50-€100 million, €100-€250 million, €250-€500 million, €500 million-€1 billion, €1-€2.5 billion, and over €2.5 billion of AUM), Mercer found that the percentage of schemes implementing LDI strategies peaked and troughed, going from 67 per cent, to 89 per cent, to 84 per cent, and to 96 per cent between <€50 million and €250-€500 million of AUM, before falling to 86 per cent and 81 per cent, gradually dropping to 72 per cent at the far end of the spectrum.

Legal & General Investment Management (LGIM) reports similar statistics attesting to the popularity of LDI strategies. The company's senior solutions strategy manager, Robert Pace, says: "The average LGIM LDI client was around 80 per cent hedged at 30 September 2021, which is a 3 per cent increase since the end of 2020. Whilst some schemes will still need to play catch up, the majority have made the hard yards already."

He adds: "At the same time, 2021 has been an incredible year for funding levels. LGIM's Funding Level Tracker showed a gain of 84 per cent to 93 per cent over the same time period and that is consistent with industry data from the Pension Protection Fund. This has caused a step change in the demand for CDI strategies, as schemes look to de-risk further by ensuring they hold sufficient contractual cashflow generating assets to pay their liabilities."

Against this, the make up of the country's DB schemes is shifting. Mercer's *Investing in the Future* reports that over three-quarters (76 per cent) of respondents saying that their plans were cashflow negative, meaning that they were paying out more in benefits than was being paid in. This was an increase of 10 percentage points from the previous year. And, as Mercer points out, "of the cashflow-positive schemes, the proportion (93 per cent) expecting to become cashflow negative within the next 10 years has also increased compared to last year".

This is a trend that others have noted. Insight Investment head of solution design, Jos Vermeulen, says that many funds are moving towards CDI strategies due to the wins and gains they have made in their investments in recent years.

Vermeulen says: "More and more are able to lock down the cashflows risk by investing in CDI strategies. That's because of the funding improvement that we've seen over the past few years."

The above may make it sound as if LDI and CDI strategies are a binary in that having one precludes a fund from using another. But those speaking to *Pensions Age* often use the word 'complementary' when describing the pair.

These include Russell Investments head of strategic client solutions, David Rae. He says that it was not a case of choosing one or the other, adding: "They complement each other. LDI, from its beginning about 15 years ago, was about serving as a facilitator to allow pension schemes to hedge interest rate and inflation risks in the right place. It meant that they could go and invest the portfolio in things like equities, corporate bonds and private assets in order to get the returns that needed. It was this kind of balance that has really worked well."

Rae adds: "The way I approach it is to think about what the objective is that you are trying to meet. The typical assets that you'll see in a CDI strategy are things like high-quality corporate bonds and maybe some secure income assets. Those things have interest and inflation sensitivity, which means that they can help support an LDI strategy."

Rising inflation

Recent months have seen inflation surge around the world. While the rule of thumb with most central banks is that inflation should be kept at or near to 2 per cent, reports in recent weeks have seen inflation within the US and Germany rise to 6.8 per cent and 5.2 per cent. And the beginning of December 2021 saw the Bank of England's monetary policy chief, Ben Broadbent, say that he expected inflation within the UK to 'comfortably' top 5 per cent in the first quarter of the year.

Other organisations and figures are warier about prospect of increased inflation. Alpha Real Capital, in November 2021, put out a paper called *Will Inflation Take Off? How Can this Risk Be Managed?*

In this, Alpha Risk Capital wrote: "[…] a significant proportion of pension fund investors (over 70 per cent) see a moderate or high risk that higher levels of inflation may persist in the longer term. Over half of the respondents also said they planned to increase their level of inflation hedging."

Increased inflation has a direct effect on pension funds, whose benefits are often predicated on increases in inflation. "In the UK, a lot of liabilities have inflation protection embedded into them, and it's a concern for schemes that they can ensure that their assets can deliver in times of increased inflation," Rae says.

LGIM head of solutions portfolio management, Guy Whitby-Smith, offers a more detailed take. He says: "For lower-hedged schemes, the recent surge in inflation has highlighted the need to have a strategy that protects against inflation increases. We have seen schemes increasing hedge ratios as a result."

He adds: "But even for the well-hedged schemes, what might previously have been considered to be second-order risks are increasing in comparative importance as funding levels improve. For example, our clients are being much more dynamic with inflation hedging when they look at pension increases linked to Limited Price Indexation. This can actually offer the opportunity to lock in gains by selling hedges when inflation rises and buying them back when inflation reduces."

Vermeulen says that the average pension scheme, having a high hedge ratio, will not have too much of a problem with increased inflation. The pensions industry, getting to this point and to this level of de-risking should, he says, give itself a pat on the back. "If they hadn't de-risked like this," he says, "then this rising inflation would have been a much bigger issue. But that's not been the case because they are so well hedged."

He concludes: "To the extent that inflation and the expectations around it have gone up, their assets have also increased because through LDI strategies, the industry has essentially bought for itself inflation exposure."

Written by Pete Carvill, a freelance journalist

Your good health

Pension scheme trustees have recently been urged by the regulator to be 'vigilant' of potential sponsor covenant changes in this current 'uncertain environment'. *Pensions Age* asks: How should trustees keep abreast of their sponsoring employers' financial health?

Behaviours that have worked for trustees over the pandemic include regular updates from sponsors on sales and short-term cashflow projections. These have made sure that schemes are still sufficiently backed. Regular dialogue has also enabled trustees to be aware of sponsors that are taking on more debt and Covid loans. Trustees can then ensure that pension schemes' rankings as a creditor are not disadvantaged.

In terms of managing schemes' assets liquidity stress testing has proven its worth so that pensions are still paid. This is particularly the case with some sponsors halting cash contributions being paid in while trustees are seeing significant swings in markets at the same time as being asked for LDI calls for collateral. Alternative and private assets have their place in portfolios by delivering return premiums in exchange for their illiquidity. However, the recent period has shown us that these allocations must be sized appropriately. Schemes with sponsors entering financial difficulties may need access to sufficient cash now.

The period has again shown the worth of de-risking journey plans. Many schemes have come through the pandemic with their funding levels now in better places to where they went in. Journey plans with pre-defined de-risked asset allocations have enabled schemes to de-risk to defend these gains. However, de-risked positions have also allowed schemes to have fallback positions should their sponsor covenants worsen with less investment risk needing to be adopted quickly.

SEI head of institutional group, EMEA and Asia, Ian Love

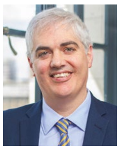
The start of 2022 promises to be a bumpy ride for many companies while volatile markets mean the risks that UK sponsors of defined benefit schemes must underwrite have increased. So too has the importance for trustees of monitoring not just the financial drivers of covenant but the underlying risks themselves.

A risk-based approach to monitoring covenant is now more important than ever, and needs to be tailored to the sponsor. For instance, sponsors in the travel industry are more likely to be impacted by travel restrictions, while luxury goods companies may find that the inflationary squeeze on consumer disposable incomes leads to reduced demand for their goods.

Engagement with the sponsor is a key part of any monitoring framework. A good level of communication with the sponsor and regular information sharing will not only allow emerging issues to be quickly identified, but also fosters a strong working relationship between the sponsor and trustees. Information-sharing protocols are best practice but should not be seen as a substitute for active engagement.

Finally, trustees need to think about what they can do in response if their covenant worsens. While automatic contingency plans may not be appropriate, knowing in advance what actions can be taken and what they can achieve will allow trustees to take swift action if needed.

Cardano Advisory director, Emily Goodridge



The Pensions Regulator is right to warn that Covid-19 has caused long-term damage to many employers. We've seen this in many different forms – from employers suffering a one-off shock, to others where their long-term outlook is much weaker in a post Covid-19 world.

Trustees need to think through what this means for their scheme, reassess their strategy and may need to ask themselves some difficult questions. For example, can the employer support the investment risk we are taking? Can we rely on the employer indefinitely, or do we need to target buying out the scheme?

A silver lining is that most pension schemes' funding levels have improved since the start of Covid-19. On average buyout funding levels are up around 5 per cent since the start of 2020. Some schemes may therefore find themselves needing to rely on their employer less than they did in the past, and may even find current conditions present an opportunity.

With so much change it is important to take stock, reassess whether your long-term plan and strategy still make sense, and monitor this closely as events unfold. Keep talking to the employer, and make sure your advisers keep you regularly updated on your progress towards your goals.

Barnett Waddingham partner, Paul Houghton

Pensions history

The money page of a newspaper

George Ross Goobey regularly spoke on pensions and investment management topics to student societies of the professional bodies. He kicked off 1962 on 12 January, by addressing the West of England Students' Society of the Institute of Municipal Treasurers and Accountants on the 'money page of a newspaper'.

In his opening remarks, he said that the idea of his talk was to encourage those whose career was to be a financial one, to get into the habit of reading, intelligently and regularly, matters of local, national and international financial interest. This is so they could keep abreast of financial happenings and also be more able to correctly interpret such information.

The major part of the financial page of a popular newspaper was generally given up to a recital of the previous day's closing prices of a selected number of stocks, together with the price variations from the day before. This led him to make some comments on share indices. For most investors it was a matter of convenience to have readily available, some quantitative measure of market performance, both for general information and as a basis of comparison with individual portfolios and specific stocks.

One of the best-known indices in the UK was that produced by the *Financial Times*. It was based on only 30 market leaders. The price of each stock on 1 July 1935 was equated to 100 and the subsequent index was the geometric mean of these prices after adjustments for rights issues etc.

Most financial pages included a summary of recent company results and dividends which gave a far better indication of the state of the country's industry than the level of stock exchange prices did.

The full text of the talk can be found in the George Ross Goobey collection at: www.pensionsarchive.org.uk/our-collections

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

Y	E	A	R	A	H	E	A	D	G	S	O	E	E
E	D	O	N	T	M	X	T	T	T	T	S	G	P
E	I	N	E	T	Z	E	R	O	R	N	D	G	T
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S	G	S	Q	K	N	U	W	I	L	V	W	S	T
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L	S	A	O	P	K	A	T	V	K	T	O	O	B
G	U	D	K	R	R	U	E	E	T	S	O	M	R
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LDI CDI
MANAGEMENT
MARKETS
NET ZERO
PREDICTIONS
SAVER KNOWLEDGE
TRUSTEE GUIDE
UK PENSIONS
YEAR AHEAD

I know that face...

Answer at bottom of page

I know that face... Answer: PMI director of policy and external affairs, Tim Middleton

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For full details and to apply visit www.pensionsage.com/jobs

closing date: 31st January 2022

Lancashire County Pension Fund

Appointment for Independent Investment Adviser

Lancashire County Council, as administering authority of Lancashire County Pension Fund (LCPF), is seeking an Independent Investment Adviser to provide strategic advice to its Pension Fund Committee and Investment Panel.

LCPF is one of the largest funds within the Local Government Pension Scheme, with assets of over £10bn, and provides a means of pension savings for approximately 180,000 members and 300 employers. Assets of the Fund are managed by the Local Pensions Partnership Investments Limited, a venture between LCPF, Lancashire County Council and London Pensions Fund Authority.

The appointment will be effective from March 2022 and is made in advance of the stepping down of one of the Fund's two current advisers in June 2022.

An information pack relating to this appointment can be found at:
lancashirecountypensionfund.org.uk/iia-appointment along with guidance on how to apply.
Any questions should be directed to Sean Greene, Head of Fund,
sean.greene@lancashire.gov.uk

The closing date for applications is Monday 31 January 2022. Interviews are expected to be held in February 2022.

lancashirecountypensionfund.org.uk/iia-appointment

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