Dashboards
Is the dash to build dashboards about to resume?

Master trusts
Whether consolidation remains the name of the game for DC master trusts

General levy
Why the leading proposal to change the general levy has sparked a backlash from small schemes

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January 2024

PENSIONS Age

The leading pensions magazine

The year ahead: *The deluge of proposals and initiatives that look set to transform the pensions landscape*

Pensions Ministers: *The highs and lows of the most recent Pensions Ministers*

Down but not out

The pressures facing the fiduciary management sector

Trustee Guide 2024: Rising to the challenge

Editorial Comment

2nd Floor, 5 Maidstone Buildings Mews, London. SE1 1GN

If, for the pensions industry, last year was the year of consultations, 2024 may be dubbed the year of implementation.

Implementation implies action, but if you're anything like me, after the Xmas hols and all the festive grub that has been consumed, you're not feeling particularly 'active'. (I've already stopped kidding to myself that this January will be the start of my new gym-based, healthy-living kick).

However, as we get back into the swing of work, we look ahead to a busy year.

In our feature on page 28, we explore the upcoming changes for the industry.

This includes the continuation of a very positive development from 2023, that of DB funding surpluses.

Within DC is the welcome extension of auto-enrolment boundaries – now if only we can see that go further by also increasing contribution rates in 2024. Meanwhile, the divisive DC pot-for-life proposal is sure to shake up the industry.

Implementing such a change will have its challenges, especially with so many other issues for the sector to work on at the same time.

On page 98, industry voices share what they feel will be the biggest pension obstacles for 2024. Those mentioned include buyout capacity concerns, cyber crime, and investment issues, be it effectively implementing sustainable investment practices or navigating a tricky macro-economic landscape.

Our feature on page 32 delves into this in more detail, highlighting the continued high interest rate and inflation environment expected for 2024, along with how the aftershocks from the mini-Budget of late 2022 continue to reverberate.

Caught up in its effects was the fiduciary management sector, which is now facing a particularly challenging time with its assets under management in decline, as our cover story on page 34 explores.

However, widely accepted as the biggest challenge for the pensions industry is government interference – particularly its increasing desire to use workplace pension assets to help prop up the UK economy. So much so that the PLSA recently announced that its top strategic priority for 2024 will be the role that pension schemes can play in supporting the UK economy.

This uncertainty of exactly how the government will continue to press the pensions sector is only matched by that other great political unknown – when this year the next General Election will be announced.

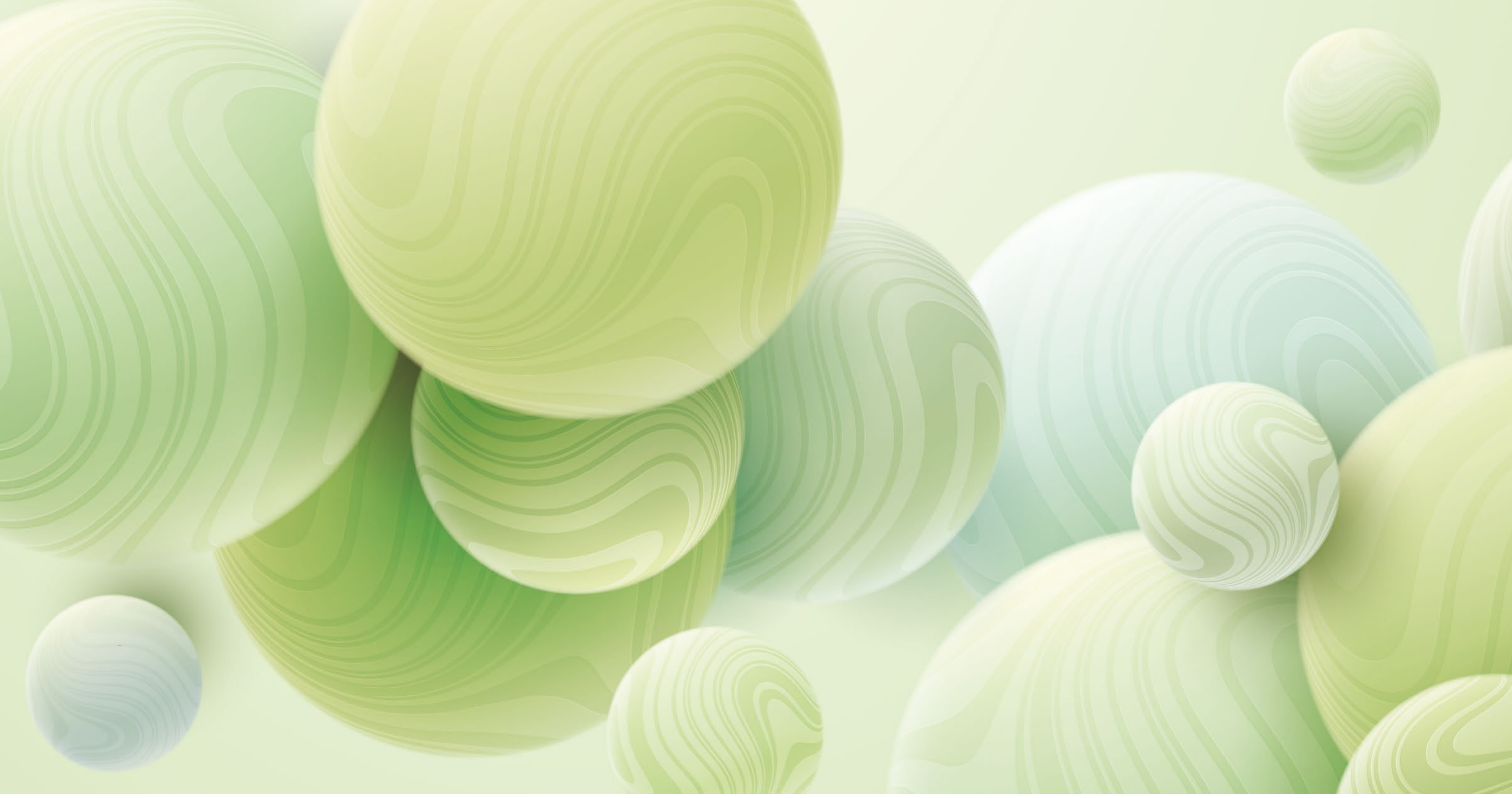
This will surely impact policy proposals (such as the Hokey Cokey with the Lifetime Allowance – is it in? Is it out? Do we shake it all about?) especially if we see a swing to a Labour government.

2024 may be the year of implementation but, right now, there is still so much uncertainty with what exactly will be implemented. Yet there is one thing I am confident to predict: The pensions landscape this time next year will look very different to the one we see now.

And you never know, seeing all these developments occur over the next 12 months may spur me on to finally implement that health kick. However, just like the industry, give me this year to convert talk to action…

"2024 may be the year of implementation but, right now, there is still so much uncertainty with what exactly will be implemented"

Laura Blows, Editor



COVER FEATURE

Theme: Taking stock

Features and columns

News, views & regulars

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Features & columns

Continued from page 5

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Dateline - December 2023

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

1 December A report from the **Pensions Policy Institute** (PPI) warned that the increase in private renting poses a threat to the future of the UK's pensions system and savers' retirement outcomes.

5 December The **Pensions Administration Standards Association** (Pasa) shared new guidance encouraging pension scheme administrators to ensure pension schemes are getting ready to meet their dashboard duties.

5 December The aggregate funding position for the 87 funds in the **Local Government Pension Scheme** (LGPS) improved further in October 2023 as gilt yields continued to rise, Isio's Low-Risk Funding Index revealed. The tracker showed that the aggregate LGPS funding position stood at 108 per cent as at 31 October, after an increase in UK government bond yields reduced the value of low-risk liabilities, partially offset by small reductions to asset values.

6 December The **Financial Services Compensation Scheme** (FSCS) announced that it had placed financial advice firm Inspirational Financial Management (IFM) under investigation and is considering claims against the company. IFM is one of the firms associated with claims regarding the British Steel Pension Scheme (BSPS), alongside DB pension transfer advice relating to other occupational pension schemes.

6 December The **Pension Protection Fund** (PPF) shared its annual *Purple Book* data, revealing that there has been a significant improvement in the net funding position of DB pension schemes in the UK amid a slight decline in asset allocations to bonds and equities *[read more on page 13]*.

7 December Pensions Minister, Paul Maynard, has said that 2024's independent review of **The Pensions Ombudsman** (TPO) could provide an opportunity to look at recommendations to review its arrangements to ensure pension savers have an adequate route of appeal *[read more on page 15]*.

7 December The Pensions Regulator (TPR) urged companies considering any merger and acquisition activity to engage with pension scheme trustees from the outset, emphasising that it will take action to ensure savers' interests are represented *[read more on page 10]*.

7 December Figures from **HMRC** revealed that the cost of pensions tax relief continued to climb in 2022/23, with income tax relief on pension contributions in 2022/23 reaching £25.4bn, marking a £5.5bn increase over the past five years. The figures showed that tax relief on national insurance contributions to registered pension schemes had also grown, reaching £25.9bn in 2022/23, an £8.6bn increase over the past five years.

7 December The **Work and Pensions Committee** (WPC) and Business and Trade Committee made further enquiries in relation to the Wilko Pension Scheme, after an evidence session with former Wilko chair, Lisa Wilkinson, prompted concerns around the future of the company's DB pension scheme.

8 December The **Financial Conduct Authority** (FCA) launched a consultation on three proposals to reform the advice/guidance boundary, including plans for a form of simplified advice *[read more on page 14]*.

11 December TPR updated its cyber security guidance to help tackle the ongoing threat posed by cyber criminals, urging pension scheme trustees to report significant cyber-related incidents.

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

11 December The **Financial Reporting Council** (FRC) revised its guidance on actuarial technical standards, particularly in relation to bulk annuity deals and potential superfund mergers.

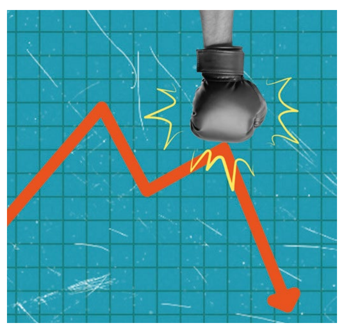
12 December HMRC has deferred plans to digitise relief at source (RAS) after discussions with the industry suggested that a solution for digitising RAS that could be delivered for April 2025 would not meet the needs of the largest schemes.

13 December Evidence from the **WPC**'s inquiry into the Norton Motorcycles pension liberation scam case revealed industry calls for the legislation surrounding the Fraud Compensation Fund (FCF) to be amended to enable it to provide compensation to pension scam victims more efficiently.

14 December The **PPF** confirmed that its target levy collection for 2024/25 will be halved to £100m, with the Department for Work and Pensions (DWP) to introduce legislative changes to allow for further cuts in future "when parliamentary time allows" *[read more on page 12].*

15 December The number of complaints received by **TPO** increased by 17 per cent between 2021/22 and 2022/23, its *Annual Report and Accounts* revealed *[read more on page 14].*

15 December The **Bank of England** (BofE) opted to hold base rates at 5.25 per cent for the third month in a row.



20 December The **Office for National Statistics** confirmed that the Consumer Prices Index (CPI) rose by 3.9 per cent in the 12 months to November 2023, the lowest rate in over two years.

21 December The **FCA** published proposals for new rules that aim to encourage firms to list in the UK and to establish a regulatory regime for a bond market consolidated tape. The consolidated tape is an electronic system that collates bond market data, such as prices and volumes, and disseminates it to investors. It will look to provide investors with trade and sales data quicker and more cheaply. Measures to increase the information that is published in real time were outlined, which the FCA said will improve the bond and derivatives markets' ability to establish a fair price, and help investors buy or sell.

News focus

TPR shares M&A and cyber security guidance; broader updates to follow

The Pensions Regulator shared updated guidance in a number of key areas before the end of 2023, with further updates to follow in 2024

The Pensions Regulator (TPR) urged companies considering any merger and acquisitions (M&A) activity to engage with pension scheme trustees from the outset, emphasising that it will take action to ensure savers' interests are represented.

Speaking at the UK Finance Corporate Finance Committee dinner, TPR chief executive, Nausicaa Delfas, acknowledged that pensions are at a moment of "significant change", moving from a one-scheme, one-employer environment to a marketplace of schemes and providers competing for business.

She also pointed out that, for a variety of reasons, DB pension schemes are currently very well-funded; "in fact the best they have been for at least 15 years".

"We estimate that as of September *[2023]*, over 80 per cent of schemes are in surplus on their technical provisions compared to around 50 per cent at the start of 2022," she said. "And over half of all DB schemes may have sufficient funds to buy out their liabilities with insurance companies should they choose to do so."

And with corporates and sponsoring employers on the hook, Delfas suggested that DB pension schemes' improved funding position may make businesses more attractive to M&A activity.

"As a regulator, when it comes to M&A activity, we are not here to prevent transactions – but we are here to make sure savers' interests are protected," she stated, stressing the need to ensure that the pension scheme is treated equitably alongside other creditors.

Responsibility for this lies across the board, as while Delfas identified trustees as the first line of defence for members, she confirmed that TPR also expects the outgoing and incoming executive management teams to support trustees in implementing a robust funding plan.

This, according to Delfas, should be underpinned by cash and or tangible security with proven value, which ensures members' benefits will be paid in full, on time and when contractually due.

"Where M&A activity takes place without mitigating against potential harms to the scheme, we consider that to be avoidance," she continued, pointing out that TPR has a number of anti-avoidance powers, including Financial Support Directions and Contribution Notices.

Delfas also noted that the government has committed to extending the type of events that trustees and employers must notify the regulator about under the Notifiable Events regime to support this, with the government set to bring forward final regulations "in due course".

Regardless of this, she argued that early engagement from corporates with both trustees and the regulator is key to ensuring a successful outcome in M&A activity.

In the meantime, Delfas said that TPR still expects trustees to reach out to the regulator, confirming that TPR will also take the initiative to talk directly to employers, group companies, third-party purchasers and banks.

"We can respond quickly to meet commercial deadlines through this process and will assess transactions where there is material detriment to the scheme, and to ensure there are appropriate mitigations in place," she continued.

"We also monitor market activity and proactively engage where we think there could be a risk to pension savers. Often that is where there are companies in distress but increasingly in relation to general M&A activity. Our intelligence team gather market intelligence, whistleblower reports, and information from other agencies, like HMRC or the insolvency service, sharing information where we have appropriate gateways."

Delfas also confirmed that both trustees and TPR are subject to strict confidentiality provisions, arguing that market sensitivity should not be seen as a barrier to engagement.

Those wanting extra assurance that the regulator will not use its anti-avoidance powers in the future can also approach TPR for clearance on a transaction, to ensure they don't face any "nasty surprises".

More broadly, Delfas suggested that, if trustees are receiving the information they need, have the required level of experience and advisory support, and are taking a robust approach in defending scheme members' interests – it's unlikely TPR will intervene.

However, Delfas stressed that, if that's not the case, and savers' hard-earned retirement incomes are threatened, TPR will intervene.

"First via supervision, where we will look to resolve risks consensually without the use of powers," she explained.

"But if agreement can't be reached, then escalating that engagement to an enforcement case. Using our powers is a last resort.

"Our goal is always to try and reach constructive solutions with both the trustee and the corporate."

Delfas' comments came hot on the heels of TPR's updated cyber security guidance, which aims to help tackle the ongoing threat posed by cyber criminals.

"We want industry to work openly and collaboratively together, and with us, to address the challenges of cyber threats and have a clear plan for when things go wrong"

In its guidance, TPR explained that pension schemes are at risk of being targeted by cyber-attacks because of the large amounts of personal data and assets they hold, stressing that trustees and scheme managers are accountable for the security of scheme information and assets.

Given this, the revised guidance aims to help trustees and scheme managers meet their duties to assess the risk, ensure controls are in place, and respond to incidents. It is also expected to be of use to scheme suppliers and advisers.

In particular, TPR has, for the first time, asked trustees and scheme providers to report significant cyber incidents, so it can build a better picture of the cyber risk facing the industry and its members.

"We are keen to work with the industry to ensure that savers are adequately protected, and share good practice and insight. Open and transparent dialogue is particularly important for handling cyber risk," TPR stated in the guidance.

"We are asking schemes, their advisers and providers to report significant cyber incidents to us on a voluntary basis, in an open and co-operative way, as soon as reasonably practicable. You do not need to conduct the full incident investigation before reporting to us."

However, TPR clarified that reporting an incident to the regulator does not replace existing legal requirements, such as the need to report a personal data breach to the Information Commissioner's Office (ICO) without undue delay.

The guidance also emphasised that trustees are legally required to report breaches of pensions law where these are likely to be of material significance, including where these arise from a cyber incident, for example if it leaves the scheme unable to process core transactions promptly and accurately, such as benefit payments.

Commenting on the new guidance, interim director of regulatory policy, analysis and advice, Louise Davey, said: "Cyber risk is complex, evolving and requires a dynamic response. It's a very real threat as we have seen from events this year. We want industry to work openly and collaboratively together, and with us, to address the challenges of cyber threats and have a clear plan for when things go wrong. Doing so will make us all more resilient to attacks.

"As part of this, we want to hear about cyber-related incidents so our understanding of issues improves in real time."

Written by Sophie Smith

PPF confirms plans to halve 2024/25 levy

The Pension Protection Fund (PPF) confirmed that its target levy collection for 2024/25 will be halved to £100m, with legislative changes to allow for further cuts expected to follow when possible

The Pension Protection Fund (PPF) confirmed that its target levy collection for 2024/25 will be halved to £100m, with the Department for Work and Pensions (DWP) to introduce legislative changes to allow for further cuts in the future "when parliamentary time allows".

The news was confirmed as the lifeboat shared its final levy rules for 2024/25, revealing that it would push ahead with a 50 per cent reduction in its target levy collection to £100m next year, down from £200m in 2023/24.

This is the lowest-ever levy charged by the PPF since it came into operation in 2005, and almost all PPF-eligible defined benefit (DB) schemes in the UK are expected to see a further reduction in their levy next year as a result.

However, the PPF acknowledged that its ability to reduce the levy further is, in effect, constrained by current legislation, with a number of industry organisations previously raising concerns around the current PPF levy framework.

The issues stem from legislation introduced when the PPF was set up nearly 20 years ago, which aimed to protect levy payers from sharp rises in the levy by imposing a limit of 25 per cent on year-on-year increases.

However, this now effectively constrains how low the levy can fall without damaging the PPF's ability to respond to a funding challenge should one arise in future.

And whilst the majority of respondents understood and supported the PPF's approach given legislative constraints, almost all felt strongly that legislation should be changed as soon as possible to allow the PPF to move to a much lower or even a zero levy.

The PPF also said that it "appreciates and fully agrees" with many respondents' comments that this was a less than ideal situation, confirming that it has been actively engaged with the DWP on the legislative changes that would allow more flexibility in future.

The lifeboat also confirmed that it has shared the consultation responses with the DWP, which will consider the points raised and expect to legislate as soon as parliamentary time allows.

PPF executive director and general counsel, David Taylor, added: "Next year's target collection of £100m will be the lowest levy we've ever charged. As a result, almost all schemes will see a fall in their levy. The possibility of zero levy in future has come closer into sight. To further reduce the levy in future, we need legislative change; I'm grateful that DWP are considering this."

The PPF has also shared the findings from its latest annual *Purple Book*, revealing that there has been a significant improvement in the net funding position of DB pension schemes in the UK amid a slight decline in asset allocations to bonds and equities.

It found that the net funding position of the schemes it protects rose from a surplus of £193bn on a section 179 basis in March 2022, to £358.9bn in March 2023, with more than 80 per cent of schemes in surplus.

The report also highlighted a continued year-on-year acceleration in the improvement of funding levels, which have risen from a surplus of £47bn in March 2021.

However, the PPF has said that it cannot form a "meaningful estimate" of how much of the recent funding changes seen in DB pension schemes arose from the liability-driven investment (LDI) market disruption.

Work and Pensions Committee chair, Stephen Timms, previously wrote to the PPF to request more information on the impact of the LDI issues in autumn 2022 on the DB pension landscape.

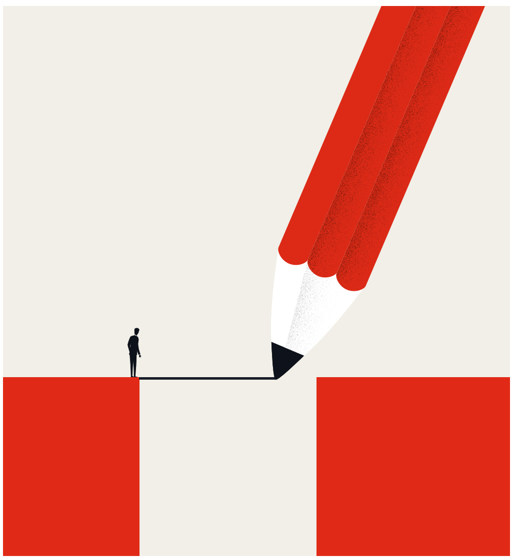
The PPF's response explained that its data is based on schemes' most recent s179 valuations and, in many cases, will not be current, as schemes are only required to complete a s179 valuation every three years. According to the PPF, the latest data provided by TPR from schemes' annual returns includes valuations that have been updated since September 2022 for only 15 of the 5,051 DB scheme universe.

It also confirmed that, even when it does obtain data for the other 5,036 pre-1 October 2022 schemes, it will not be possible to form a meaningful estimate of how much of the funding changes arise from the LDI market disruption.

Written by Sophie Smith and Jack Gray

FCA consults on plans to close the advice gap

The Financial Conduct Authority launched a consultation on three proposals to reform the advice/guidance boundary, including plans for a new form of simplified advice



The Financial Conduct Authority (FCA) has launched a consultation on three proposals to reform the advice/guidance boundary, including plans for a new form of simplified advice.

Plans for the advice/guidance boundary review were first announced as part of the Edinburgh reforms in 2022, with the FCA having also shared early findings from its review of the advice/guidance boundary earlier this year.

The consultation builds on this work, outlining three proposals designed to ensure that more savers can access advice or support to help make their money work harder, and help more people benefit from investment opportunities.

In particular, the consultation outlined plans to clarify when firms can give consumers support without giving regulated financial advice, alongside an innovative new approach allowing firms to provide support tailored to groups of people in similar circumstances.

The FCA's consultation also included plans for a new form of simplified advice that aims to make it easier for firms to provide affordable personal recommendations to clients with more straightforward needs and smaller sums to invest.

All three of the proposals aim to examine how innovation could expand the market to new forms of advice and support, driving competition to better serve consumers, while maintaining consumer protections.

This comes after previous research from the FCA found that only 8 per cent of UK consumers received full financial advice in 2022, with the watchdog warning that some savers may struggle to make the right choice without help.

Commenting on the proposals, Economic Secretary to the Treasury, Bim Afolami, said: "The gap between holistic financial advice that is unaffordable for many, and guidance that is free to access but not personal to the consumer, is simply too vast.

"This so-called 'advice gap' is excluding people with modest investments, who are looking for support that doesn't break the bank. This just isn't good enough – we have long needed a middle ground that is affordable and accessible. The policy paper that the government and the FCA have published today will explore how we can achieve exactly that."

FCA executive director of markets and international, Sarah Pritchard, added: "We want to open the door for more people to get the right advice or support to manage their money at the time they need it and at a cost they can afford. We've already helped firms test drive innovative solutions but we want to go further. This review will help us produce new rules to deliver this important step change for industry and consumers. It's important we get this right and we welcome feedback on whether the proposals are right for consumers and for businesses."

News of the consultation has also been welcomed in the pensions industry, with Royal London director of policy, Jamie Jenkins, highlighting the proposals as a "step-change" in tackling the advice gap.

Adding to this, Pensions and Lifetime Savings Association deputy director for policy, Joe Dabrowski, said that it was especially welcome to see pension scheme trustees specifically considered, suggesting that "the more clarity they are afforded with the support they can offer their members, the more tailored and appropriate guidance will be".

"Improving the framework through which savers have access to different forms of advice and guidance is a top priority, especially as complexity around individuals' financial decision making increases," he continued.

"The role of trustees and employers, who can support and help them navigate these choices in their best interests, throughout their working life and at retirement, is essential. People struggle to engage with their pension for a range of reasons from complexity to behavioural biases, short-termism and a lack of confidence. Having the right guidance in place will play a vital part in addressing these issues."

Written by Sophie Smith

Complaints received by TPO rise by 17%; review to launch in 2024

Complaints received by The Pensions Ombudsman increased over the past year, although the upcoming review of TPO is expected to provide an opportunity to ensure pension savers have an adequate route of appeal

Pensions Minister, Paul Maynard, has said that next year's independent review of The Pensions Ombudsman (TPO) will provide an opportunity to look at recommendations to review TPO's arrangements to ensure savers have an adequate route of appeal.

The Work and Pensions Committee (WPC) previously wrote to then-Pension Minister, Laura Trott, to ask the government to reconsider the Public Account Committee's (PAC) recent recommendations on the AEA Technology (AEAT) Pension Case.

MPs urged the government to show what more it will do to help people make informed financial decisions and have appropriate routes of appeal, after the PAC highlighted the case of the AEAT scheme as "another case of government not giving people enough time or support to make complex financial decisions".

In his response, the new minister confirmed that the government still agrees with the PAC recommendation that it should review ombudsman arrangements to ensure that all aspects of people's interactions with their pensions have an adequate route of appeal.

He stated: "TPO can already consider complaints regarding the Government Actuary's Department (GAD) that fall within his jurisdiction.

"The legislation governing TPO was changed in 2004 to allow the consideration of complaints about persons undertaking an act of administration concerned with a scheme, such as GAD might provide, in addition to complaints about persons directly concerned with the administration of a scheme.

"This legislative change does not apply retrospectively, or override statutory time limits, so does not encompass complaints about the information provided by GAD in 1996. It does, however, provide a wider route of appeal for complaints about GAD, providing they meet other jurisdiction criteria for TPO."

Maynard suggested that next year's independent review will also provide an opportunity to look at this recommendation in respect of the ombudsman.

However, he said that wider ombudsman powers are "a complex issue that goes beyond Department for Work and Pensions' (DWP) remit".

Given this, he confirmed that he has asked DWP officials to engage Cabinet Office to provide an update on the wider picture, outside the DWP's portfolio, and understand the considerations that may have been made in this area on the committee's concerns.

The update from Maynard also followed TPO's *Annual Report and Accounts*, which revealed that the number of complaints received by the ombudsman increased by 17 per cent between 2021/22 and 2022/23.

During the year, the number of complaints rose from 6,216 to 7,280, which TPO said highlighted the continuing increase in demand.

TPO's report also detailed that the number of complaints its had closed rose by 49 per cent year-on-year, from 5,221 to 7,784.

This meant that TPO closed more complaints than it received in 2022/23, which it said was due to new ways of working that drove efficiencies and some additional funding from the Department for Work and Pensions that provided additional resource.

Despite the improvement in the number of complaints closed, TPO warned that waiting times continued to be a significant issue and that addressing this was a main priority.

Of the 7,784 complains closed, 5,438 were closed at the application and assessment stages, 1,572 were resolved informally through TPO's Early Resolution Service, 774 were resolved through its adjudication teams, and 326 were closed through formal determinations.

Around 51.2 per cent of determinations by TPO were either partly upheld or fully upheld.

The report also confirmed that TPO has secured funding to continue to work of the Pensions Dishonesty Unit (PDU) published its first determinations this year until March 2025.

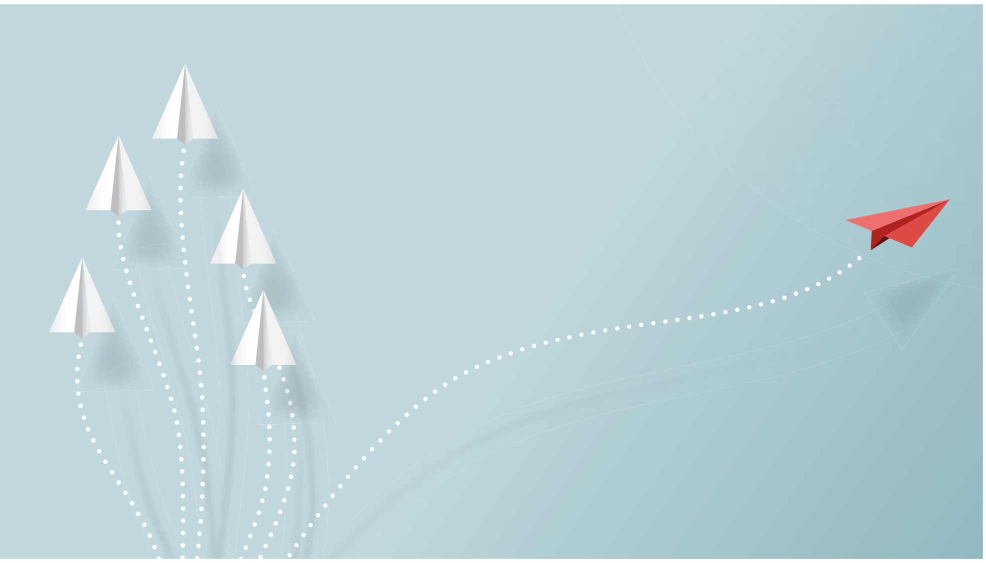
Commenting on the report, pensions ombudsman, Dominic Harris, said: "This is my first annual report as pensions ombudsman and my team should be very proud of what they have achieved.

"However, there is more work to do in order to meet rising demand and provide an excellent service. Reducing existing waiting times is our top priority and this annual report shows that with the right tools we are in a good place to meet the challenges that face us."

Written by Sophie Smith and Jack Gray

FRC shares revised bulk transfer technical standards

The Financial Reporting Council revised its guidance on actuarial technical standards, particularly in relation to bulk annuity deals and potential superfund mergers



The Financial Reporting Council (FRC) has revised its guidance on actuarial technical standards, particularly in relation to bulk annuity deals and potential superfund mergers.

In version 2.0 of *Technical Actuarial Standard 300: Pensions (TAS 300)*, the FRC detailed requirements for the provision of advice on setting actuarial factors and on bulk transfer exercises, including buyout transactions with insurers and transfers to pension superfunds.

The FRC explained that practitioners providing advice to a governing body or an employer that is considering a bulk transfer, must consider alternatives to the potential transaction for the long-term provision of members' benefits.

These include retaining liabilities within the existing pension scheme with additional funding or security.

They must also examine any material impact on the protection provided for members' benefits in the event that the benefits are unable to be paid as intended; any changes in the material risks to the benefits of the different classes of members; and any changes to the governing body's ability to make decisions that affect the level of members' benefits.

The new document also said that practitioners who have relied on input from a third party should understand how the input affects the output of their technical actuarial work.

In addition, practitioners providing advice to a governing body or an employer that is considering a bulk transfer to a superfund must use assumptions in relation to buyout pricing that reflect current and anticipated future market conditions and insurers' practice.

They must also ensure that the models used are calibrated appropriately to reflect the time horizon of projections.

The FRC said it is also considering feedback received in relation to TAS 310, which sets out the requirements to collective money purchase pension schemes and will issue a separate feedback statement and impact assessment in due course.

FRC executive director of regulatory standards, Mark Babington, said defined benefit pension schemes have a significant potential to support economic growth through greater investment in the productive economy.

"High quality actuarial work will support a well-functioning marketplace for 'endgame solutions' such as insured buyouts and transfers to superfunds," he explained.

"The revisions to TAS 300 reflect the FRC's commitment to promoting high-quality actuarial work in this sector and increase public confidence in this market as it develops."

The update comes amid a busy time for the bulk purchase annuity market, with LCP suggesting recent record demand could see two new entrants enter the bulk annuity market in 2024, either through the acquisition of one of the existing nine bulk annuity providers or as new providers.

The consultancy noted that rising activity in the market has attracted new capital providers looking for ways to participate in the growth of the UK buy-in and buyout space.

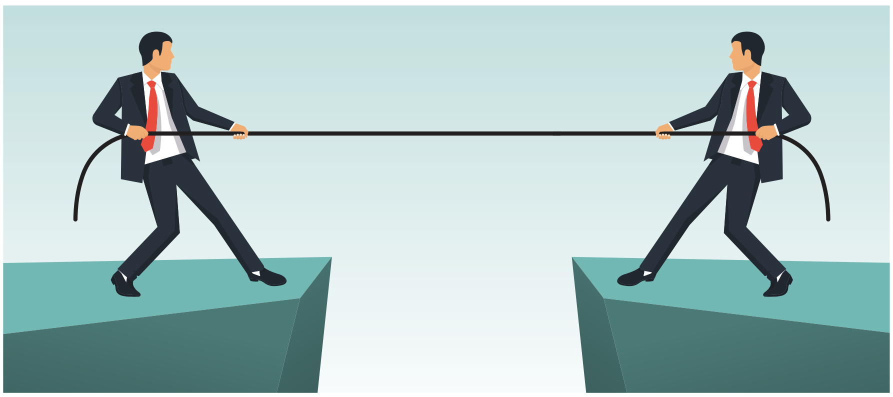
This included current UK insurers, overseas insurers and a range of investors expressing appetite to join the market.

LCP estimated that 2023 will finish on around £50bn of buy-in and buyout transactions, exceeding the record £43.8bn of deals in 2019.

Written by Jack Gray and Marek Handzel

DB pensioner groups raise concerns

DB pension scheme member groups are gaining traction, with a number of groups and unions raising concerns around members' pension values, and buy-in decisions



The BP Pensioner Group announced that it has begun a legal process against senior members of BP management and directors of the BP Pension Fund Trustee, following concerns around the value of members' pensions.

The dispute centres around decisions made by BP and the scheme trustee in 2022 and 2023, which, according to the BP Pensioner Group, led to an 11 per cent fall in the value of the pension in real terms.

This is not the first time that the group has raised concerns around this issue, having also previously called for an investigation into the potential breaches of BP's code of conduct and values regarding the BP Pension Fund.

And, following on from the appointment of Andrew Spink KC and solicitors Stephenson Harwood, the BP Pensioner Group confirmed that confidential legal letters have now been issued to senior members of BP management and directors of the BP Pension Fund Trustee.

The letters rely on statements made over a significant period of time by both BP and the trustee about how pension increases will be dealt with and require them to explain why, in light of this, increases were provided at substantially lower levels than they could have been.

The trustee was asked to reconsider the relevant pension increases and liaise with BP on a potential increase.

The group warned that, if adequate responses are not received, it will have "little option" than to escalate its own legal response until/unless pension increases at an adequate level are restored.

Whilst BP did not agree to a request from the trustee for an additional discretionary increase of 4 per cent, which would have made a total increase of 9 per cent, it said that "this was a difficult decision that BP took only after carefully considering many factors".

Instead, BP provided additional funding to provide support to those most in need, with a one-off, means-tested cost-of-living assistance grant to be paid to BP pensioners on lower incomes.

However, Slingsby argued that "resorting to a one-off charity handout shows a leadership failure to grasp the seriousness of this wholly unnecessary dispute in which BP's pensioners have seen the value of their pensions significantly cut in real terms".

Meanwhile, members of the Boots Pension Scheme raised concerns after the scheme's buy-in with Legal & General (L&G) removed the option to take a full pension from age 60, The Pharmacists' Defence Association (PDA) has revealed.

The union confirmed that its members have sought support after recent communications from the trustee of the scheme explained that the decision to secure a buy-in with L&G included the removal of the option to take a full pension from age 60.

In particular, the union argued that there was "insufficient evidence" to fully support the trustees' claim that the option to take an unreduced pension from 60 was discretionary and not a right.

"We believe benefit statements issued to members, at the very least are contradictory, and clearly state that a full pension will be payable from a member's 60th birthday, with no reference to this benefit being discretionary and therefore subject to a regular review by the trustees," PDA Union national officer, Paul Moloney, explained.

"Instead, the benefit statements give the impression that an unreduced pension from 60 is a right with no indication that retirement plans should not be based on the benefit statements." And whilst Moloney recognised the potential advantages a buy-in can bring to the overall security of benefits, he argued that "it is important that it is done correctly".

The Boots Pension Scheme, BP Pension Trustee and BP Group were contacted by *Pensions Age* for comment.

Written by Sophie Smith

USS reduces employer and employee contribution rates

Following the scheme's 2023 valuation, an agreement was reached to return contribution rates to pre-April 2022 levels

The Universities Superannuation Scheme (USS) confirmed that it will cut both employer and employee contributions rates from 1 January, following the completion of the 2023 valuation.

The scheme previously announced that member benefits would return to pre-April 2022 levels by 1 April 2024, after funding improvements meant that improving benefits to pre-April 2022 levels was "demonstrably sustainable" for at least the next two valuation cycles.

As part of this, it will reinstate the previous accrual rate of 1/75, as well as increase the defined benefit threshold from £40,000 to around £70,000, and remove the 2.5 per cent per annum cap on pension increases.

There will also be an additional one-off pension payment of around £900m to help make good the money members have lost since April 2022.

The changes have now been confirmed following an employer-led consultation, with responses to the consultation "overwhelmingly positive", and no modifications made to the contributions and benefit changes proposed by the Joint Negotiating Committee (JNC).

This means that employee contributions will be cut from 9.8 per cent to 6.1 per cent, providing a £111 monthly saving for a member earning £45,000.

The USS trustee suggested that the cut in pension contributions could also help to address opt-out concerns, noting that a fifth of eligible members opt out of the scheme altogether – with the most common reason for opting out of the scheme being affordability.

"We hope member contribution rates coming down will prompt people to look at whether the scheme now works for them," the trustee stated.

With the 2023 valuation now settled, the trustee confirmed that it would be turning its attention to the process of reviewing the scheme's investment strategy, with a formal consultation on the Statement of Investment Principles due to take place in spring 2024.

"The improvement in the funding position and broadly positive experience since the valuation date – alongside the desire for greater stability – provide us with a greater range of options to consider," the trustee stated.

Written by Sophie Smith

NEWS IN BRIEF

Haag-Streit UK's legacy DB pension scheme secured an £18m full-scheme buy-in with Aviva.

Boutique investment manager **River and Mercantile** announced that it has rebranded as River Global.

The **Pensions Policy Institute** warned that the increase in private renting poses a threat to the future of the pensions system, describing the changing home ownership patterns as a 'fault line' opening beneath the pensions system.

Railpen shared a new framework to help DB investors assess their capacity to invest in illiquid assets, showing how liquidity buffers can help determine the appropriate level of illiquid exposure.

The **Communisis DB Pension Scheme** is set to enter the Pension Protection Fund assessment period, although discussions are underway to deliver a "much improved" long-term outcome for members, the scheme trustee has confirmed.

The **Chemring Group Staff Pension Scheme** completed a £65m full buy-in with Pension Insurance Corporation, securing pension benefits for 485 current and 328 deferred members.

Former **Wilko** chair, Lisa Wilkinson, has faced further scrutiny over the group's DB pension scheme, with Work and Pensions Committee chair, Stephen Timms, and Business and Trade Committee chair, Liam Bryne, querying whether Wilkinson would agree that there is "at least, a compelling moral case that the family should forego a small proportion of its wealth to fill the £50m hole in the pension fund".

WTW announced the launch of a new "climate course", designed to provide trustees with the understanding of climate change they need to fulfil their fiduciary responsibilities.

Appointments, moves and mandates

The KBR UK Limited Pension Plan has appointed Legal & General Investment Management (LGIM) as its new fiduciary manager.
One of the largest mandates of its kind, the initial transition of over £1bn assets was completed by LGIM in December 2023. As part of the mandate, LGIM will be taking over management of the scheme's strategic asset allocation, with the recent transition to a new segregated liability-driven investment (LDI) credit and bespoke growth portfolio placing a strong focus on meeting the scheme's requirements. LGIM will also be assisting the scheme in the restructuring of its private markets portfolio to further improve portfolio liquidity in preparation for buyout, as part of the mandate focuses on investing in bonds that are "matching-adjustment eligible" under the insurer Solvency requirements.


Louise Stokes

TPT Retirement Solutions has named Louise Stokes as its head of finance.
Stokes is expected to play a pivotal role in TPT's financial management, including reporting, analysis, and payroll. A chartered accountant with more than 10 years of experience in accountancy and fund administration, she initially joined TPT in 2017, originally as a financial accountant and more recently as financial accounting manager. Prior to this, she served as a financial analyst and team leader at Capita Asset Services for over five years. Reporting into TPT finance director, Dominic Sutton, she will be responsible for TPT's financial strategy and management.


Miki Fairfax

BestTrustees has appointed Miki Fairfax as a professional trustee.
Fairfax, who joined the firm on 1 December, has a deep knowledge of the financial markets, with a background in economics, and more recently has become involved with defined benefit pension schemes. She initially gained her expertise working on the trading floor, where she specialised in derivatives prior to advising on financial risk management strategies for property and private equity companies. In addition to this, Fairfax is also a trustee of Uppingham School, acting as both chair of the investments sub-committee and as a member of the pensions committee.


Tom Mullally

Origo has appointed Tom Mullally as chief product officer.
Mullally began his career with NatWest before moving to Deloitte. Since then, he has also acted as chief product officer working on product and business development with two payments companies. The newly created role is expected to boost Origo's ability to connect the industry and help generate greater efficiencies. Origo CEO, Anthony Rafferty, said: "Tom brings a wealth of experience to the Origo team, which will help us expand our horizons, with the opportunity to create a bigger impression not only in our traditional market but in similar areas."


Angela Staral

People's Partnership, provider of The People's Pension, has appointed Angela Staral as chief operating officer (COO), effective from February.
Staral joins from Goldman Sachs, where she was COO of investment banking engineering. Prior to this, she also worked for HSBC, ING, Sopra Steria and Mercedes-Benz Financial Services, and has lived and worked in Berlin, Frankfurt, Singapore, New York and London during her 20 years in financial services. In her new role, she will oversee all customer operations and servicing at People's Partnership.
Commenting on her appointment, Staral said: "I am delighted about joining People's Partnership. To help people build stronger financial foundations for life is a purpose that deeply resonates with me, and I am incredibly excited to play an instrumental part not only in People's Partnership's growth plans but also to join in its unwavering commitment to customer-centricity. This is a business packed full of people who want to make a genuine difference to the millions of customers they serve, and I am looking forward to joining them to further improve that already excellent service."
Adding to this, People's Partnership chief executive officer, Patrick Heath-Lay, said: "We are thrilled to have Angela onboard as her experience at some of the world's best-known companies will only benefit this organisation. Angela's commitment to delivering excellence will enable us to continue to improve the service we offer to our growing membership."


Anthony Arter

The Department for Work and Pensions has appointed Anthony Arter as the interim chair of The Pensions Ombudsman (TPO).
Arter brings a range of industry experience to the role, including as former pensions ombudsman, and deputy pensions ombudsman and deputy Pension Protection Fund ombudsman. He succeeds Caroline Rookes, who sadly passed away in 2023, after serving as chair of TPO since September 2019. However, the DWP confirmed that this is an interim appointment, with a recruitment campaign to be undertaken to fill the position permanently. In his capacity as interim chair, Arter will be entitled to an annual remuneration of £24,000, based on a minimum time commitment of 36 days per year. Commenting on his appointment, Arter stated: "It is with mixed emotions that I have accepted the role of TPO's interim chair following the unexpected, sad and untimely death of Caroline Rookes. However, it is an honour to have been appointed and I look forward to working with my fellow non-executive directors supporting the pensions ombudsman, Dominic Harris, and his colleagues, in order to meet the organisation's strategic objectives."
Adding to this, Pensions Minister, Paul Maynard, said: "I am pleased to welcome Anthony Arter CBE as the interim chair of TPO. He brings a wealth of experience and I look forward to working with him. Following the tragic loss of Caroline Rookes, I would also like to pay tribute to the steadfast leadership and dedication she provided during her time in the role."


Keith Guthrie

Cardano has appointed Keith Guthrie as head of sustainability for the UK and for Now Pensions.
Previously deputy chief investment officer at Cardano Investment, Guthrie will now join the Cardano Sustainability Group headed by Martine Snoek. In his previous role, he already played an key role in building Cardano's investment approach to sustainability in the UK. However, his new role will see him take on responsibility to represent Cardano and Now Pensions in the UK from the broad perspective of sustainability, with continued emphasis on integration with the investment teams. "I'm very excited to be taking on this challenge," Guthrie stated.


Matt Jones

Capital Cranfield has appointed Matt Jones as professional trustee.
A qualified actuary, Jones most recently worked as chief stakeholder officer at LGPS Central. Before that, he was an actuary at Mercer. He has also advised numerous trustee boards and corporates on both DB and DC pensions. Capital Cranfield managing director, Harus Rai, said: "They say you know you're getting older when the policemen start looking younger, well the same goes for professional trustees – Matt, born in the era of ABBA, Dexy's Midnight Runners and the St Winifred's School Choir, is a great example of how exceptional pensions professionals now see trusteeship as a serious long-term career."


Melissa Hetherington

Aptia has named Melissa Hetherington as group general counsel and company secretary.
Hetherington joins the new pensions, health and benefits administrator with 25 years' experience, most recently as head of strategic projects, group legal at AXA Group. Prior to this, she was chief counsel for international at Marsh McLennan and deputy group general counsel of Jardine Lloyd Thompson. In her new role, she will be responsible for leading the legal, risk and compliance functions of Aptia globally. She commented: "I am delighted to be joining Aptia at this critical point and to have the opportunity to contribute to the growth and innovation of the Aptia Group."

Independent Governance Group (IGG) has made 18 promotions across its team.
Katherine Ball and Vanessa Roberts have been promoted to trustee directors after both joining IGG as associate directors earlier this year. In addition to this, Jacqui Butterworth and Paul Sherman have been promoted to associate directors. The promotions, which were effective from 1 December, also see Jake Churchill, Hannah Cosgrove, Sharon Hancock, Thi Bang Hoang, Joe Porter and Dominic Thurlow promoted to trustee manager; Suraj Gandecha, James Hudson, Joseph Ireland and Daniel Leader to senior associate; Sena Erkas, Dominic Marr and Philippa Wilson to associate. Tais De Quieroz has also been promoted to head of human resources, a newly created role, which is expected to help shape recruitment and retention strategies as IGG looks ahead.

View from the AMNT: Three wishes for the New Year

Three wishes feature highly in fairy stories and folk law. Three is a magic number, often used by speech makers, being the smallest number needed to create a pattern, the perfect combination of brevity and rhythm.

In terms of pensions and in keeping with tradition, my three wishes would be, in no particular order: 1) The government refrains from passing new pension legislation, giving a period of calm; 2) The Pensions Regulator provides working framework of priorities; 3) That pension fund members should be at the heart of what we do.

The first may be the easiest to come true with a government in its last year of life, irrespective of which party may take office.

The second needs the regulator to put structure into its vision of being there to protect pension savers' money, help to enhance the pension system with market oversight and controls, and to support innovation in the interest of savers.

Fine words but trustees need a timeframe that includes clarity, priority and guidance.

The final wish is what member-nominated trustees do all the time and will continue do to throughout the coming year; provided we are given the support from employers, the government and regulators.

Happy and peaceful New Year from the AMNT.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

View from the PLSA: Nostalgia increases pension attention

Teaming up with Timmy Mallett, the latest Pay Your Pension Some Attention campaign brought a nostalgic 80s and 90s vibe to pension planning.

Led by the PLSA and the ABI, the campaign ad took contestants on an educational journey through pensions with a financial planning edition of Wacaday, with a focus on the Pension Playback. Look back to previous pensions, lean in to current pensions and move forward by planning how much they need to save.

Providing a dose of nostalgia, Timmy's presence prompted viewers to wonder, "have I put off pension planning all these years?"

Timmy reached millions through social media channels, digital billboards and radio ads on 80s and 90s stations. The campaign also earned significant coverage in national and regional newspapers, on the radio, in pensions trade press and glossy magazines like *Heat* and *Good Housekeeping*.

Post-campaign surveys revealed a whopping 85 per cent acted after seeing it. Among them, 51 per cent accessed their pension account, 44 per cent consulted family, and 40 per cent sought pension information. That means more than 3.5 million employees were inspired to pay their pension some attention.

The collaboration with Pension Geeks and National Pension Tracing Day also amplified the campaign's message.

The campaign is made possible thanks to the instrumental support of our sponsors. Next year, we're looking to make an even bigger impact.

PLSA deputy director – policy, Joe Dabrowski

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: Pensions dashboards – is anybody there?

The pensions dashboard is an idea that's easy to grasp. Making all pension information available in one place will give people more control, and hopefully motivate them to save more for their retirement. The vision couldn't be clearer.

And yet here we are, still staggering to the first post.

It's not been a great year for the pensions dashboards. As administrators, we were originally told to get with the programme, by pushing schemes forward with data preparation. By the time we reached the legislated go-live dates, everything would be in place.

And then the programme hit infrastructure delays. We kept calm and tried our best to carry on preparing the data, but unprecedented workloads made that challenging to say the least.

With amended legislation, we now have a fixed deadline of 31 October 2026 for all schemes in scope. This may seem like a long way away, but those workloads aren't getting any lighter.

Did the dashboard decision-makers somehow overlook what we're up against? As major projects like GMP equalisation and a growing number of buyouts compete for scarce administration resources, not to forget that membership work levels are up by over 50 per cent since lockdown.

The last thing we want is another delay. None of us want the industry to lose credibility over this.

But seriously, is anybody out there looking at the bigger picture?

PMI president, Robert Wakefield

Royal London Asset Management head of global credit, Azhar Hussain

Podcast: High-yield investing

Laura Blows discusses short duration global high-yield strategies with Royal London Asset Management head of global credit, Azhar Hussain, in the latest *Pensions Age* podcast

"It's been a fascinating year and a lot has happened *[in the credit market]* that many wouldn't have expected," Royal London Asset Management head of global credit, Azhar Hussain, teases at the start of the *Pensions Age* podcast, *High yield investing.*

"The one big change has been all about government bond yields and not really about credit spreads. I think if you polled most people and asked them if government bond yields would hit the levels that we have seen this year, eg US 10-year above 5 per cent, where would credit spreads be in that environment, most would have said that they'll be quite a bit wider," Hussain states.

Yet, they are actually tighter, with credit spreads gyrating from 420 basis points up to 570 basis points, he adds.

"It is interesting because it is not really a spread market anymore, which is quite good. It is a high-yield market; yields matter again," Hussain explains. "From a yield perspective, when you look at high-yield market gyrations and you add on the government bond spread, the range has been 7.8-9.5 per cent over the year and we're currently at 8.7 per cent."

It is also interesting that the yield curve in the high-yield market is currently very flat, he adds.

This environment comes after a decade of significant growth within the high-yield market.

"Not only have high-yield markets grown in dollar amounts of debt but the average issuance has become bigger. We now have much larger companies in the high-yield market. We have got a lot less of the riskiest cohort, the CCC cohort, and we've seen the higher quality cohort, the BB part, really grow over that period to be well over 60 per cent of the market, from it being around 30 per cent pre credit crisis," Hussain states.

This growth is likely to continue, as only about 10 per cent of the market so far has reset to these higher coupons over the past 12-15 months, Hussain says.

"It is a high-yield market; yields matter again"

In this dynamic market, Royal London Asset Management's main focus is on avoiding defaults. For this, it models potential companies' cashflows out for two to three years and checks whether the debt is sufficiently liquid.

"We do not want to be investing in companies where the debt tranches are too small, where we will be an oversized amount of that debt, because things can change. Bonds should be tradeable and we should have an exit route into the secondary market if things change as that will protect us," Hussain explains.

The result is Royal London Asset Management skewing towards companies that have contracted cashflows, and away from companies that have volatile earnings and volatile revenue.

"One of the big things that really sets *[our approach]* apart is our definition," Hussain says.

"Our definition of a short-duration bond is a bond that is going to be redeemed by the issuer within the next two years of us investing. We only invest in 'seasoned' bonds that we are buying from the secondary market.

"The reason for that is our experience shows that that part of the market is structurally lower in default risk. So, we end up with a portfolio that is typically sub two years in duration and with lower interest and credit spread volatility.

"This tried and tested approach means we focus our risks onto the ones that a high-yield bond manager wants to have, which is reinvestment risk. We have created a portfolio of cashflows and as our bonds mature we get this behavioural prompt to reconsider the market. That's really valuable because as yields move, whether its spreads or government bonds, it means your portfolio can reset very quickly," he explains.

Hussain is proud to say that the result of this approach is a strategy that over its 20 years, has never had a default, and that has a strong track record of consistently positive returns.

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

VIEW FROM PASA: Trustees and administrators working together

PASA recently hosted a roundtable with 10 of the largest independent trustee firms.

The unanimous view was administration sits at the epicentre of our industry and must be recognised as strategically important. It's the cornerstone of everything we do: Actuarial valuations, accurate member payments, preventing scams, de-risking projects and more. Pristine data and instant access are essential for DC – its very nature means unwinding poor-quality DC data is horrendously complex. We also discussed how administrators are the lynchpin of saver experience, and a critical resource.

The group noted there are a number of headwinds that need to be resolved, as investment in administration, data and technology has largely been neglected. They agreed trustees need to be prepared to pay more for both core administration services and strategic projects. We also discussed the current recruitment crisis and the issue of resource constraints.

The attendees felt trustees should be cheerleaders for, and continuously support, their administration teams. But they should also have adequate levels of knowledge of administration or access to specialists to back up administration governance. This would enable investment in data quality, people, training and technology.

A follow-up roundtable will be organised to discuss how best to capture these messages and communicate them to the wider trustee community.

PASA assess | aspire | achieve

PASA board director, Girish Menezes

VIEW FROM THE ABI: The advice/guidance boundary

December became a whole lot busier when the government and the FCA published their joint policy paper as part of the Advice/Guidance Boundary Review.

We have been actively contributing to the review: We see it as an opportunity for consumers to get the help they need to contribute more into their pension and to make better decisions at retirement. Both the targeted support and simplified advice proposals offered up are important steps in the right direction.

Targeted support can help non-advised customers avoid foreseeable harm within existing products and encourage movement into new products that are more than likely to be appropriate for their circumstances. We've recently published research highlighting the effectiveness of this type of guidance to improve consumer decision-making.

Simplified advice can respond to specific one-off needs like the inheritance of a lump sum and a customer wanting to invest it for the long term, but not knowing the best course of action. The scope of the proposal across wealth accumulation products (not just Stocks and Shares ISAs) and an upper investment limit of £85,000 improves the likelihood of take up. We'll argue for pension decumulation products and decisions to be included.

While there are still many questions to answer, it does feel like the beginning of real change for industry and consumers alike.

ABI

ABI senior policy adviser, George Ritchie

VIEW FROM THE PPI: Women's pensions and divorce

The gender pension gap in private pensions stands at around 35 per cent at age 55, meaning that women retire with over a third less in private pension savings than men due to a combination of labour market inequalities, discrimination in the form of women being paid less for the same role as men, and caring responsibilities.

Some women who have saved less, usually due to taking caring responsibilities and who rely on a partner's retirement income, are further disadvantaged should their marriage breakup. Over a span of 10 years, the number of women divorcing aged 65 and over has increased by 38 per cent, and fewer than two in 10 divorces have pension sharing orders; divorced women have private pension incomes equivalent to 55 per cent of the population average.

Could product development help ensure women's retirement incomes are higher, specifically those facing divorce? For example, could the creation of a joint household pension pot, where both members of a couple contribute to a joint defined contribution pot that would be automatically split 50/50 in the event of divorce, help mitigate the impact of the women saving less into their pension? The details of how this product would operate and be implemented would need to be worked through, as would calculating the impact on the gender pensions gap. Is it time for the industry to look at other ways in which product design could help tackle the inequalities women face?

PENSIONS POLICY INSTITUTE PPI

PPI policy researcher, Shantel Okello

VIEW FROM *Pensions Age*: New year, same start

The start of the new year marks an opportunity to press the restart button and commit to new goals, whether it's dry January, getting finances in order, or just spending more time away from social media and enjoying time with friends and family.

The pensions industry is no exception, and providers have been quick to share their top tips and priorities for the year ahead with savers.

But despite the annual new year's enthusiasm, we are often told that New Year resolutions are not actually the best way to form a new habit – we set goals that are too big and there is too much pressure at a time when many are not truly prepared to follow through.

Instead, it is often recommended that we set smaller, achievable goals throughout the year.

This is an approach the pensions industry could stand to learn from, as it has been slacking on some of its past New Year resolutions, with failed promises potentially damaging saver trust, and making members question why they should take action if their own providers are behind the curve.

The industry has already pledged to work to support savers and the UK economy in the year ahead, with Pensions and Lifetime Savings Association (PLSA) identifying pensions' role in UK growth as its top strategic priority for 2024, followed by DC pension adequacy issues.

But there is already so much work in limbo, and further delays seem likely if broader distractions continue.

Pensions dashboards for instance, the DB Funding Code, the General Code, updates to the notifiable events regime, new data collection following the liability-driven investment crisis, the next steps for ESG reporting efforts, and of course the long-awaited 2017 auto-enrolment reforms, are still to pass over the line.

New reforms can prove enticing; the new pot for life proposals represent a potentially seismic shift for the industry that could help hand ownership of pensions back to savers, and finally allow members to truly engage with their pension saving.

Efforts to address DC small pots problems are also making progress, albeit not in the way that many in the industry had hoped, the first superfund transaction has completed, with a permanent regime is on the horizon, and there is promise of further extensions to collective defined contribution (CDC).

But the industry cannot be distracted by the 'shiny new thing' at the expense of ongoing reforms and work that are needed to truly support savers.

Calls for a pension commission have once again been gaining ground, after political turmoil and a revolving door at the DWP *[read more on page 65]* slowed progress on key initiatives.

Indeed, many in the industry have suggested that this could prove helpful in holding the stakeholders accountable, ensuring that the government follows through on key reforms championed by the industry.

It can be benefucial to take New Year's Day as an opportunity to recognise the progress already made and the commitments ahead, but we cannot let it become Groundhog Day.

It is crucial that the industry and government work together to meet past promises, before we start to embark on new commitments, new year or not.

Written by Sophie Smith

VIEW FROM THE ACA: The year ahead

After the shock and awe of Mansion House and the Autumn Statement, where will we get to in 2024?

As a bare minimum, we expect the updated DB Funding Regulations to be finalised in the first quarter of the year, although it now seems unlikely the code and updated covenant guidance will be in place until the autumn. The degree to which both have evolved to take account of the industry's calls for greater flexibility and the Chancellor's calls (and those of the opposition) in support of schemes considering investment in 'productive finance' remains to be seen.

It will also be interesting to see how the new regime will fit alongside the consultation expected this winter on measures to ensure surplus can be shared with scheme members and a potentially expanded role for the PPF, including the possibility of a 100 per cent PPF underpin.

It seems doubtful the 'pot for life' proposals can make much headway in this parliament given the different views of stakeholders on their desirability and the challenge they present to current employer-led provision.

We hope the impetus in support of the wider application of CDC schemes is maintained, and across the political spectrum, we expect calls for more scheme consolidation to be the order of the day. We hope the consultations on DB consolidation remain broad and flexible enough to allow many now well-funded schemes, supported by their sponsors and trustees, to continue to see a future offering their tailored, high-quality benefits to members.

ACA chair, Steven Taylor

A week in the life of: Elaine Torry

As most people in our industry would say, I'm not sure there is a standard week. But, then again, the variety is probably what I enjoy most about my role as co-head of trustee DB investment at Hymans Robertson. Whatever the week brings, it's going to include the core parts of my working life. These are generating investment ideas and discussing capital market developments and, of course, working with my clients. The final cornerstone of my role is working with colleagues in other parts of our pensions market business to ensure truly joined-up advice. I'm based in Glasgow, but my role takes me to various parts of the UK and I'm a regular visitor to our London office.

Monday

This Monday, I head into our Glasgow office. First up is our go-to-market meeting, where we talk about the long-term themes in the pensions markets that will affect our clients. We want to think beyond the here and now, and my role in these discussions is to bring the investment angle. Next up, I get up to speed on a new client – it's a really exciting and interesting opportunity to be involved in, and I know that we can add value for them across the board. I spend the rest of the day on work for several of my other clients – meeting prep and reviewing a paper considering how best to manage their interest rate and inflation hedging.

I love playing sport and being active, so I round off the day with a game of badminton in the evening to burn off some pre-Christmas calories!

Tuesday

Today I am working from home. The big event is an online trustee meeting, which has some big-ticket investment items on the agenda. First up, we talk about alternative ways to embed responsible investing in the scheme's equity allocations. Then we present some solutions on how the client can fund their cashflow-driven corporate bond mandate. I usually play hockey on Tuesday evenings, but I'm still recovering from a knock to the face in a recent hockey game. So, I have a relaxing evening instead!

Wednesday

I head back into the Glasgow office today. It's the time of year when we review our performance and goals, so I have a few face-to-face meetings with colleagues. As part of the year-end reviews, we also set goals and articulate our aspirations for the year ahead. I really do enjoy those conversations as it's an opportunity to help myself and others develop and forge our career paths.

Next up, it is our fortnightly investment consultants briefing call. This is a super-valuable call for our business unit, where we share insights and case studies. Today, we discuss cost transparency and sustainability in credit mandates. We also have an update on market conditions from our head of capital markets. Last but not least, I have a catch-up with our marketing colleagues to discuss plans for external marketing by the investment team.

Thursday

It was an early start today. The 4.30am alarm clock yanked me awake so that I could catch the red-eye to London. This is an intense 'investment strategy' day, involving calls and meetings with colleagues to plan for 2024. Top of the agenda are key themes for our trustee DB investment advisory clients for the coming year, and continued traction with current investment ideas. I then have a lovely lunch with colleagues, described as a 'posh school dinner' style tray of a main and two sides (curry, mac and cheese and sweet potatoes). It's way better than it sounds!

Friday

Still in London, I kick the day off with a meeting to discuss digital strategy for our trustee DB business. This is definitely a deviation from a normal week. There is a lot of technical jargon, but friendly colleagues in the insights & analytics team help cut through that and we make good progress.

I follow that up with a long overdue catch-up with a client, before travelling back to Glasgow to meet up with the investment team for our Christmas night out. We have a lovely dinner in a Japanese restaurant. I am grateful that the Glasgow Warriors are playing away this weekend, otherwise that would have presented a real dilemma for me at the end of a busy week – rugby or a night out?

Diary: January 2024 and beyond

Pensions Age Awards 2024
21 February 2024
Grosvenor House Hotel, London
The 11th Pensions Age Awards aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The awards are open to any UK pension scheme or provider firm that serves pension schemes in the UK. The deadline for entries has closed, but bookings for the prestigious gala dinner are now open.
pensionsage.com/awards

PLSA Investment Conference 2024
27-29 February 2024
Edinburgh EICC
The PLSA Investment Conference returns with a new slot in the calendar, as the first PLSA conference of the year. It will aim to bring the full investment chain together to discuss big challenges and sector-specific issues, as well as sharing best practice. Confirmed topics include the urgent need to invest in biodiversity, why diversity is important in decision making, how pension funds are combating climate change, and more.
plsa.co.uk/events/conferences

Sustainability Summit
20 March 2024
The Waldorf Hilton Hotel, London
This one-day conference offers pension funds, insurance companies, charities and corporates the opportunity to both learn and network alongside their peers at a critical point for the investment industry. The event is open to all those concerned with sustainable investment, providing delegates with the up-to-date knowledge and guidance needed to understand all aspects of the sustainable investment market ranging from negative screening to impact investment.
sisummit.net

European Pensions Awards
4 July 2024
London Marriott Hotel
Now in their 17th year, the European Pensions Awards were originally launched to give recognition to, and honour, the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds over the past year, and continues to do so. The awards are free to enter and open to any pension fund or firm that serves European pension funds.
europeanpensions.net/awards/

Visit www.pensionsage.com for more diary listings

Don't forget...

Pot for Life Consultation

24 January 2024

The DWP's call for evidence, *Looking to the future: Greater member security and rebalancing risk*, closes on 24 January 2024.

www.gov.uk/government/consultations

VIEW FROM THE SPP: Retaining EU pension laws

As we sang 'Auld Lang Syne' at New Year, the Retained EU Law (Revocation and Reform) Act 2023 took effect. Let's take a moment to understand what has happened to some important pensions laws.

The act revokes certain categories of retained EU law, where it is not also the subject of domestic legislation. Caselaw on the rights of same sex partners to full equal survivors' pensions *[Walker]* and on adequate pension protection *[Hampshire and Hughes]* could have ceased to apply but regulations now preserve them (although not the *Bauer* case on poverty protection).

Directly applicable EU legislation has ceased to apply. That includes Article 157, the EU equal pay provision interpreted in *Barber, Coloroll*, etc. But the same rights are also conferred by domestic legislation: The Equality Act 2010. With one possible exception…

The government interprets the *Allonby* case, concerning equal access to a statutory pension scheme, as also applying to GMP equalisation (GMPE) claims. The Equality Act requires GMPE claimants to identify an actual comparator; the *Allonby* EU law, if applicable to GMPE claims, allows a notional comparator. Under a power to 'restate' EU law that would otherwise have ceased to apply, regulations now retain the role of a notional comparator in GMPE claims. Yet there is an argument that *Allonby* never applied to GMPE in the way the government considers it did *[untested in the courts]* and that the purported 'restatement' is of debatable validity.

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

SPP Legislation Committee member, Nick White

Rack ’em up

Royal London director of policy and communications, Jamie Jenkins, sits down with *Pensions Age* to talk about his hidden billiard talents, and how he very nearly chose piloting over pensions

What’s your employment history (including jobs outside of pensions)?
I’ve spent over three decades working in and around pensions, starting with Standard Life in 1989, when it was a mutual organisation. I’ve worked in administration, operations, marketing, product development, strategy and policy during that time. It’s great to be working with a mutual again at Royal London. Being part of a customer-owned business allows you to have a singular focus on delivering customer outcomes, as opposed to shareholder returns.

Prior to that, I spent a year or so working in a butchery at William Low. That was, as you would imagine, quite a different role.

What’s your favourite memory of working in the pensions sector?
My most striking memory is from April 2001, when hundreds of thousands of employers signed up to providing a stakeholder pension for their workforce. The problem was it required employees to ‘opt in,’ which very few did. This memory is somewhat surpassed by the change to ‘opt out’ in 2012 – through automatic enrolment – which signalled the start of near optimum take-up. It shouldn’t have taken us a decade to realise the difference.

If you did not work in pensions, what sector do you think you would be in instead?
Aviation. I almost signed up to train as a pilot in 1989. The first thing they told me was that it would be seven years before I would fly, which sounded like a very long training course at the time. That may have been short-sighted.

What was your dream job as a child?
As a child, I always wanted to be a designer. I liked art, woodwork, crafts, and seemed to have some aptitude for it, but life just didn’t pan out that way. Being a singer or joining a band would have been even better, but apparently you have to be able to sing or play an instrument to do that.

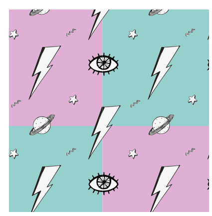
What do you like to do in your spare time?
Spend time with my six-year-old son, Arlo, doing whatever he wants to do.

Do you have any hidden skills or talents?
Prior to the pandemic, I was among the top 50 billiards players in the world.

Is there a particular sport/team that you follow?
I follow Greenock Morton, after moving to that side of Scotland a few years ago.

If you had to choose one favourite book, which would you recommend people read?
Stick Man by Julia Donaldson. It covers the power of tenacity, the perseverance of hope, the importance of self, the love of family and the wonder of Christmas. And it’s a 10-minute read.

And what film/boxset should people see?
The Wire. Very few people have the staying power after a few slow opening episodes, but it’s completely enthralling once you immerse yourself.



Is there any particular music/band that you enjoy?
David Bowie. No-one else comes close.

Who would be your dream dinner party guests?
All the world’s leaders – I’d chat about the need to work together a bit better.

Is there an inspirational quote/saying you particularly like?
Event + Response = Outcome (I think, by Jack Canfield).

The simple idea is that you can’t control events, but you can control your response to them, which usually has more influence on the outcome than the event itself. I suspect no-one has truly mastered this, including me, but it’s a great equation to aspire to.

Written by Sophie Smith

The year ahead: Pensions in 2024

Following another busy year in the pensions sector, Jack Gray looks ahead at 2024's expected deluge of proposals and initiatives that look set to transform the pensions landscape

While some would be forgiven for hoping that 2024 will be a quieter year for the pensions industry, it doesn't look like that will be the case. The Chancellor's Mansion House reforms and Autumn Statement, alongside the DB Funding Code and General Election, mean that this year looks set to be one of the busiest yet. We look at these key issues in more detail.

Pot for life/small pots

"The 'pot for life' reforms will be a focus for many debates in 2024, after the government announced its consultation in November 2023," says TPT Retirement Solutions DC director, Philip Smith. "In principle, these reforms could be a game-changer for retirement outcomes, by making it much easier for members to manage and monitor their pension savings. However, creating pots for life would represent a huge operational challenge for schemes and employers. It would require a significant overhaul of the entire DC pension system. The changes are likely to be expensive and require substantial efforts from regulators, schemes, and employers to implement."

Fidelity International director, workplace investing, James Monk, adds that it's difficult to talk about 2024 without mentioning pot for life, describing it as a significant change in workplace pensions policy. "Under a pot-for-life scenario, we will see the responsibility to choose the best provider put in the hands of the individual, in a scenario that we know is most likely to be unadvised, and therefore the quality of the decision making to be questionable," he notes.

"There simply isn't enough transparency around the service, costs and investment strategy for members to make quality decisions on such an enormously complex offering, which has a huge potential to negatively impact the outcomes of a generation."

Aegon head of pensions, Kate Smith, also highlights that the development of the Department for Work and Pensions' (DWP) approach to implement its proposed multiple consolidator model in 2024 will likely, along with pot for life, help address the number of small pots.

Value for money

Alongside pot for life, the government's 2023 Autumn Statement included an update on the value for money (VfM) framework. "The DWP and regulator's VfM framework will continue to take shape over 2024," comments Kate Smith. "This aims to improve member outcomes, standardising the metrics used to assess and compare DC schemes and by removing consistently underperforming schemes through consolidation into larger higher performing schemes. Although there is no implementation timeline, trustees will be keen to see how they are stacking up."

PLSA director of policy and advocacy, Nigel Peaple, states that there will be "much work" to help with the development of the VfM framework and on proposals to put a duty on pension schemes to provide more decumulation support to members.

Monk adds that the VfM framework will result in a significant shift in mindset for employers from cost to value. "A big part of the accelerated shift to value will be driven by the increased transparency of splitting the investment charge from the servicing charge and offering consultants and advisers greater ability to isolate the value offered by investment solutions," he continues.

"It will also establish whether the servicing costs do in fact drive a better member experience and improved outcomes. This increased transparency and accelerated shift towards value will likely open the door for the DC industry to think more seriously about true private markets adoption and the most appropriate way of accessing these markets to drive increased investment value and outcomes."

DC pension investment

This adoption of private market assets and investing for 'UK growth' is something the government has been pushing for, and it seems that this drive will continue in 2024. Just Group group communications director, Stephen Lowe, notes that if there is common theme from the Mansion House speech and Autumn Statement, it is that the policies broadly support the 'building back better' agenda. "Plans outlined in the Mansion House speech, with added details provided after the Autumn Statement, outline a vision of 'British growth driven by British financial firepower' with the promise of higher pensions all round – £1,000 a year to the average worker – and better public services," he says.

Janus Henderson Investors director of institutional business, DC, David Whitehair, adds: "From an investment perspective, following the Mansion House Compact we can expect to see more DC schemes exploring the role of alternatives and private markets and how they could fit into default fund design. Whilst it is likely we will see new allocations across the market, these will remain at low levels given the cost implications and governance complexities of incorporating private markets.

"Other areas of focus from a DC investment perspective will likely be schemes continuing to evolve portfolios in the wake of challenging markets in recent years. Whilst new opportunity presents itself in fixed-income markets, with the interest rate cycle potentially peaking and possible declining yields offering the prospect of returns enhanced by capital gains, we can still expect to see schemes looking for more diversified exposure across fixed-income sectors."

Monk adds that DC schemes will "undoubtedly" allocate further money to private markets in 2023, and emphasises that the route early adopters take may have long-lasting implications for the industry and there will be challenges along the way.

Meanwhile, Philip Smith expects substantial innovation in the DC pension market this year: "DC schemes are now moving towards investments that diversify risk and promise superior long-term returns for members. This presents a distinctive opportunity for the DC master trust sector to be at the forefront of developing these investment strategies with an increased allocation to illiquid assets."

Auto-enrolment

Another key theme in the DC pensions space this year is auto-enrolment (AE), with a Private Member's Bill to extend AE being introduced last year. The industry has been calling for the reforms for years, and it hopes they will be implemented in 2024.

"Adequacy of contributions remains the biggest challenge for DC pension provision," argues Society of Pension Professionals president, Steve Hitchiner. "We are expecting secondary legislation in 2024, to reduce the minimum age for AE from 22 to 18, and to remove the lower limit on qualifying earnings. These measures will be helpful, but fundamental review is needed, to increase minimum contributions over time, and to extend AE to casual workers."

Philip Smith concurs: "The introduction of AE has significantly reshaped the DC market for members, fostering the development of well-governed master trust pension schemes that are adept at delivering stable and satisfactory outcomes. We expect this trend to continue with the expansion of AE to younger and part-time workers in 2024. This reform could substantially improve the retirement outcomes of thousands of employees once implemented."

Further developments in AE could be seen this year, with Pensions Management Institute director of policy and external affairs, Tim Middleton, noting that pressure remains on the government to increase minimum contribution rates and "we may see early moves to increase the minimum rate to 12 per cent of qualifying earnings".

Collective DC

Last year witnessed the authorisation of the first collective DC (CDC) scheme in the UK, and it seems like this progress may continue in 2024. "There is strong consensus between the principal parties about the benefits of CDC, and it is likely that we will see extensive consideration of how it might be implemented in the UK," Middleton says. "It is likely that we will see a consultation on decumulation-only CDC schemes, and this may well be followed by discussion of establishing a whole-life CDC master trust."

Whitehair adds that development in the decumulation space will likely take place in 2024 and, with Royal Mail's CDC scheme going live, he expects more DC schemes, particularly master trusts, to be watching on with "keen interest". "CDC has been touted as a possible solution for decumulation following a traditional DC accumulation phase," he notes.

DB pensions

One of the key themes of 2023 was the significant improvement in DB pension schemes' funding levels, the record level of de-risking activity, and evolving endgame solutions. "For many DB funds, healthy funding levels mean thinking about the long term – will they aim for a traditional buy-in/buyout or seek to 'run on' or opt for a DB master trust or DB superfund," says Peaple. "We will be arguing for pension schemes to be given the widest range of options, including the DB superfund regime to be put on a statutory basis as soon as parliamentary time allows."

Van Lanschot Kempen head of investment strategy UK, Alastair Greenlees, adds that the status quo of endgames is "truly broken", with desire in the industry to explore other options to buyout and run-off. "Government intervention, changing make-up of trustee bodies, sponsors becoming interested in surpluses, not seemingly endless deficits, all combine to create a backdrop of both uncertainty, but opportunity and interest in new solutions," he continues. "De-risking and insurance transactions will continue in 2024, the latter at its highest ever level, but not as the only show in town."

Hitchiner comments: "A range of policy options for DB schemes will be explored in 2024, with two important consultations expected in the early part of the year. The DWP will consult on reducing barriers to returning surpluses, including the possibility of 100 per cent Pension Protection Fund (PPF) benefit coverage in exchange for a higher levy. The DWP will also consult on a separate public consolidator run by the PPF, for schemes where other consolidation options are unavailable."

Further key developments expected include The Pensions Regulator's (TPR) long-awaited DB Funding Code and General Code, with Hitchiner noting that the path for the DB Funding Code is a little clearer, as legislation is expected for April and a revised Funding Code for the autumn.

"Our number one priority will be making the case for greater flexibility in the DB Funding Code, especially for open DB schemes or closed schemes with a longer investment time horizon," states Peaple. "This works for DB schemes and supports UK growth. Importantly, we will be grappling with the promised 'winter' consultation on a public sector consolidator for DB schemes."

Lifetime allowance

One thing we know for certain is that the government will abolish the lifetime allowance (LTA) from April. "From a regulatory perspective we start with one big known and rapidly move into increasing uncertainty," says LCP head of research, David Everett. "The big known is that the abolition of the pensions tax LTA will be on the statute book before the General Election, whenever it is called. HMRC has done pretty much all the heavy lifting on this, in remarkably short order, and everyone now needs to gear up to operate the new regime from 6 April 2024, particularly scheme administrators."

However, Lowe queries whether the abolition was a simplification of pension rules, noting that the abolition of the LTA signalled the introduction of two new allowances. "That gives advisers, providers and administrators around four months to get to grips with the details," he says.

Kate Smith adds that the industry is "rightly concerned" about the feasibility of the April 2024 deadline.

General Election

Despite all the potential developments in 2024, one thing looms over pensions policy like nothing else: This year's General Election. We are yet to find out exactly when it will take place, but industry commentators are concerned it could affect progress on pensions policy, with Everett saying there is a "clear risk" that the election could intervene at the wrong time and "throw up into the air things that are on the verge of being delivered".

"The most significant development in 2024 will be the General Election and the possibility of a change of government," argues Middleton. "Therefore, it would be logical to focus on policies pursued by the current government that are likely to be retained by any successor."

Monk concludes: "Irrespective of the winner of the next General Election, there is likely to be a focus on pension policy, with Labour already promising to look holistically at pension policy. As such, this represents a huge opportunity and also the potential for huge disruption."

Written by Jack Gray

Investment trends

What may be in store for investment markets in 2024? Sandra Haurant finds out

Summary
- The past year or so has brought high interest rates and inflation, and a crisis in LDI.
- In 2024, we'll continue to see the effects of those events, with DB schemes far better funded now than in recent years.
- While markets are pricing in interest cuts, some forecasts suggest they may simply remain stable and only fall towards the end of the year.
- Falling inflation will bring a welcome change – but the legacy of high rates will continue to put pressure on DC schemes.
- The real estate sector could face challenges, with the potential of mezzanine investment making a comeback.
- ESG will continue to be a primary focus for schemes, becoming more crucial as they shift away from cutting carbon and towards impact investment and stewardship.

It's been a dramatic couple of years for pensions, with notable moments including a crisis in liability-driven investment (LDI) and record-breaking rises in interest rates. And this year promises its own share of important events. The US presidential elections are on the horizon and a General Election in the UK is on its way, too. Predictions are always difficult to make, but if there's one thing that can be safely said about 2024, it's that it will be a busy one for politics. But what else is in store for the markets and how will schemes fare?

Stability for interest rates

What goes up must come down – one day. But when it comes to interest rates, how soon will that day come? For now, the jury's out. "Markets are broadly pricing in early and frequent cuts to interest rates in 2024," says Payden & Rygel London managing director, Robin Creswell. "In our view, this seems premature; the market seems to be testing central bankers' resolve on this point, whilst central banks need to bolster their authority, as the guardians of low inflation."

In fact, says Creswell, on a six-month view, a further interest rate increase is still possible, even if it remains unlikely. And if rates do not rise, that does not mean they will necessarily come down: "Market participants appear to believe that the corollary to rising rates is falling rates, whereas a period of rate stability seems more consistent with ensuring the work of central banks is done," he adds.

Economic analysts Capital Economics agree; the firm expects the Bank of England to cut interest rates in late 2024, while it anticipates the US and ECB making cuts closer to the middle of the coming year.

Whatever happens, the effects of 2023's steep rate rises will linger on for some time in the pensions world. "The 5 per cent rise in Bank of England policy rates since December 2021, and similar increases in bond yields, have transformed defined benefit (DB) schemes out of all recognition," says Mercer partner and investment consultant, James Brundrett. Schemes, he

says, are now "better funded, with over 25 per cent in surplus and around 40 per cent smaller in size on aggregate," while average scheme maturity has fallen from 17 to 12 years.

It's not all down to rising bond yields, though – decreasing longevity and an older population have also played a part, Brundrett says, adding: "We see 2024, as a year when there will be more conversations about running schemes on, and the appropriate asset allocations and funding policies for delivering maximum value to all stakeholders."

Falling inflation

As for inflation, after stubborn highs, Mercer anticipates the consumer price index (CPI) "to fall back towards the 2 per cent target over 2024 and beyond", but when it comes to the defined contribution (DC) sector, Brundrett says heightened inflation of the past few years "will continue to cause significant drag on real returns delivered to DC members in most default options (now feeding through to annualised five- and seven-year figures)". As a result, Brundrett says: "In terms of the outcomes members are projected to receive in retirement, salary growth or inflation will be what matters most for those currently in their early or mid-career."

Highs and lows

When it comes to investment, one area that will continue to appeal to schemes is the top end of the bond market, says Capital Cranfield professional trustee, Mark Hedges, speaking in a personal capacity. "High-grade bonds are likely to be in demand, given current yields, and as DB schemes close in on buyout and attempt to create portfolios that reflect generic insurance companies' holdings."

At the other end of the scale, Hedges anticipates a tricky time for property – potentially opening the door to mezzanine investment (essentially a combination of debt and equity financing). "If the bottom of the real estate cycle has been reached, then perhaps the opportunity for mezzanine investors opens up," Hedges says. "In a market where loan-to-values (LTVs) have fallen and senior lenders are lending less and equity investors can't bridge the gap, the mezzanine investors can dictate whether deals happen or not and can control transactions; this worked well post-global financial crisis and maybe provides an opportunity, but investors will need to be very selective."

"High-grade bonds are likely to be in demand, given current yields, and as DB schemes close in on buyout and attempt to create portfolios that reflect generic insurance companies' holdings"

ESG for all

The climate crisis has brought the importance of environmental, social and governance (ESG) into sharp focus, and emphasis for pensions has shifted from reducing the carbon footprint of a portfolio towards using funds to make a real impact on the world's survival chances, through impact investment and stewardship.

"The climate crisis is one of the most fundamental challenges the global economy faces, and despite recent momentum, action to tackle the climate crisis has so far been insufficient," says Cardano head of sustainability UK, Keith Guthrie. "As a result, climate change is now a widely established and socialised concept within financial markets, both as a financial risk due to transition and climate-related risks, and an investment imperative because of the way in which capital will support (or hinder) climate targets."

Within the UK, new financial developments are emerging in response to the crisis, such as biodiversity credits – a financial mechanism designed to help protect natural habitats. Capital Cranfield professional trustee, Bobby Riddaway, speaking in a personal capacity, says their introduction should "lead to more development of permanent meadows and nature parks across the UK, with a number of asset managers launching funds in this area".

Regulatory evolution will also put the pressure on firms to behave and to invest more responsibly. "The second wave of Taskforce on Climate-related Financial Disclosure reports for the largest schemes, and the first wave for the rest of the £1 billion schemes, will be published and then reviewed by The Pensions Regulator (TPR). This, combined with the launch of the recommendations of the Taskforce on Nature-related Financial Disclosures and the Taskforce on Social-related Financial Disclosures, offer the opportunity to look at sustainability reporting as a whole," says Riddaway.

These developments may be a gamechanger, he adds: "I really hope that we quickly get to a position where all pension schemes can report on sustainability and then concentrate their ESG efforts on engagements and stewardship."

But there is a need for more, and better, information. "ESG is going to continue to be an area firms are focusing on, as investments are aligned to achieve climate goals. However, there is a lack of data in the market to aid in decision making. We are seeing progress, but more work needs to be done," Brundrett says. "We expect more DB schemes to assign their climate objective investments, if they have not done so, and we expect to see a broad range of investments across credit portfolios to help the transition to net zero."

Written by Sandra Haurant, a freelance journalist

Down but not out?

As fiduciary managers face falling levels of assets under management, Gill Wadsworth considers the pressures facing the sector and where it may find new opportunities to diversify

Summary
• Fiduciary assets under management are in decline for the second year running, while the number of new mandates has stalled.
• The sector faces increasingly high levels of competition while fees are under pressure.
• Opportunities exist to diversify and evolve but the industry faces an uncertain future.

As fiscal fallouts go, the one following the September 2022 'mini-Budget' has been particularly memorable.

Well over a year later and the impact of the ensuing gilts crisis still reverberates around select corners of the UK pension industry, with some sectors being forced to rethink how they will operate in future.

Among those most affected are fiduciary managers (FM), many of whom relied on liability-driven investment (LDI) strategies as the bedrock of prudent pensions management. These took a well-publicised battering as gilt yields rose dramatically, with a corresponding fall in the value of UK defined benefit (DB) scheme liabilities forcing FMs to

scramble for capital to maintain liability hedging targets.

But, as Isio's *Latest trends in Fiduciary Management 2023* report notes, "faced *[with]* the challenge of liquidity, they weren't always successful".

The report adds: "This unprecedented *[gilts crisis]* had a large-scale impact on the industry, arguably changing it forever. As all UK pension schemes faced investment challenges from this backdrop, how FM both helped and hindered has been a key theme of 2023."

One of those large-scale impacts is painfully evidenced in the second straight year of falling assets under management (AUM). Isio reports that total AUM for full FM mandates have declined from £113 billion in 2022 to £105 billion in 2023. For partial mandates the decline is £22 billion over the year with AUM now standing at £82 billion.

Fee pressure

This presents a genuine issue for those FMs that base their fee structures on the amount of assets they hold, making it no surprise that the Isio report reveals a trend towards alternative charging structures.

While 88 per cent of fiduciary managers still link fees to AUM, there has been a significant move to a tiered fee where charges change with asset size, and to fixed fees with performance element.

Cardano partner and co-head of clients, Patrick Cunningham, says not only are FMs feeling fee pressures as a result of diminishing AUM, but they are also in a more competitive market with a greater number of players and the strategies they oversee are less focused on growth and so liable for lower fees.

"We are feeling fee pressure, but we've felt that in each of the past five years; it's not just since the gilt crisis. It is a very competitive market with a significant increase in the number of firms – perhaps 15 – offering fiduciary management."

Cunningham adds: "The fees we can charge on smaller and lower risk portfolios is below what's chargeable for managing an equity portfolio. For all those reasons, FM fees have continued to come down."

Corresponding with the increase in FM players, third-party evaluators (TPEs) that assist schemes in assessing the market and making provider selections are shaking up the market.

IC Select UK's *Fiduciary Management Market Survey,* published in September 2023, reports 66 per cent of schemes used a TPE to assist them in the selection of a FM in 2022; a reduction of 9 per cent from the previous year.

Meanwhile, Isio finds that 80 per cent of FM mandate wins over 2023 used a TPE for the selection exercise. The influence of TPAs in addition to the 2019 Competition & Markets Authority Fiduciary Management Review has, according to Isio partner Paula Champion, added further competitive pressure on the market.

"Retender activity prompted by the CMA review has resulted in a genuinely more competitive landscape – with greater engagement and innovation from FMs, a downward trend in fees, and an increase in the involvement of TPEs."

Champion adds: "Where we have seen schemes retender their mandates, this has been an opportunity to ensure that the fiduciary approach is aligned to the schemes' objectives, and that the philosophy and style of a particular FM is consistent with the trustees' beliefs and preferences. In most cases, where the FM is retained, the retender process has been clearly positive with a focus on refining reporting or servicing to better support to the trustees' needs."

Stalling mandates

Alongside a decline in AUM thanks to the gilt crisis, there is also evidence that fewer schemes are adopting the fiduciary management model.

For the first time since Isio started surveying the market, growth in the number of fully delegated mandates has stalled, with the number of full mandates increasing by just 3 per cent while partial mandates have declined by 13 per cent.

Capital Cranfield professional trustee, Paul Watson, suggests the market is at saturation point.

"Many schemes moved from advisory to FM over the past 15 years, but I can't see there are many other schemes to move to FM if they haven't already. There used to be an argument that smaller schemes could be attracted to FM services – subject to the minimum fee – but if those schemes had low or no LDI they now find themselves fully funded on a buyout basis so leapfrogged the need for FM."

Meanwhile, IC Select director, Roger Brown, argues the falloff in mandates is a direct result of the CMA review, which has prohibited investment consultancies from converting advisory clients into FM business without participating in a beauty parade involving at least three other potential providers.

"Prior to 2019 investment consultants would be pushing hard for schemes to switch to fiduciary management but now there is a risk that they might lose the business following a competitive tender. Suddenly, I think the incentive to move those schemes is considerably less."

That the DB sector – which is the fiduciary manager's bread and butter – is shrinking can only add to the challenges already facing providers.

Champion suggests diversifying client bases to incorporate other long-term assets, such as those from defined contribution schemes or charities.

Elsewhere, alternative variations of FM may offer some respite. The outsourced chief investment officer

(OCIO) model has been adopted by several multi-million-pound schemes including British Airways, BAE Systems, Royal Mail, Centrica, National Grid and Kier.

But Brown warns the OCIO market is limited.

"These are typically very specific mandates involving multi-billion-pound schemes that are close to buyout. They have in-house expertise in running growth assets, but they need people to run bond mandates. Entire investment teams are moved over to the fiduciary manager which has vast global resources to help them move to buyout," he says.

New opportunities

Where there is more potential, according to Cunningham, is in servicing the corporate sole trustee markets, which Hymans Robertson reveals now account for around a third of professional trustee appointments, having increased by 12 per cent in the year to March 2023.

Cunningham says: "The largest four or five professional trustee firms probably have 60 per cent or more of all appointments. Many of those firms

"Not only are FMs feeling fee pressures as a result of diminishing AUM, but they are also in a more competitive market"

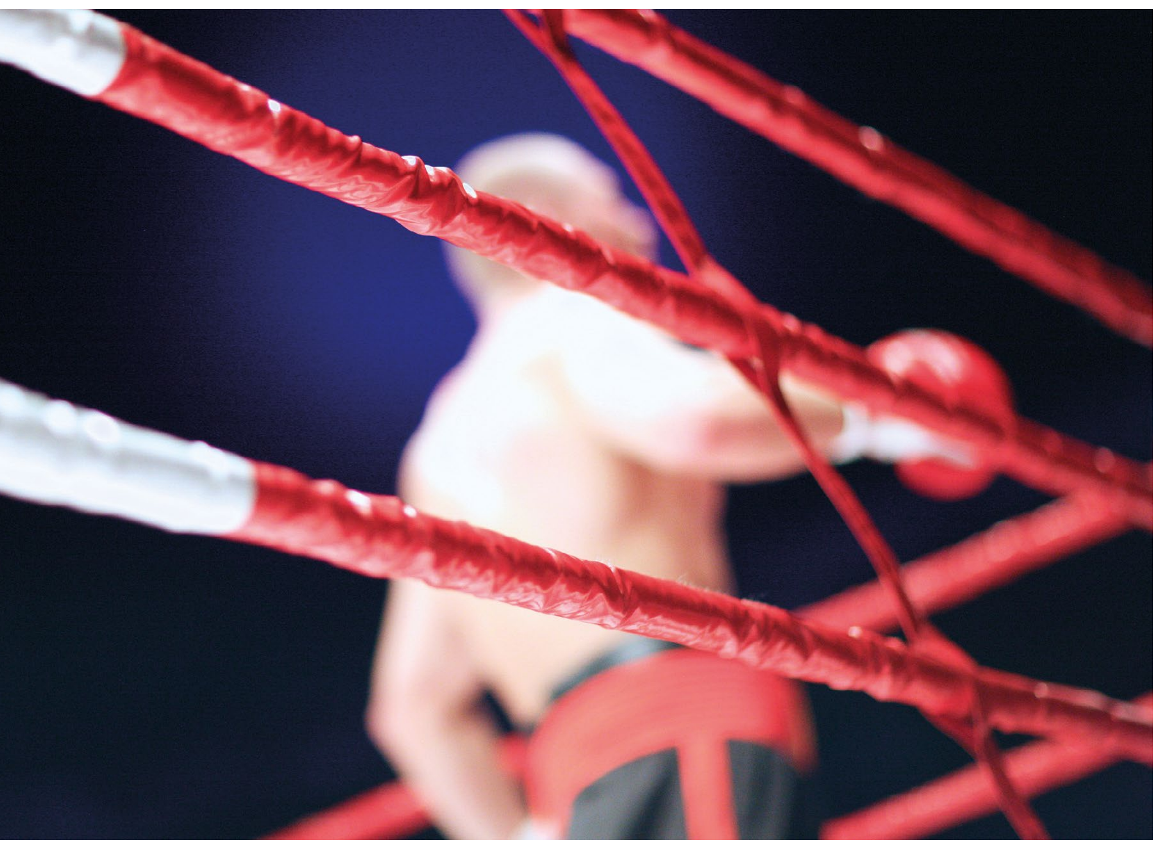
have been bought in whole or in part by private equity firms that are hoping to see growth in revenue and profit. Where those trustee firms are acting as a corporate sole trustee, there will be an incentive to centralise and scale some of the services they provide, and a lot of them are turning to FM."

He continues: "I don't think any professional trustee firm will end up with a formal FM partner, but it might make sense to have some pre-vetted and pre-negotiated building blocks, rather than start from scratch and do something different for every scheme."

However, Watson says the preferred provider model is "certainly not the approach that we adopt", but adds: "On the positive side, there may be value in reduced fees for schemes and an efficiency in corporate sole trustee governance costs, given the consistency of approach, which should be passed through as lower fees."

But Watson notes he would be concerned that one size does not fit all.

"Scheme requirements can differ based on circumstances, and FM providers have certain attributes that mean they may or may not be suited to that client. They may differ in ESG criteria, fee structures, segregated or pooled LDI. As a professional trustee, I would always want to do a whole of market review to find the best fit for the client situation, and the CMA objectives require that at least three FMs are considered."



Whether the FM sector is in terminal decline depends on its ability to adapt to the fallout from the LDI crisis and the changing needs of its dominant client base. Fiduciary managers have shown resilience and a willingness to innovate and evolve, but, in an increasingly competitive market where fees are forever being squeezed, their future currently looks uncertain.

Written by Gill Wadsworth, a freelance journalist

Trustee Guide 2024:

Rising to the challenge

Featuring:

- What's to come in the year ahead, and how trustee boards can best prepare themselves
- Supporting members to take the right course of action
- How master trust boards can avoid confirmation bias
- LDI and investment strategy considerations for a post gilt-crisis world
- Why run-on solutions are increasingly popular for DB pension schemes
- The road to General Code
- Is AI ready to step up for pensions?
- The trustee role in retirement planning
- How securitised credit strategies could offer an attractive alternative for pension fund investors
- Company profiles

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Raising the bar: What to expect in 2024

After a busy 2023, there is little indication that things will slow down for pension trustees in 2024. We explore what's to come in the year ahead, and how boards can best prepare themselves

Summary
• The DB Funding Code, Mansion House reforms, and trustee skills and knowledge are all set to be under the spotlight again in 2024.
• While a skills review reflects positively on UK pension trustees, there will likely be a call for more demands, particularly around private markets.
• For most boards, preparedness is key and they have already invested significantly in governance improvements.

This year looks set to be a particularly busy one for UK pension trustees. If 2023 was the year of the consultation, 2024 will be the year of implementation – or at least preparation for implementation.

The Defined Benefit (DB) Funding Code, Mansion House reforms, changes to liability-driven investment (LDI) strategies, and the push for consolidation dominated the headlines last year and will likely do so again in 2024.

For trustees, there is also the prospect of additional skills and knowledge requirements after the Department for Work and Pensions' (DWP) review. The government's overall view of trustees' knowledge and understanding was positive, but it made clear that it expected additional training to ensure boards understood the full range of asset classes available to them – no doubt to support the private markets-related goals of the Mansion House reforms.

Under pressure?

The Pensions Management Institute (PMI) director of policy and external affairs, Tim Middleton, says: "It is clear from the Mansion House consultation that dealt with trusteeship that the government is seeking to drive up standards throughout the trustee universe as a whole and is considering options such as a requirement for a professional trustee to be appointed to every board and the consolidation of smaller schemes.

"Trustees are likely to come under increasing pressure to demonstrate that they have the skills necessary to manage their scheme effectively."

A big part of this is likely to be accreditation, with the government also calling for the launch of a trustee register to be overseen by The Pensions Regulator (TPR). While many professional and lay trustees already have some form of accreditation, for those yet to take this step, the time is now.

The Association of Member-Nominated Trustees (AMNT) co-chair, Maggie Rodger, says achieving accreditation is "an excellent way to show a certain level of training". For those that have completed the Pensions and Lifetime Savings Association's (PLSA) Trustee Toolkit training programme, getting accredited "should not be daunting", Rodger adds.

"However, the biggest barrier for lay trustees is often the cost and time required, if they are not given appropriate support by their employer, especially if their trustee role is unpaid," she continues. "AMNT has been calling for a much stronger stance on protected time off for meetings, preparation and training time as well as the coverage of costs incurred by lay trustees to carry out their duties."

In its response to the government's consultation on trustee 'skills, capability and culture' in September, the PLSA supported the idea of a trustee register. TPR currently runs a register for independent trustees only.

"Collecting this information would serve several purposes, including determining who currently serves as a trustee (either professional or otherwise), any gaps in knowledge and understanding among trustees (and trustee boards) of different scheme type, and what additional support might be needed from TPR," the PLSA said.

The association also called for a review and strengthening of TPR's Trustee

Knowledge and Understanding (TKU) toolkit, which it said was "not sufficiently demanding". The regulator should "consider offering additional guidance or continuing education opportunities for practicing trustees", it stated.

"By introducing a register of trustees and a stronger TKU regime, it would be possible to introduce a form of 'accreditation' for all trustees."

Speaking to *Pensions Age*, PLSA director of policy and advocacy, Nigel Peaple, explains that there are "proactive steps" to prepare for potential changes to standards.

"These may involve investing in continuous training and development programmes for existing trustees, fostering a culture of lifelong learning within the board, seeking professional accreditation or certifications, staying updated with relevant industry guidance and regulations, and reviewing readily available content such as the PLSA's Made Simple guides."

Are you ready?

How can trustees ensure they are best prepared for the challenges ahead? While accreditation is a strong option – and organisations such as the PMI offer this to lay trustees as well as professionals – the first step for most boards will be to understand where their collective strengths and weaknesses lie.

Macfarlanes pensions partner, Faye Jarvis, says: "When thinking about knowledge and skillsets you should consider the trustee board as a whole. Equally, when considering their shortfalls, you need to look at where there are gaps in the collective knowledge. This can be done by developing a skills matrix to record the different skills and experience of each board member."

Middleton agrees that the skills matrix is an optimal starting point. From here, trustees can identify knowledge gaps and address them through training or additional appointments. Training should be a continuous process, ensuring boards are up to date with developments in relevant markets and regulation.

Zedra client director, Colin Richardson, adds that resources such as professional trustees, advisers or TPR documentation can all help identify areas for ongoing development. He adds: "Good boards are doing this on an ongoing basis as best practice and doing so candidly – only in being rigorous and open can gaps be identified and addressed. This is not about judgement, but improvement.

"We are fortunate that we have a wealth of resources available to us – materials and training – so we start from a good base as an industry."

"Trustees are likely to come under increasing pressure to demonstrate that they have the skills necessary to manage their scheme effectively"

Pension scheme endgames

After the gilt market chaos of 2022 drastically affected some DB pension schemes' endgame planning, 2023 brought new challenges that may again cause some trustee boards to rethink their journeys.

There continues to be significant demand for insurance buy-ins and buyouts. Research by LCP in October 2023 found that the number of UK private sector DB schemes that were fully funded on a buyout basis had grown to 20 per cent – the equivalent of more than 1,000 schemes with approximately £275 billion of assets between them. A further 1,250 schemes are expected to reach buyout level funding within the next five years, LCP said.

While more entrants are predicted for the insurance market to help meet this demand, there may still be those who cannot access the insurance market and may need to consider a self-sufficiency or run-off approach.

The new DB Funding Code – currently scheduled to come into effect from April 2024 after several delays – is likely to focus many minds on creating a detailed journey plan towards some form of insurance transaction.

On top of this, a change to the way scheme surpluses are taxed may make it less onerous for employers to maintain a well-funded DB scheme. More long-term investors could also create a larger potential market for investing in unlisted UK assets, a key element of the Mansion House reforms.

"After many years of having to manage significant funding deficits, many DB schemes are now in surplus," says Middleton. "Historically, the obvious route to wind-up has been through bulk annuity buyout. However, many trustees are now considering the alternative of run-off with the ultimate objective of returning some of the surplus to the scheme sponsor. Trustees will need to give careful consideration as to which is the more suitable option for their scheme."

Reasons to be cheerful

It may seem a lot for trustee boards to tackle in 2024, especially on top of the day-to-day running of their schemes. Rodger says the new changes as planned will "not be a particular burden" on most trustee boards as they will already be monitoring their own training and skillsets.

She adds: "As in any of these situations, trustee boards should be looking to their advisers to not only help train them in all the aspects relevant to their scheme but also to advise on potential changes of investment strategy, for the board to discuss and review. This means that, apart from the new task of supplying data for the register, they should be ready for these changes."

Written by Nick Reeve, a freelance journalist

Supporting members to take the right course of action

Jonathan Watts-Lay looks at the challenges members may face in the year ahead, including the continuing pressure from rising costs and how this may impact pension savings, as well as the key considerations for members approaching retirement. With this in mind, he also outlines how schemes, trustees and employers can help members take the right course of action to optimise their retirement outcomes

Many households have faced severe financial pressures from rising costs over recent times. Yet, as we look to the year ahead, whilst inflation is expected to gradually continue falling, it seems that the strain on household budgets is set to continue for some time. In fact, our latest financial wellbeing research[1] found that employers are expecting financial pressures such as high childcare costs (64%), rental costs (66%) high consumer inflation (75%), and energy prices (77%) will continue to be a risk to the financial wellbeing of employees.

Increasing costs have meant for some that making regular contributions into a pension pot has become more of a challenge. Our research last April[2] showed that 13% of working adults had reduced or stopped pension savings because of rising costs. Yet more worryingly, 29% said that they may consider stopping payments in the future, while 30% said that they may consider reducing future payments.

The current environment is also causing disruption to the retirement plans of many, with our research finding that 33% of working adults thought that they won't ever be able to afford to retire. Not only this, 83% were concerned that the cost of-living crisis meant that they would have to work longer before retiring.

There are also others who are considering dipping into their pensions early to alleviate current financial pressures. Our research found that 31% of those eligible to withdraw pension savings, either intend to or may consider doing so in the future to supplement their income. However, this really should be a last resort and members must understand the dramatic impact this will have on their retirement savings to be used in later life.

However, as the year continues, those involved in the pensions industry will need to closely monitor member behaviour to see what the longer-term impact of rising costs may have on pensions.

What do members need to know?

It's important that members understand how their pension schemes work, what they should be contributing, what funds they should be selecting, and ultimately, what size of pot they need or want when they get to the point of retirement.

Then once at-retirement, people need to understand the options available to them for creating retirement income from pensions they have accumulated, as well as other savings such as ISAs or other investments. Understanding what their state pension will be and when they will receive it is also crucial.

There are common pension mistakes that members could make as they approach retirement, and it's important they understand these so that steps can be taken to avoid them. This includes withdrawing savings from a pension too early, or if a member's pension investments or 'glide path' isn't in line with their planned method of generating a retirement income, as well as not shopping around for product providers to get the best deal.

In addition, as many individuals will have more than one pension (not forgetting other available savings and investments such as ISAs or shares), it's important that they are looked at holistically to avoid paying more tax than necessary. Those with multiple pensions may also be better off consolidating their pensions to ensure a joined-up investment strategy.

There is also a real risk that people either underspend or overspend by underestimating or overestimating life expectancy, and devastatingly, that they lose their pension savings to scams. It's estimated that £2.5 trillion worth of pension wealth in the UK is 'accessible' to fraudsters, which represents a 'huge target base for criminals'.

For many, the decisions that are made at-retirement may be the biggest financial decision they make in their lives and as these pension pitfalls show, it could so easily go wrong. Yet our research showed that 51% of employees either spoke to family and friends or no one at all when getting support with their pension. This highlights the need to ensure members are guided by reliable sources.

What should be done?

It's exceptionally important that schemes, trustees and employers collectively work together to ensure that pension scheme members and employees are making the right decisions when it comes to their pensions.

Firstly, supporting individuals with their day-to-day needs, especially in the current environment, should be an area of focus. This should sit alongside support around longer-term needs such as pensions and retirement savings. Offering financial wellbeing programmes that help with a full range of money matters from debt and money management to preparing for retirement can really help. Many leading companies now deliver this sort of support through financial education workshops, one-to-one guidance or coaching sessions, digital tools and helplines, as well as providing access to regulated financial advice.

In fact, when it comes to retirement provision, the good news is that employers are viewing the ageing workforce as increasingly important, with 29% citing that it will be a driver of financial wellbeing strategy over the next two years. 44% say that they plan to offer targeted support for the over 55s during the same period – which has grown from 17% and represents a 159% increase in the past two years. Specifically, pre-retirement planning is set for a boost with 68% of employers either currently offering it or planning to do so.

But before proceeding with a programme, carrying out due diligence on providers is crucial. This should include checking that any financial education and guidance providers are workplace specialists with experience in providing support to members. Due diligence on regulated advice firms should cover areas such as qualifications of advisers, the regulatory record of the firm, compliance process e.g. compliance checks of 100% of cases, pricing structure, and experience of working with employers and trustees.

Ultimately, empowering members by providing them with access to appropriate support at the right time can improve financial capability and resilience. This can help members to navigate any challenges that may lie ahead which should result in better retirement outcomes for all.

Written by WEALTH at work director, Jonathan Watts-Lay

In association with WEALTH at work part of the Wealth at Work group

[1] The REBA and WEALTH at work Employee Financial Wellbeing Survey 2023 was carried out online between March and May 2023 and was launched on 26 September 2023. Responses were received from 195 wellbeing, HR and employee benefits specialists working at organisations representing over 1.5 million employees

[2] Are rising costs impacting pension savings and retirement plans? The research for WEALTH at work was carried out throughout April 2023 amongst a panel resulting in 2,025 UK adults aged 22+ in full time employment responding

How can master trust boards avoid confirmation bias?

By better understanding different people's needs and attitudes, we can build a more inclusive retirement savings system. But do we understand other people as well as we might think?

The UK workforce is increasingly diverse and set to change further in future. But before pension systems and services can be redesigned to reflect these demographic changes, member needs and attitudes need to be understood. I suspect this may sometimes be harder than some of us imagine.

Take, for example, some of the findings from Standard Life's *Retirement Voice 2023* survey, which explores the views of more than 6,000 people in the UK from all walks of life[1].

In this survey, half (51 per cent) of Gen Zers said they'd "rather invest in property than a pension". Millennials weren't so different, with two-fifths expressing the same attitude.

What should we make of this?

Open to interpretation

Perhaps these findings tell us that younger people plan or expect to have second or third homes in retirement, the rental income from which will provide better income than a pension?

Might they also indicate that many young people have little faith in pensions to provide them with financial security in later life?

Or do they indicate, instead, that many young people feel that getting on the property ladder is immensely difficult, but more immediately important to them than saving for retirement – and therefore, this is what they're prioritising?

Or might it be, rather, that we don't really know?

Without asking the respondents what they meant by these answers, and better understanding people in this age group, we lack the context surrounding these findings. And, as the saying goes, data without context is like a riddle waiting to be solved.

Context is everything

Other findings from the research perhaps also require further reflection. For example, around a third (32 per cent) of people from a black, Asian and minority ethnic background said they were not focusing on saving for retirement because they were "expecting to inherit money or property".

It would be easy to formulate a view about this finding, but, again, do we really know what it signifies? Understanding the proper context of many people's decision-making would seem to require a level of knowledge, empathy – and dare I say, imagination – that is, individually, beyond many of us (me included!).

As we know, data interpretation is not purely objective. Emotions, beliefs and experiences can easily colour our analysis. So if we're not careful, data analysis can mislead as much as it can instruct.

A team that includes individuals with varied backgrounds and perspectives can help to enrich the group's depth and range of sensibilities, and strengthen the overall interpretive process.

It also helps to stay humble. Embracing uncertainty and acknowledging the limitations of incomplete data – and our own understanding – is essential to avoid drawing erroneous conclusions. We are therefore proud to have a diverse Standard Life master trust board, which helps to improve decision-making – and stay alert to things we need to learn more about.

As the amount of data used in our working lives increases in the years ahead, however, having diverse decision-makers is likely to become even more important. This is why Standard Life has launched the Trustee Accelerator Programme (TAP) to support the next generation of trustees.

Widening the net

TAP will provide participants with knowledge and insight into the world of pensions, and provide the qualifications needed to become trustee ready. It is open to participants from all walks of life, including those without previous pension experience.

Launched in partnership with the Pensions Management Institute, the two-year programme starts in April 2024. It has been designed with flexibility in mind, putting people in control of their learning, so they can study around a job, caring responsibilities, and any other commitments.

We would welcome other providers joining forces with us, or launching their own programmes to increase diversity in our industry, with the ultimate aim of improving outcomes for all members.

Written by Standard Life workplace proposition, head of master trust, Donna Walsh

[1] Between July and September 2023, Standard Life commissioned an independent study that sought to understand consumer attitudes to pensions and retirement plans. The study questioned a total of 6,350 UK adults, with the data weighted to give a nationally representative sample by age, gender, region and working status. The research sample included UK adults aged 18–80 and covered a range by income, savings, region, gender, ethnicity, and other key attributes.

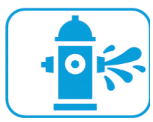
12 months later…

LDI and investment strategy considerations for a post gilt-crisis world

A year on from the 2022 gilt crisis, and a lot has changed in the DB and LDI marketplace. Now the dust has settled, this article highlights what trustees should be thinking of when considering their LDI allocations. Funding ratios are generally better than they were 18 months ago, and decent progress has been made rebalancing away from illiquid and to liquid assets. Additionally, it feels like the market has reached a steady state in terms of regulatory guidance and provider service offerings, meaning that now is a sensible time to reassess the appropriateness of one's LDI arrangements.

We have repeatedly been referring to headroom, liquidity, and governance to signpost the three key areas that trustees should focus on:

Headroom – Defined as the rate rise a portfolio can absorb before remedial action is required. There are several things to consider here. The first is a straightforward regulatory hygiene check. Regulatory bodies have guided towards minimum headroom levels of 2.5% to 3.0% (defined as the rate rise a portfolio could absorb before full asset exhaustion), trustees should verify that their LDI provider's approach is compliant with this guidance. Secondly, the LDI portfolio/fund will have a certain level of in-built day-to-day headroom before action is required to top up collateral. Trustees should be aware of what this is and fully understand the unique rebalancing process operated by their chosen provider. The devil is in the detail, and approaches differ between providers. Finally, trustees should determine what level of headroom they wish to accommodate with their non-LDI collateral assets. This will be scheme specific and linked to growth asset liquidity, governance, and return requirements etc. Your LDI provider should be able to offer detailed reporting, analysis, and input to help inform this decision making.



Liquidity – Any collateral waterfall asset or supplementary collateral MUST be sufficiently liquid, both day-to-day and in a crisis. As a minimum, this means daily traded and with short settlement cycles. Additionally, trustees should consider exit costs and whether such costs could increase in times of market stress. Price volatility is also relevant. Generally, assets with more stable values are more attractive as market timing risk is reduced. This has been steering investors towards short-dated global corporate bonds, diversified growth funds and absolute return strategies.

Governance – What model do the trustees wish to employ for instructing trades and moving money around to top up LDI collateral pools? The general trend is towards delegation. Even schemes with meaningful governance budgets, who were able to meet capital calls during the crisis are seeking to delegate this activity to reduce risk. The broadly accepted solution it to pre-agree what assets will be sold and in what order and to delegate this within a rules-based framework to someone operationally set-up to implement such activity day-to-day, such as the LDI manager, a fiduciary manager or the scheme's adviser.

What does all this mean for investment implementation?

- More pension schemes are **allocating to adjacent liquid asset strategies with their LDI manager**, to facilitate automatic rebalancing of leverage when required. Whilst pure investment capability and credentials remain important, the settlement cycle, exit costs and level of leverage rebalancing automation the manager can offer are becoming increasingly important.
- **Full integration of credit and LDI allocations** is attractive where possible. Apart from the obvious accuracy benefits of the LDI manager accounting for the credit accurately and in real time, there are some proven benefits should the credit need to be sold to top up the collateral pool. Firstly, it may be possible to avoid selling credit altogether by using maturity proceeds or by borrowing using credit repo. Secondly, where credit must be sold it can be done in a nuanced way, minimising the amount of credit that is sold and the impact of any sales on the remaining portfolio.
- Emergence of **demand for implementation manager solutions.** There has been a dawning realisation of a middle ground between full delegation via a fiduciary manager and the traditional advisory model. This involves the trustees continuing to take advice from a traditional adviser and owning the strategic and manager selection decisions, but then delegating the implementation of these decisions to a third party. Another way of describing it is as fiduciary management but without the advice. Such a solution ensures the right people are undertaking the right tasks. i.e. a market practitioner

takes responsibility for a lot of the operational tasks, freeing up bandwidth for the trustees to focus on strategic decision making.

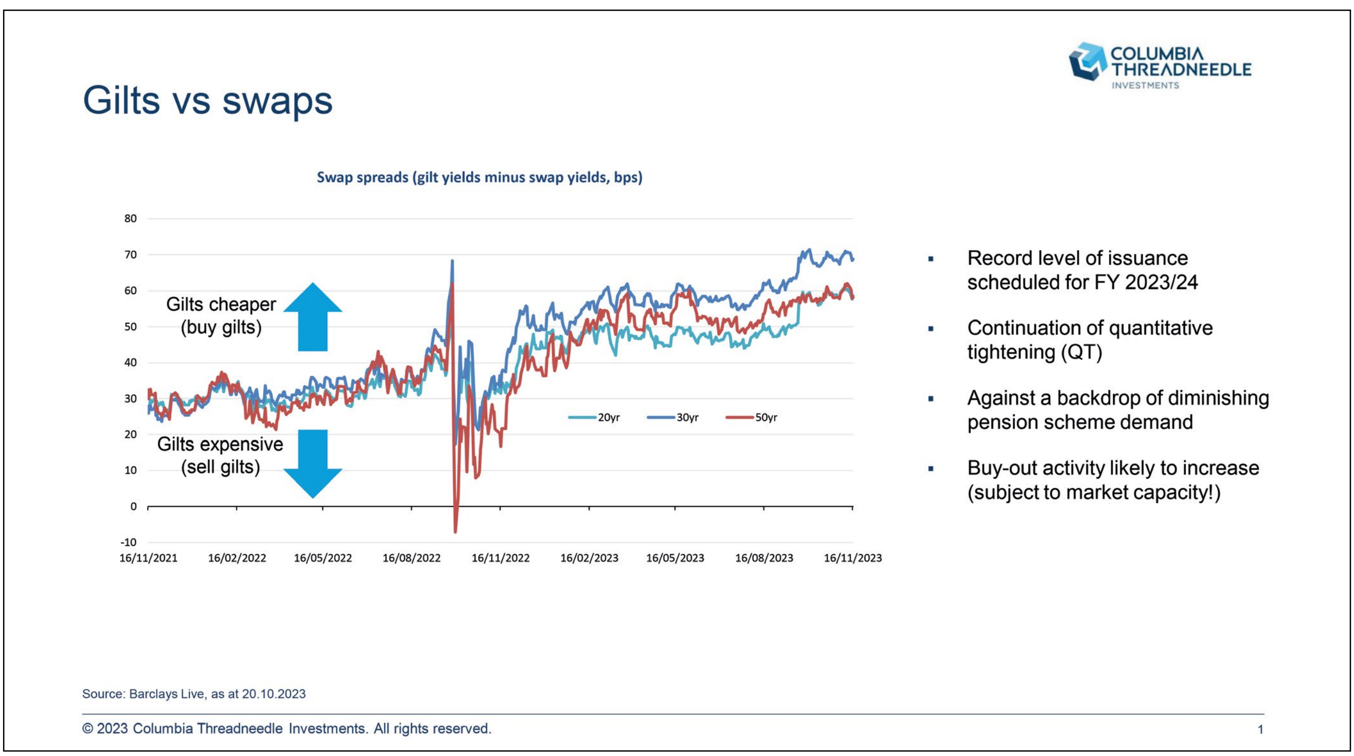
- **Short-dated credit is gaining a march on longer dated cashflow matching portfolios.** Two things have driven this. Firstly, shorter dated credit is better suited as supplementary collateral. It is more liquid, less volatile and contributes less to hedging than longer dated credit. Secondly, improvements in funding ratio place schemes closer to buyout than previously anticipated. Shorter dated credit is better suited to near- and medium-term buyout aspirations as it is easier to sell at the point of transition to an insurer.
- **Greater focus on end-game objectives.** Improved funding ratios have focused minds on whether run-on or an insurance solution is the desired outcome. This has led to an awareness that the insurance market is capacity constrained and so schemes need to make themselves as attractive as possible to a potential insurance suitor. In some instances, this requires meaningful work on data and liability management. Buy-ins have taken a bit of a back seat. Lower LDI leverage levels post gilt crisis mean that buy-ins can put an unjustifiable additional strain on the remaining scheme assets.
- **Dynamic LDI has returned to the fore.** Dynamic LDI involves biasing the liability hedge to the cheaper of gilts and swaps and systematically switching between them to add-value. Several things have combined to remind investors of the attractiveness of such an approach:
  - Increased market volatility has created more value-add switching opportunities.
  - Excess gilt supply versus demand has led gilts to underperform swaps, making pure gilt-based hedging less attractive.
  - The gilt crisis increased awareness of the flexibility benefits of a multi-asset hedging strategy.
  - Improved funding ratios and therefore proximity to buyout has reminded trustees that incorporating swaps in the hedging portfolio reduces basis risk relative to insurance pricing.

In summary, a lot has changed within the LDI market in the past 12 months, and now is a good time to reassess your LDI arrangements to ensure you are best placed to meet your scheme's objectives over the coming years.

Written by Columbia Threadneedle Investments managing director, head of solutions client portfolio management UK , Simon Bentley

In association with

Source: Refinitiv Datastream as at 16.11.2023



An alternative to buyout

Michael Burdett explains why run-on solutions are increasingly popular for DB pension schemes

Rising interest rates prompt re-evaluation of endgame options

In the face of rising interest rates seen since early 2022, defined benefit (DB) pension schemes have seen a rapid and remarkable change in their financial situations. Many have tipped into surplus, prompting trustees to evaluate their endgame options more closely and over much shorter time horizons than previously anticipated. Traditionally, a buyout with an insurance company has been viewed as the 'gold standard' for DB pension schemes. However, many are challenging whether conducting a buyout as soon as possible is the optimal solution for their scheme.

As a result, alternative strategies, specifically run-on strategies, are gaining traction. Approximately one in five schemes, are setting run-on as their most likely endgame strategy[1]. Run-on is where the pension scheme pays off liabilities (pensions, expenses, transfer values etc.) as they fall due over time. To achieve this, a pension scheme will typically aim to be 'self-sufficient'. This means it will seek to establish an investment portfolio that gives it a high probability of fulfilling all its pension obligations, with a no or 'low dependency' on the sponsoring employer. The liabilities are typically run off until the incremental cost of a full insurance buyout is acceptable relative to the costs and risks associated with governing the scheme on an ongoing basis. But why are run-on strategies becoming increasingly relevant in the current market?

In our view, this industry shift is driven by three factors: Changes to legislation that incentivise run-on, uncertainty around financial and practical capacity in the insurance market, and paternalistic sponsors wishing to remain at the helm.

Legislative changes: A catalyst for run-on strategies

The Mansion House speech, delivered by the Chancellor in July 2023, and built on by the Autumn Statement, in November 2023, provided further incentives to run-on DB schemes. In the Autumn Statement, the Chancellor made it clear that the government will encourage alternatives to buyout and look to increase the opportunities available for schemes to invest in productive finance, focusing on UK assets.

As part of the statement, the Chancellor proposed the tax applied to return surplus from the scheme to sponsor would be cut from 35 per cent to 25 per cent, further consultations on how surplus is repaid to sponsors and the ongoing role of the PPF; with the PPF being able to cover 100 per cent of member benefit payments in exchange for a higher levy and being able to act as a consolidator for schemes that are deemed "unattractive to commercial providers". As part of these reforms, we identify three potential benefits to trustees, namely, the ability to enhance benefits for existing DB members, a more streamlined way of returning surplus to sponsors and greater clarity on de-

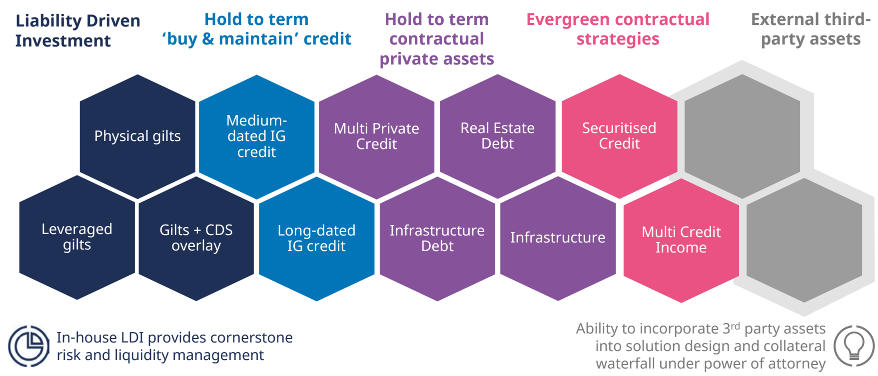


Figure 1 - The core building blocks of a run-on solution

risking standards, which allow schemes to run-on for longer and potentially secure better insurer pricing in the future. Ultimately, the increased flexibility given to DB schemes encourages investment in productive assets, in a risk-controlled manner, which can be beneficial to all stakeholders.

Potential limitations in the insurance market

Looking more closely at insurer capacity, the significant rise in interest rates has led to a surge in trustees and sponsoring companies looking to transfer their DB schemes to insurance companies.

According to the Pension Protection Fund (PPF), as of 31 October 2023 there were only 473 schemes in deficit whilst there were 4,658 schemes in surplus; as a comparison, there were 1,752 schemes in deficit and 3,379 in surplus as of 31 March 2022 when longer-dated yields were under 2 per cent. The increased demand for insurance has created a capacity constraint in the near term. Most participants expect insurers to become more selective around which schemes to quote for. Larger schemes (over £1 billion for example) will retain the most interest, and technology may help increase capacity for smaller schemes (under £100 million). For the swathe of schemes in the middle, uncertainty over capacity is an important factor in determining how to run your investments today. A risk-controlled approach, investing predominantly in contractual assets protects the funding progress built up over recent years, whilst making incremental gains towards funding on a solvency basis. Running-on allows trustees the flexibility on risk, return and timeframe, whether the ultimate goal is an insurance solution or not.

The investment skills needed from a run-on solution partner

There are three key attributes needed from an investment partner, to help you deliver a run-on solution:

Technical: The first skill required is to have strong strategy design skills in cashflow-driven investing (CDI). Your partner needs to have the design modelling, the risk tools, and the reporting to provide you with the full-service package.

Implementation: Any CDI solution manager needs an efficient way to implement the core building blocks. Hedging from corporate bond assets needs to be fully integrated into the liability hedging assets, and efficient collateral and liquidity management is paramount.

Breadth: It is important to partner with a firm who can both provide you with an appropriate range of asset classes going forward, but also deal with legacy issues, including careful management of legacy illiquid assets.

Conclusion

The evolving market and legislative landscape have led DB pension scheme trustees to consider alternatives to traditional buyout strategies. Run-on solutions, particularly those using a CDI strategy, are emerging as viable alternatives, offering control, flexibility, and certainty of outcomes.

At Schroders Solutions, our integrated team is ready to help navigate these complex decisions, providing bespoke solutions that meet each scheme's unique needs. As the pensions landscape evolves, we remain committed to delivering outcome-focused solutions that cater to this new reality.

Written by Schroders Solutions head of CDI, Michael Burdett

In association with Schroders solutions

[1] **Source: Trustee poll, PLSA Investment Conference 2023**

The road to General Code

With most journeys, we usually have a clear idea of our destination, and how to get there. However, there are often challenges along the way. The road to the General Code is no different

The General Code of Practice (the code), formerly known as the Single Code, has suffered many delays. Originally expected in spring 2023, it's still yet to arrive. When it's published the code will be one of the most significant changes in occupational pensions in decades with new requirements around cyber security, so trustees must understand its requirements and get prepared.

Create a road to effective governance:
Even the most well-governed schemes will need some work to prepare for the requirements of the code, but complying with it shouldn't be rocket science; it's simply a redesign of the governance structure, including the introduction of a self-performed audit function.

Though implementing the code may appear daunting, it's crucial to remember the purpose behind it: **delivering enhanced governance that adds value and makes you think at the right times.** Enhanced governance translates to better outcomes for members, so it's important to not simply develop a system that leads to an annual box-ticking exercise. For example, a poor system may simply ask if there's a risk register in place. Meanwhile, a good system will stipulate when the risk register should be reviewed; ensuring all key risks are covered and mitigated as far as possible.

Get prepared:
To best prepare your scheme for the General Code, you can start by reviewing where it currently is. By assessing your current scheme's practices against the **effective system of governance** (ESOG) guidelines, you'll:

- understand how well your pension scheme already complies
- identify areas that need improvement; and
- pinpoint where a new policy or procedure is necessary.

Such analysis will also help guide you as the trustee, on where to prioritise and channel your efforts effectively. This is particularly important, given The Pensions Regulator's (TPR) guidelines stating that trustees must implement an ESOG that aligns with the size, nature, scale, and complexity of their scheme's activities.

While size shouldn't be a barrier to good governance, trustees of smaller schemes may understandably have concerns about addressing similar challenges with limited resources. However, they can take comfort that proportionality must be considered.

Speak to a professional:
It's the responsibility of pension trustees to ensure that their scheme is in compliant with the law and governed effectively. Seeking professional guidance can make this process more manageable offers trustees increased confidence.

At Vidett, our unique 'toolbox' can assist our clients in complying with the code, including:

• **Gap analysis** – our compliance review tool allows us to present initial results and an action plan to clients.

• **Template policies** – to comply with the draft code; implementing new policies and processes, which once drafted, accompany our progress summary report.

• **An ESOG planner** – to ensure each policy (once in place) is reviewed at appropriate times, including a risk register and dashboard to highlight key risks.

• **Training guides** – we've developed some for new trustees on key areas they should know about. Our equity, diversity and inclusion (EDI) guide is a prime example, it's not currently an area covered in the code but is something we want embedded to help optimise all trustee boards; building on existing work embracing TPR's EDI guidance to take the lead in conversations on EDI supporting our clients.

Prioritise essential policies and processes:
The General Code has been delayed, but there is still plenty that trustees can do in preparation for it. We recommend putting in place top priority policies and processes, such as a cyber security and incident response plans.

The high-profile cyber issues that impacted Capita's systems earlier this year were a timely reminder for all pension trustees and trustee boards to take stock of their IT security and data protection policies.

The loss of personal member data from a cyber-attack or denial of services through disruption to systems can be costly to members through the inability to settle benefits or pay pensions, as well as to trustees through potential fines from the Information Commissioner's Office (ICO) or TPR.

Pension trustees, as data controllers, have a legal duty under the UK General Data Protection Regulation (GDPR) to have 'appropriate technical and organisational measures' in place to process data securely. This 'security principle' extends to the processing of data by each of a pension scheme's data processors. **A cyber security policy setting out cyber risks and the management of them, is therefore the bare minimum required by trustees to put in place.**

TPR requires trustees to build cyber resilience into their systems to protect members against cyber risk. Their guidance on cyber security requires trustees to assess and understand the risks; putting controls in place; monitoring and reporting on those risks and controls. TPR also urges pension trustee boards to understand the potential cyber risks faced by their scheme; putting in place appropriate measures to assess and manage cyber risks.

If a cyber incident or data breach occurs, regulations require data controllers (trustees) to take immediate action and report matters to the ICO (within 72 hours), TPR and affected members without delay. To do so, trustees will need their policies and procedures in place.

Improve cyber security:
Here are our top tips to start doing right now:

• Assess and understand your scheme's 'cyber footprint' and any vulnerabilities

• Ensure roles and responsibilities of trustees, data processors and scheme managers are clearly defined and understood

• Speak to your sponsor as it's important to understand their cyber security and you may want to align your plans with their cyber policies

• Add cyber risk to your scheme's risk register and review it regularly

• Have back up plans in place e.g. in relation to the operation of pensioner payroll

• Ensure your data processors have robust internal controls in place to deal with cyber incidents and data breaches

• Put in place and test your incident response plan so that any cyber incidents or data breaches can be dealt with and how/when operations can resume

• Ensure reporting deadlines and processes are known so any incidents can be reported

• Record cyber incidents and data breaches so action can be taken to mitigate, reduce and learn from them

• Undertake regular training for all staff to understand cyber risks, new regulations and guidance

Reach the finish line
TPR's new code will introduce a new module relating to internal cyber controls, that will sit alongside the ESOG that trustees need to have in place and demonstrate compliance with. With the new code expected to be published soon, we can help you navigate and review your existing cyber security policies; ensuring they're appropriate and meet the code's requirements as you arrive at your final destination.

Written by Vidett client director, Simon Riviere

In association with Vidett trustee.governance.experts

Member communications: Is AI ready to step up for pensions?

Johnathon Ryder examines the challenges that member communications face with the emergence of AI

Simplifying complexity is crucial for understanding and engaging with pensions, as well as delivering targeted, tailored, and timely messages to drive action. Traditionally, this has been done by humans, but is it time for a change?

AI is omnipresent

King Charles III addressed the topic in his November speech, emphasising the need for a gradual adoption with adequate safeguards. Elon Musk believes it could spell the end of humanity. It has even been named the 'word of the year' 2023 by Collins Dictionary. There is no escaping it. AI is causing divisions in various industries. The 2023 writer's strike in Hollywood, lasting 148 days, was the longest in its history. Writer's fear being replaced, and AI is even taking on the role of artists by generating artwork, images, music, songs, and data analysis.

What can we currently do with AI that is easily accessible and usable?

Quite a lot. Web tools like OpenAI's ChatGPT and Dall-E, Microsoft's Copilot, and phone apps like NovaAI offer a range of capabilities. According to ChatGPT, AI can assist with creativity and art, education, and automation. In essence, it can design a simple logo, create a newsletter, write an article, support learning, and perform data entry tasks. However, there are certain issues and considerations to keep in mind.

What is Landscape's experience with using generative AI?

Our experience with AI has been a mixed bag, but we continue to explore its potential whilst understanding the risks. We challenged ChatGPT to write a page explaining Pension Increase Exchange (PIE). Unfortunately, the output we received was fundamentally flawed and contained incorrect information. However, a second experiment to draft an article explaining the basics of inflation, how it is measured, and why it is important was more successful. With adjustments to match our writing style, it was accurate, correct, and saved time.

Generalists and specialists

This led us to consider the need for both generalists (graduates and junior team members) and specialists. Our four-eye review process involves a generalist conducting research, understanding the subject matter, and creating a first draft. The specialist then reviews it for technical accuracy, compliance with pensions rules and regulations, and ensures the accuracy of any figures. In the AI experiments, AI replaced the generalist in creating first drafts, which the specialist needed to review and edit. The inflation article required minimal changes, while the PIE article needed almost a complete rewrite.

Providing feedback to AI is currently challenging

Specialists often spend more time correcting the first draft instead of having the generalist do it. This means no real savings are achieved. The impact on generalists and specialists is another consideration. With the traditional process, generalists gain knowledge and understanding through the process, eventually becoming specialists themselves. With the AI approach, this knowledge transfer is lost.

So, are things ready to change?

Well, yes and no. For schemes with smaller budgets, AI tools can potentially serve as starting points for articles, reports, newsletters, etc. However, thorough checks for accuracy and compliance are necessary. AI can generate images to accompany the articles and even create a podcast version using generative voice AI tools.

Landscape believes that the process should be more collaborative between the generalist and AI. If the generalist can use AI to create a first draft and then conduct the initial check, the output will be more accurate when it reaches the specialist. This approach can potentially reduce the amount of work needed while knowledge is still being acquired and future specialists are being trained.

That's where we currently stand, but things are changing every day. In fact, this article is probably already outdated!

Written by Landscape client services director, Johnathon Ryder

In association with
Landscape.


Get that pension feeling
Helping schemes deliver value for money through better engagement & communications
+ AI
+ Content creation
+ Web design & development
+ Strategy
+ Branding
+ Design
+ Mobile apps
+ Motion graphics
+ Social strategy
Landscape.
Pensions made simple

The trustee role in retirement planning

Aviva policy manager, workplace savings, Dale Critchley, examines the role trustees play in members' decumulation phase

The role of a trustee is changing. After years of helping savers turn income into pension wealth, there is a growing expectation that they will also help turn pension wealth into an income in retirement.

Decumulation has been described by William F. Sharpe, the Nobel Prize winning economist as "the nastiest, hardest problem in finance". It is a puzzle made more difficult for trustees by the fact that they are looking to act in the best interests of members with varying levels of wealth, needs, and ambitions, in retirement.

What does government expect of trustees?

The Department for Work and Pensions (DWP) consultation response[1] makes it clear that government will regulate to ensure trustees offer a suite of decumulation products and services which are suitable for members, and which are consistent with pension freedoms. This will include a default solution which operates on an opt-out basis if savers make no active choice.

Nausicaa Delfas, CEO of The Pensions Regulator (TPR) has indicated that interim guidance for trustees will be published in 2024[2]. The longer-term ambition is that "over time, all workplace schemes should become full-service providers …. providing services for saving into a pension, accessing pension savings and post-retirement support"[3].

The direction of travel is clear. Schemes will be able to link to other schemes to help turn pension wealth into income, but this is a stepping stone towards a future where defined contribution pension schemes provide a whole of life solution.

What is the problem?

Improved flexibility has opened opportunities to provide a retirement income that meets the individual needs of savers, but increased choice brings an increased risk of making a mistake. As defined contribution pots grow, both in value and importance, those mistakes are becoming increasingly costly. Data from the Institute for Fiscal Studies (IFS) shows that almost 45 per cent of pension savers in their 50's have defined contribution pensions only[4], a number which is surely set to increase.

The data[5] suggests that some people might not be making the best choices with 40 per cent of savers withdrawing more than 8 per cent of their pension pot in 2021/22, and that people are unprepared for the choices they will need to make. Aviva's Planning for Retirement in the 2050s report[6] found that amongst middle earners set to retire in the 2050s, nearly half said they did not know what they would do with what could be a typical defined contribution retirement pot of £225,000. One in ten said they would cash it in, triggering a tax bill of £73,539.50 and equivalent to their final 15 years' contributions.

Savers are looking for help. Almost three-quarters (72 per cent) of savers said they would like unbiased advice, but only 10 per cent of people in this middle-income and middle-aged group had taken advice.

What can trustees do?

It is clear that members are looking for help, advice, and guidance, and that should start well before retirement age. We see a spike in people taking benefits at age 55, simply because they can. Small pots seem especially susceptible to early access, something that could be mitigated through promotion of individual consolidation.

There is demand for advice, but savers are often at a loss when it comes to finding a trusted adviser. Trustees could consider working with employers to signpost to an advice firm and utilise employer and employee allowances to promote tax advantaged advice.

The Association of British Insurers (ABI) has recently demonstrated the potential for personalised guidance[7] with a remarkable 62 per cent increase in people choosing the right option when provided with a choice framework delivering personalised guidance.

Which products should trustees consider?

While the long-term view is that schemes should offer in-scheme solutions, the current position is that few trustees outside of master trusts offer a drawdown pension within their scheme. Solutions like collective defined contribution are some way off becoming a reality and will require the kind of scale that will not be achievable for most employers in anything but multi-employer schemes.

For most trustees, the DWP's suggestion that they partner with a provider to deliver decumulation options will be the way forward.

Trustees should be well equipped to assess the relative quality of decumulation service providers, and the advice market has a wealth of insight to share. But seeking a solution to "the

nastiest, hardest problem in finance" is not easy. Unlike in accumulation, there is not a universal good outcome.

Achieving the maximum level of predictable regular income could be assumed to be the aim. But what about the saver who experiences less than typical longevity? Or the saver who plans to spend more in the early years of retirement?

Pension freedoms opened-up options to play-off each of the measures of good value against each other.

- Level of income
- Certainty of income
- Inflation protection
- Flexibility of income
- Income or a capital return to beneficiaries on death

Schemes will have members who prioritise each of these factors differently, and for whom a single view of what good looks like is not going to be an optimum solution.

Trustees need to make conscious decisions and should be wary of the pseudo default; the line of least resistance that will be exposed by a pension scheme population seeking the simplest way to access their pension. They should already know what this looks like, and what the possible detriment is for their members through interrogation of their scheme data through systems like Aviva's Insight Hub.

The aim should be to direct members from 'easy' to their personal version of good. That could be through the provision of advice. It will involve guidance, but it will also include links to a trusted provider who can deliver the range of products and support that savers might need throughout their retirement, including an appropriate default.

Defaults that cannot be undone risk material and permanent disadvantage to members, depending on their personal circumstances. For example, there are thousands of savers who access tax-free cash while working, and for whom the provision of an immediate income could be detrimental.

Aviva is developing its 'Guided Retirement' solution, which aims to provide savers with tools to enable them to vary the proportion of their pension pot that they allocate to provide a flexible income, discretionary spending, and the amount set aside to provide a guaranteed income in later life. The same tools, and communications throughout retirement, will guide pensioners toward an optimal income while allowing them the flexibility to make their own choices based on their personal circumstances. Importantly, members are not tied into a single pathway, so if a life event happens, different choices can be made.

There will likely be a range of solutions that trustees will need to consider, they will need to lean on expert advice, but when seeking a way though the decumulation maze they should not lose sight of the diverse needs of savers.

Written by Aviva policy manager, workplace savings, Dale Critchley

In association with AVIVA

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Securitised credit: Unlocking the pension opportunity in 2024

High interest rates, sticky inflation and weaker economic growth have combined to create a challenging environment for traditional fixed income investors. Securitised credit strategies could offer an attractive alternative for pension fund investors

This article reviews the key features of securitised credit, highlighting its potential diversification benefits. This includes the **floating rate** nature, where the opportunities lie, the potential to reduce credit risk via **credit enhancement**, common misconceptions surrounding securitised credit and its potential role in liability-driven investment (LDI) strategies.

Why should investors allocate to securitised credit?

As interest rates have risen, traditional fixed-income investments have incurred losses during this period, whilst securitised credit has been one of the best relative performing fixed income asset classes. Securitised credit is predominately floating rate and coupons increase in line with interest rates, limiting interest rate risk.

The investable universe provides ample opportunity for diversification across various market segments, with the distributed part of the global market representing around $4 trillion of mainly floating rate securities (excluding agency mortgage-backed securities).

Securitised floating rate characteristics can also prove beneficial, given low correlations versus traditional fixed income, adding asset class diversification. Securitised credit pays a higher rate of income when compared to equivalently rated corporate bonds, as the asset class benefits from complexity and illiquidity premiums – as this is an over the counter (OTC) traded marketplace, offering a higher spread level. Investors benefit further from credit enhancement – put simply; a cushion against potential cashflow losses.

How will the 'higher for longer' scenario impact securitised credit?

A 'higher for longer' interest rate environment is the perfect scenario for securitised credit, allowing high income levels to continue to drive returns. Interestingly, whilst coupons are high, spreads in the asset class remain at historic wides. A mild recession is expected (particularly in the US) in the middle of 2024, with central banks subsequently expected to gradually lower interest rates. In this scenario, returns would continue to be predominantly driven by income, with associated spread tightening providing another layer of returns, via capital appreciation.

How can investors allocate within securitised credit?

The securitised credit market is global in nature, with the US a large component of the opportunity set. When combining the US and Australia, these markets account for over 80 per cent of the global distributed market, whilst Europe and the UK less than 20 per cent. The US market is more diversified, with all segments having large weights and typically offering superior liquidity. Opportunities within securitised credit markets move frequently over time, across regions and sectors. Therefore, making a global, dynamic and active relative value approach is most likely to extract value. Yet some investors are missing this wider opportunity set.

Those securitised credit investors focusing only on Europe could benefit from broadening their geographic portfolio reach and allocating more dynamically. Including the US may provide the following benefits:

- Improved liquidity profile
- Access to attractive US-only segments - including single-family rentals (SFRs)
- Improved diversification, leading to more resilient portfolios
- Capable of delivering more stable investment returns

What are the risks associated?

High-quality securitised credit investments have demonstrated resilience during periods of market stress. Not all securitisations are equal and individual security selection remains key. However, key risks that must be evaluated are:

1. **Credit spread risk**
2. **Default risk**

We see limited credit spread risk within the current environment. Spreads are at historic wides, reflecting a lack of spread compression compared to investment grade corporates post multiple market events. This opportune spread backdrop may present investors with an attractive opportunity.

Whilst default risk clearly remains, defaults are currently low (and are expected to increase as we move through the cycle) – yet are not anticipated to increase above the long-term averages. Securitisations utilise special purpose vehicles – separate legal entities used to ring-fence and orient the risk of the securitisation towards the underlying pool of collateral. This structure creates opportunities for credit enhancement, with multiple debt tranches available at various seniority levels. Investors should only incur losses if total losses exceed the amount of credit enhancement behind the selected tranche. Credit enhancement refers to structural features which provide a cushion against collateral losses. Credit enhancements include cash reserve funds, over-collateralisation and excess spread.

Investor perception vs reality

When some investors hear 'securitised credit,' flashbacks of the global financial crisis are never far away. However, from a default perspective, most securitised sectors remained relatively robust to perceived defaults and recovered (outside of an initial risk-off credit market shock). Areas such as sub-prime residential mortgage-backed securities (RMBS) and collateralised debt obligations (CDO) experienced significant losses during this tumultuous period, yet the whole sector has been unfairly tarnished.

Since then, there have been significant developments and improvements within the securitisation market:

1. Securitisation regulations require originators to retain 5 per cent of origination exposure, known as 'skin in the game' – symbiotically aligning investors' and issuers' interests together
2. New regulations, which require extra disclosures with respect to affordability and credit ratings transparency, further protecting investors
3. Securitised credit is more liquid than one might think. The US market which is the deepest and most liquid, trades with c.$5 billion daily volume

Don't go chasing waterfalls

The LDI crisis of September 2022 is still fresh in investors' minds. The importance of pension funds having an allocation to low correlated liquid assets was highlighted. Many pension schemes did not have sufficient liquidity to meet their provider's urgent collateral calls and were forced into selling the most liquid assets. During this period, the securitised market provided liquidity to those that needed it.

High-quality securitised credit demonstrates a stable liquidity profile subject to market trading costs. Meaning, LDI strategies can continue to utilise securitised credit to meet their liquidity requirements, alongside other liquid asset classes.

Summary

- An alternative or complement to traditional fixed income.
- A higher-for-longer environment could generate high relative income for investors, with potential for capital appreciation through spread tightening.
- Securitised credit offers complexity and illiquidity premiums in the form of higher yields versus equivalently rated corporate debt, and investor protections via underlying credit enhancement.
- LDI strategies could benefit from liquid allocation to securitised credit.

Written by HSBC Asset Management senior investment specialist, global, securitised and sterling fixed income, Paul Mitchell

In association with HSBC Asset Management

Company Profiles

WEALTH at work

WEALTH at work is a leading financial wellbeing and retirement specialist – helping employees and pension scheme members to improve their financial future.

This is achieved by providing support in the workplace on a range of financial matters from financial wellbeing issues such as debt and money management through to pensions and preparing for retirement.

We also specialise in delivering projects such as defined benefit scheme closures, redundancy, share scheme launch and maturity and so much more.

Established in 2005, we provide financial education and one to one guidance on a bespoke basis which can be delivered globally. As part of the Wealth at Work group, we deliver these services for hundreds of organisations, reaching millions of the workforce.

Employee engagement is driven by designing campaigns to create awareness of upcoming programmes and then digital nudge technology is used to encourage participation to maximise take-up.

Knowledge can also be supported through the creation of informative and stimulating content from our digital communication specialists who produce webcasts, animations, interactive calculators and tools including our Financial Healthcheck, as well as the implementation of websites and portals to support any programme.

Following this, for those wishing to understand their personal financial situation, support is provided through our helpline. At this point, we can offer access to investment advice which provides specific recommendations on, for example, retirement planning and can adapt in line with changing needs.

We also offer other investment options (on a non-advised basis) for those with simpler investment requirements. These can be initiated at individual level or arranged at employer level by setting up and offering a Corporate ISA.

WEALTH at work
part of the Wealth at Work group

Standard Life

Standard Life is a brand that has been trusted to look after people's life savings and retirement needs for nearly 200 years.

Today, we serve millions of customers, who come to us directly, through advisers and through their employer pension scheme, and we're proud of the consistent high-level of customer service we provide.

Overall, people are living longer and we can support them at every step in their financial future – whether they're looking to maximise their long-term savings, explore options to have an income in retirement, or better understand financial wellness, we're here to help.

We know we can't achieve this without doing our part to build a strong and sustainable future. It's why we are integrating sustainability into everything we do; from incorporating responsible investing into our solutions, to fostering an inclusive savings culture and improving financial wellbeing for all.

We're part of Phoenix Group, the UK's largest long-term savings and retirement business. We both share an aligned ambition to help every customer enjoy a life full of possibilities.

Standard Life
Part of Phoenix Group

Columbia Threadneedle Investments

Columbia Threadneedle Investments is a leading global asset manager that provides a broad range of actively managed investment strategies and solutions for individual, institutional and corporate clients around the world. We invest to make a difference in your world, and the wider world, and millions of people rely on us to manage their money and invest for their future. We have more than 2,500 people including over 650 investment professionals based in North America, Europe and Asia, and assets under management of £481 billion. Whatever world you want, our purpose is to help you achieve it.

COLUMBIA THREADNEEDLE INVESTMENTS

Schroders Solutions

Schroders Solutions is a £210 billion global capability with employees in the UK, US, Singapore, and Germany. Our dedicated solutions experts provide investment and advisory services to public and corporate pension schemes, official institutions, insurance companies, individual investors, intermediaries and wealth providers worldwide.

Solving investment problems is integral to what we do. We draw on our knowledge and experience as a global provider to build bespoke investment solutions and strategies. We partner with our clients to understand their investment challenges and construct investment portfolios that deliver their desired financial outcomes. Our consultative approach draws on both Schroders' investment skills and those of the wider investment industry.

Schroders Solutions offers Fiduciary Management, Outsourced CIO, liability, duration and cashflow driven investing, as well as derivatives-based growth strategies. Our solutions are accessible to clients of all sizes through a flexible approach to implementation, sensitive to their needs and objectives.

Source: Schroders as of 30 September 2023.

Schroders solutions

Company Profiles

Vidett

Vidett was formed in 2023 to facilitate a true merger of equals – Punter Southall Governance Services Limited and 20-20 Trustees Limited. With a team of over 120, Vidett is now the UK's largest professional trustee and pension governance firm by number of clients. With an unrivalled knowledge bank to support client needs, Vidett currently looks after over 475 client schemes with total assets of over £142bn and covering over 2,500,000 scheme members. Vidett is based on a shared ethos of dynamic, collaborative teamwork, sharing knowledge to drive progress for our clients and embracing innovation to find effective solutions to their challenges and drive efficiency. Coming together as Vidett demonstrates our offering and commitment to the market and growth. It's also great for our staff: They're part of a strong, confident business, committed to investing in our people to make us the employer of choice in a competitive market.

Vidett
trustee.governance.experts

LANDSCAPE

Landscape is an award-winning design and digital communications agency that specialises in simplifying complex information to make pensions, rewards, and benefits more accessible to those who need them. We are a part of the WEALTH at Work Group, a market leader in financial wellbeing and retirement planning. This affiliation provides us with access to a wealth of knowledge and expertise in the pension and financial wellbeing industry. We are proud to hold ISO 9001 and ISO 27001 accreditations, which verify our ability to deliver quality and mitigate information security risks for our clients. Our user-centric digital communication experiences, both online and offline, are evidence based and validated throughout the project lifecycle to ensure the best outcomes. We work closely with our pension clients, their members, and trustees to stay at the forefront of the UK pension market by actively listening to and considering their wants and needs. What sets us apart from other agencies is our creative thinking and value for money. Based on feedback from our clients, pension experts, and trustees who work with our peers, we have quickly gained a reputation as one of the most creative agencies in the industry. We believe that our approach to refining and enhancing communication strategies, based on learnings and additional insights, is what makes us stand out.

Landscape.

Aviva

Aviva Master Trust delivering for its members

Aviva Master Trust has been chosen to provide pension saving for over 450,000 employees, working in over 400 companies across the UK. The scheme holds over £8.5 billion of pension saving trusted to it by scheme members. Aviva Master Trust brings together the skills, knowledge and expertise of the Trustee Board with Aviva's industry-leading product design, digital technology, and investment capability. Insight from members comes from a member research panel known as the Discovery Hub. These combine with the aim of delivering the best possible retirement outcomes for members.

Key areas of focus are:

Sustainable investment returns – a strategic objective is to deliver and maintain high quality investment solutions which meet climate change targets. The trustees believe that by including ESG factors within investment decision making, they will reduce overall investment risk for members while generating sustainable returns.

Member engagement – the trustees take advantage of Aviva's compelling digital proposition to enhance the member experience and improve engagement. Supported by online access and dedicated apps, members can log in via thumb print or facial recognition, making it incredibly easy to view, model and manage their pension.

Retirement solutions – the scheme offers a full range of pension freedoms, with communications designed to promote good decision making. The trustees are currently engaged with Aviva in their development of an innovative Guided Retirement solution.

Ease of transition – Aviva and the trustees recognise that transferring a pension scheme can seem daunting, but dedicated implementation managers, relationship managers, legal and transition management experts help things run smoothly and keep costs down.

Value for members – the above, along with a focus on charges and service levels, combine to deliver value for members, and the ultimate focus for both the trustees and Aviva, which is to help members achieve their future financial goals.

HSBC Asset Management

HSBC Asset Management is a major global asset management firm managing assets totaling USD651 billion as at 30 June 2023, with well-established businesses in Europe, Asia-Pacific, Americas and the Middle East. We are the asset management division of, and wholly-owned by HSBC Holdings plc (HSBC Group), one of the largest financial services organisations in the world. Our investment capabilities span across different asset classes – equities, fixed income, multi-asset and liquidity. HSBC Asset Management is well placed to provide a globally-consistent, disciplined investment process across our capabilities, drawing on the local knowledge and extensive expertise of our team of over 600 investment professionals across over 20 locations around the world.

For more details, please visit www.assetmanagement.hsbc.co.uk.

Source: HSBC Asset Management as at 30 June 2023

The ticking timebomb of renting in retirement

Anna Brain

Jack Gray speaks to Pensions Policy Institute research associate, Anna Brain, about the institute's report on the threat the rise in private renting could have on the UK pensions system

The Pensions Policy Institute (PPI) has run a policy simulation using its UK Pensions Framework, established three years ago, to explore the impact rising levels of private renting in retirement will have on member outcomes, describing it as 'fault line' opening beneath the pensions system. PPI research associate, Anna Brain, discussess the simulation's findings and the potential policy implications.

Can you give an overview of the report/policy simulation?

The PPI has been running a piece of research called the UK Pensions Framework. Its purpose is to look across the entire UK pensions system, and identify its strengths and weaknesses that relate to either adequacy, sustainability or fairness in the system, and spot trends in the system that might reflect policy changes that have taken place or that might help us to anticipate problems.

One of the biggest risks to future retirement outcomes we identified was falling home ownership. Today, 78 per cent of pensioners own their own home and 15 per cent live in social housing, which means they have low housing costs and secure tenure through retirement.

Over the next 20 years, the proportion of people living in the private rental sector could rise from 6 per cent to around 17 per cent. There are several reasons for that. Home ownership itself has fallen, but the second really important factor is a shortage of social housing.

Since the 1980s, there has been a net loss of around 1.5 million social homes. That means that a lot of the families that would have lived in social homes through retirement in the past, particularly low-income families, are unable to access that kind of tenure today.

We feel that this fall in home ownership and the rise in private renting is one of the biggest threats facing adequacy in the future, and it affects a huge population of people.

Is this a pensions problem or a wider policy issue?

Looking at this from a pension perspective, it's very clear. We look in this report at people aged 45 to 64; these are people who are retiring in the next 20 years.

The average household in this age group in the private rented sector has around £60,000 in pension savings and around £30,000 in other assets. The cost of a one-bedroom flat outside London through retirement would be in the region of £180,000. This immediately tells you that it's too late for most of these households to save enough, either in pension or non-pension savings, to be able to afford the cost of rent through later life.

That doesn't negate the importance of pension saving and it doesn't negate the importance of ensuring that savers are achieving value for money and making the right amount of contributions. But what it means is this is much bigger than a pension issue.

When we put this through the framework, we saw a huge decline in future adequacy. Normally, if you just look at something as a pensions problem, if adequacy goes down, then the sustainability of the system would improve, because it would indicate that there was less money going into the system that would result in poorer outcomes. In this circumstance, sustainability doesn't change because this problem comes from outside the pensions system.

This is where solutions will be important because they are going to span several policy sectors, so it raises a couple of questions: Are we looking adequately at threats to retirement outcomes that come from outside the pension system? And: How do policymakers need to work together to tackle the problems that lie ahead and prevent them from happening to the upcoming generation?

For this age group, it's going to take a three-pronged approach. Firstly, you have pensioners and pensioner saving, so people can build up their own income through both private pension saving and contributions to their state pension.

The second is the extent to which they receive support from the government in terms of their future retirement. That will include both housing benefit, other means-tested benefits, and the level at which the state pension is paid.

All of the metrics and measures we have in the UK pensions system are based on the assumption that people don't have housing costs. There are a number of complex interactions there, particularly around pensions and eligibility for means-tested benefits.

The third part of this issue is around housing, and it's very unlikely that there will be a majority shift from this group of people out of privately rented homes to either home ownership or social housing. For that to happen, there would need to be a huge change in access to home ownership or in social housing provision. Another way of looking at this is that we need to make private renting more affordable.

Whatever happens, this is not something that can just be tackled by pensions.

How big of an issue do you envision this being?

If nothing were to change, this is a significant problem because, out of this group, the only households who would be able to afford their rent through later life would be those in the top income groups. This means that over a million more households could be facing a retirement where they have lower living standards.

From a public spending perspective, this is also a significant problem because public spending will have to form part of the solution, given the short timeframe we have.

Compared to other risks faced by pensioners and the pension system, I think it ranks up as one of the most significant. We have a huge increase in living costs without an expected increase in retirement income.

"The policies we have are based on what retirees look like today, and not based enough on what the retirees of tomorrow will look like"

What could change this scenario?

The shift towards having more pensioners in rented accommodation cannot be reversed, but the speed or size of the change could be addressed. One of the biggest factors in what could change is inheritance.

We know that amongst today's older population there is a huge amount of housing wealth that is set to flow through to younger generations in the future.

That inheritance will make a difference to many people, but it's very unlikely to be enough to shift tenures, particularly at this stage in life. In this case, moving from the private rented sector to home ownership, for most people it is unlikely to be enough to make that move, but it could make a considerable difference to adequacy and their ability to afford their rent.

In this research we have held all other factors constant, which means that inheritance roughly stays at the level it is today.

That is because the majority of these households are low-income households, and statistically we know that they are likely to inherit the lowest sums of money. We cannot rely on inheritance as a solution to this problem.

What are the policy implications?

There would be an increase of several-hundred thousand who may become eligible for housing benefit in retirement. There is a concern that the level of pension savings that people have will affect their eligibility for means-tested benefits.

Under the universal credit system, pension savings are not counted towards the means test, so I think there is an argument for revisiting the qualifying criteria for housing benefit for people over the age of 65.

Housing benefit is based on the local housing allowance, which had been frozen at 2018/19 rates until the recent Autumn Statement. That means that, despite rents going up, people were not receiving a proportionate rise in their benefits.

This relationship between pensions and housing calls into question the longevity of the whole retirement income model we have in the UK. That is because this retirement model is based on several assumptions.

One of them is that people will reach later life with no housing costs. There are other assumptions we are worried about, including the notion that people will be able to work up to state pension age and the expectation that people will contribute on an ongoing basis. There is a real need to revisit some of the metrics we use and to look at inertia-based policies.

There isn't a conversation between policymakers currently as to what the right level of housing tenure should be. Without some kind of consensus across all policymakers as to what we are aiming for, we cannot work to deliver solutions.

The policies we have are based on what retirees look like today, and not based enough on what the retirees of tomorrow will look like.

Written by Jack Gray

Financial literacy in the UK

Laura Blows explores the average level of financial literacy in the UK, in the first of *Pensions Age*'s year-long special focus on the subject, and how this can affect pensions saving

Summary

- Almost three-quarters of UK adults fall below the 'financial literacy benchmark'.
- This lack of understanding can add to people's financial stress and increase the risk of falling for scams.
- Understanding pensions saving can be even more challenging compared to other financial products, due to its complexity and peoples' struggle to visualise (and therefore understand the need to save for) their future retirement.
- The pensions industry has a role to play in improving the UK's financial understanding.

However you measure it, the UK's knowledge and understanding of financial matters – financial literacy, if you will – is shockingly low.

For instance, almost three-quarters of UK adults fall below the 'financial literacy benchmark' set by Wealthify and CEBR in July 2023.

They quizzed 2,250 Britons on their understanding of 10 frequently discussed financial topics, such as inflation, taxes, pensions, and savings *[see box out]*. To get a good pass rate, respondents needed to achieve a score of at least 6.5 out of 10. However, 73 per cent fell below this benchmark, and just 5 per cent answered all 10 questions correctly.

Young people were found to be most lacking in financial knowledge, with the average 16-18-year-old getting just two questions right.

On a regional basis, the highest number of correct answers was reported amongst respondents in the South-West, where people scored 5.5 on average. At the other end, the lowest average score was in the North-East, where the average was just 4.3 correct responses.

These findings match that of Shepherds Friendly's in June 2023, where just 27 per cent of the 2,000 Brits it surveyed passed its own money literacy test. The quiz also revealed that men in the UK are more financially literate than women, with 31 per cent getting half or more of its questions correct, compared to just 24 per cent of women. Meanwhile, those aged 55+ scored the best on the quiz (scoring 35 per cent) whilst those aged 18-24 scored the lowest (scoring 17 per cent).

Looking internationally at financial literacy levels, the UK still doesn't fare well. According to the *OECD/INFE 2016 Survey of Adult Financial Literacy* competencies, of the 30 countries surveyed, the UK was 15th in the ranking, just above Thailand and Albania; below the average for OECD countries; and well below France, Norway and Austria.

Concerns

Just how concerning is the UK's low levels of financial literacy; why does it matter?

"It's definitely a concern," Legal & General member proposition director, Olasumbo Biobaku-Mason, says. "We know that because financial literacy isn't *[sufficiently]* taught in schools, many people often enter adulthood without understanding the basics, such as the importance of budgeting and saving."

FSCS chair, Marshall Bailey, warns that "individuals often struggle to give sufficient time to their savings and investments, which is a mistake. While many advisers are well-intended and of high quality, there are unscrupulous people who have taken advantage of poorly informed clients and caused a great deal of harm".

Wealth at Work director, Jonathan Watts-Lay, highlights that when individuals do not fully understand their finances and how to address current difficulties and mitigate potential risks, it can result in stress. "In turn, this can lead to lower employee productivity and is a major workplace risk" – one that is being increasingly recognised at work (63 per cent of employers recognised this in Wealth at Work's 2023 research, compared to 58 per cent in its 2022 research).

Pensions understanding

The financial literacy benchmark results also showed that there was a strong link between financial understanding and behaviours, with seven out of 10 respondents with the highest level of financial literacy contributing to a pension.

But what about those not saving into a pension? Could the products' complexity be a barrier?

Pension Insurance Corporation chief people officer, Dara McCann, states that "it is hard to know with certainty whether understanding of pensions is lower than other financial products, but it is certainly the case that pensions are incredibly confusing".

"We don't believe that enough work has been done explaining to workers or retirees exactly what their 'pension' will provide them. Whilst defined benefit schemes provide certainty of income in retirement, defined contribution schemes don't – they're really just pots of cash. Those are two very different things with very different outcomes for policyholders. There is a widespread lack of understanding of these fundamental differences in the pensions field, and that lack of understanding is a serious problem," she adds.

LCP head of financial wellbeing, Heidi Allan, explains that "we can struggle to see the value of things that don't impact us today. This is one of the challenges with future finances such as pensions".

"For many people, the word 'pension' is surrounded by complexity and apprehension as to what that might look like, as well as mystery around when and how that life stage may occur. It's hard for people to engage with something that is deemed complicated and is somewhat taken care of on their behalf with the introduction of auto-enrolment," she adds.

Does this mean that the pensions industry assumes a greater level of financial understanding than their clients necessarily have?

"Our data suggests the answer is regrettably, 'yes'", Isio Rewards and Benefits director, Will Aitken, says.

Isio's June 2023 survey of 7,674 UK private-sector employees asked whether they understood the amount of money their family might receive from their employer's life assurance in the event of their death.

"This was something of an 'acid test' because life assurance is a relatively straightforward benefit – it only pays out on your death and the amount it pays is typically a multiple of your annual salary. This should be a simple benefit to communicate to employees and for them to understand. If you don't understand life assurance, you're likely to struggle to understand a more complex benefit like pensions," Aitken explains.

"An alarming 25 per cent answered that they had 'no understanding at all' in response to this question. Even among the minority of people who claimed to be financially confident, 12 per cent still had 'no understanding at all' about their life assurance benefit," he reveals.

So, perhaps the pensions industry needs to be careful not to overestimate the level of financial understanding when sending out communications to people.

"We know that communications need to have a reading age of nine to be understood by the average reader for a number of reasons (eg dyslexia, neurodiversity, English as a second language)," Biobaku-Mason says.

"Improving people's financial capabilities is a long-term job. Right now, we must assume the lowest common denominator in terms of financial capability"

"There's sometimes a concern that this approach will result in a 'dumbing down' of communications and risk patronising the reader, but we have found when we apply these principles in communication, engagement levels increase. When it comes to pensions, simplicity is key."

Mantle Services (sister company of Dalriada Trustees) DB fintech development, Graeme Riddoch, gives the following example: "I recently reviewed an online McCloud comparison calculator. I couldn't understand it and I've been in DB pensions all my career. It used terms like nominal value, which most people wouldn't have a clue about.

"I think that improving people's financial capabilities is a long-term job. Right now, we must assume the lowest common denominator in terms of financial capability and build from there. It can be done if you start with that objective."

Improving financial knowledge is a matter of increasing urgency, as the pensions sector goes through its transformation from a paternalistic DB style to one of individual responsibility with DC saving – plus there is more change ahead.

For instance, the government's recent 'pot for life' proposals set out to increase the choice for employees in selecting their own pension provider. "This only adds further complexity to a system that has been successful on the basis of inertia, and one which already allows many choices for those who want it", Royal London director of policy and communications, Jamie Jenkins, warns.

Commenting at the time of the government's pot for life announcement, Pinsent Masons pensions partner, Simon Laight, said: "Buying a pension is fundamentally different from shopping around for petrol. Not everyone is knowledgeable on pensions and consumers need protection as they might mis-buy. We need to guard against the pension mis-selling scandals of the past."

Making a difference

A study by the Money Advice Service, published in 2016, suggested that people across the UK could be better off by around £108 billion over the next 30 years if they were better able to manage their money.

In 2022, the CBI suggested that the government and business could improve the UK's financial literacy by developing a collaborative national strategy for financial literacy that works with industry and other private-sector partners, introducing financial management and financial literacy in the UK from primary school age, and providing practical learning tools for children and parents.

The pensions industry would have its part to play in helping improve financial literacy.

As McCann says, "changing the way we talk about pensions and increasing financial literacy about pensions is critical. We need a huge effort to lift financial literacy, starting at school and higher education, through to the workplace".

Jenkins notes that there is a lot of great work within schools to help younger people come to terms with managing money on a day-to-day basis, "but there is a wider issue in the understanding of longer-term financial considerations, such as pensions planning and protecting against unforeseen events".

Moving onto the workplace, Octopus Money CEO, Ruth Handcock, states that "simply providing webinars, education, or different pension statements presupposes that an average person will then be able to understand pensions well enough to be able to interpret information in the context of their personal situation".

"Basically," she explains, "we're leaving it to individuals to piece the jigsaw together and understand what all of this information means for their financial future. For most people this simply isn't something they're used to doing. Instead, they need help."

Handcock adds that the pensions industry can't be expected to solve all of these problems on its own.

"Instead, we'd like to see employers and workplace pension schemes consistently providing access to personalised, holistic help alongside their schemes to help members make the right decisions for their future," she states.

"It's only by proactively helping customers that we can help the UK avoid the pensions crisis that it is currently hurtling toward."

Written by Laura Blows

Financial Literacy Benchmark quiz

1. In the UK, in which month does a new tax year begin? This is also referred to as a fiscal year.
a. January
b. February
c. March
d. April
e. May
f. June
g. July
h. August
i. September
j. October
k. November
l. December
m. Don't know

2. Imagine you earn £60,000 per year. In this case your marginal income tax rate would be 40%. In this situation, how much of your income is lost to tax each year?
a. Less than 40%
b. Exactly 40%
c. More than 40%
d. Need more information
e. Don't know

3. Suppose you have £100 in a savings account earning 2% interest per year. After five years without making any deposits or withdrawals, how much would you have in the account?
a. More than £110
b. Exactly £110
c. Less than £110
d. Need more information
e. Don't know

4. Suppose you are offered an interest rate on a savings account of 5% but can choose how frequently interest is paid into the account. Any interest paid into this account would also receive interest (compound interest). Assuming you don't make any deposits or withdrawals, which of the following would leave you with the largest value in the account after two years?
a. Interest paid annually
b. Interest paid every six months
c. Interest paid quarterly / every three months
d. Interest paid monthly
e. It would not make a difference
f. Need more information
g. Don't know

5. Imagine that the interest rate on your savings account is 2% per year and inflation is 4% per year. After two years, would the money in the account buy more, exactly the same, or less than it does today?
a. More
b. Same
c. Less
d. Need more information
e. Don't know

6. Imagine you are buying apples. Which of the following represents the best deal in terms of price per apple?
a. Six apples for £5
b. Twelve apples for £9
c. One apple for £1
d. Two apples for £3
e. Need more information
f. Don't know

7. Suppose inflation in April was 5% and that inflation in May was 4%. How did prices change between April and May?
a. Prices were higher in April than May
b. Prices were lower in April than May
c. Prices were the same in April and May
d. Need more information
e. Don't know

8. Imagine you have a variable rate mortgage. Which of the following will lead to the amount you pay each month changing?
a. The amount of money you earned that month
b. Changes in the Bank of England's interest rate / base rate
c. Fluctuations in the value of your property that month
d. The amount you need to spend on other goods and services that month
e. Need more information
f. Don't know

9. If your investment increased in value by 8% in 2021 and a further 8% in 2022, by how much would its value increase in 2023?
a. More than 8%
b. Exactly 8%
c. Less than 8%
d. Cannot be certain
e. Need more information
f. Don't know

10.Which of the following will NOT affect your credit score?
a. Being registered to vote
b. Missing a payment on an existing debt
c. Checking your existing credit score
d. Making regular payments by direct debit
e. Need more information
f. Don't know

Answers: 1.D, 2.A, 3.A, 4.D, 5.C, 6.B, 7.D, 8.B, 9.D, 10.C

(Source: Wealthify)

The return of the revolving door

With political shifts prompting yet more change at the Department for Work and Pensions, *Pensions Age* takes a look back at the highs and lows of recent Pensions Ministers

You could be forgiven for having a sense of déjà vu this new year, as while the industry started 2023 getting to grips with its then new Pensions Minister, Laura Trott, the end of the year saw another minister take on the brief, marking a return to the 'revolving door' at the Department for Work and Pensions (DWP).

Of course, the role of Pensions Minister has seen periods of significant stability since it was introduced in 1998, with Steve Webb holding the role from May 2010 until May 2015, marking the longest running tenure for a Pensions Minister at the time.

But the May 2015 General Election saw Webb lose his seat to Conservative rival, Luke Hall, and Ros Altmann was instead appointed by the Conservative government as Minister of State for Pensions, replacing Webb in the role.

The years since have seen a move back to pensions being used as a political football, with the notable exception of Guy Opperman's extended time in office.

The 14-month minister

Altmann remained in her role from May 2015 to July 2016, when she announced that she had resigned from the position due to "short-term political considerations" inhibiting "good policymaking".

Whilst her time in office brought a number of successes, such as championing the rights for older workers and fighting against financial injustices, Altmann's resignation did not come as a surprise to many in the industry.

And, after departing her role, Altmann told *The Jewish Chronicle* that her time in politics had been a "terrible experience", during which she "felt under pressure the whole time".

But her tenacity in the face of government pressure was not unnoticed by the industry, as experts praised Altmann for standing up to the Treasury, challenging the desire to scrap pension tax relief and move to a pensions ISA.

And if anything, Altmann's departure from office seems to have allowed her the freedom she needed to make her true thoughts on pension issues known, so it is perhaps unsurprising that Altmann's influence has continued to be felt.

Having once lamented about her limited ability to talk with the media whilst in her government position, since her resignation she has returned to being a prominent spokesperson and champion for older workers, sharing her thoughts on key issues, including around the state pension triple lock and pension scheme investments.

Altmann has also continued to have a political influence through her position in the House of Lords, most recently co-sponsoring the Private Member's Bill to extend auto-enrolment (AE) to lower earners and younger workers.

The 11-month minister

But Altmann's departure meant all change for the DWP, as Richard Harrington was handed the pensions brief after being named as an Under-Secretary of State.

Chris McAndrew - Photographer

This move marked not only a change in Pensions Minister, but also a move to a more junior role, a shift that was not unnoticed by the industry at the time.

And this is an issue that still causes contention, as IFM Investors executive director for public affairs Europe, and former shadow Pensions Minister, Gregg McClymont, says that this 'demotion' of the role is hard to justify in a world where pensions are ever more high profile in politics, and that "it's time to return the job to the status it deserves".

The junior positioning of the role was not the only cause for concern, as Harrington's close ties with then Prime Minister Theresa May, as well as ministers at the Treasury, forced him to clarify that he was not there just to do "Theresa May's dirty work". Instead, he stated that he had actually asked for the pensions brief and was "happy to be doing it".

But despite his enthusiasm, and promises to drive forward the AE review, Harrington's plans quickly came to nought, as the call for a snap election in June 2017 saw the doors to the DWP swing open yet again.

The longest-running Pensions Minister

Marking yet another title change, June 2017 saw Guy Opperman named 'Pensions and Financial Inclusion' minister under the new government, in what would mark the start of a period of significant stability.

Whilst broader ministerial changes in the DWP continued after this, Opperman was set to become the longest serving Pensions Minister, surpassing Webb's total of 1,822 day on 11 June 2022.

And this time was well spent, as Opperman oversaw several pension policy changes during his time, most notably the development and passage of the Pension Schemes Act 2021. The act introduced a number of policy initiatives, such as the framework for the introduction of pensions dashboards and collective defined contribution (CDC) schemes, the expansion of The Pensions Regulator's (TPR's) powers, and the requirement for schemes to adopt and report against the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). He also oversaw the introduction of new powers for trustees to halt pension transfers if they saw signs of a suspected scam.

Indeed, Pensions and Lifetime Savings Association director of policy and advocacy, Nigel Peaple, highlights the "huge changes" in ESG as perhaps the most notable innovation, arguing that the integration of TCFD reporting made the UK's pension system the most progressive for climate regulations anywhere in the world.

But political turmoil would be a key point of uncertainty during Opperman's time in the position, and whilst Opperman was able to survive multiple rounds of political change, recent years have proven that he was not immune to wider political tensions.

Concerns around Opperman's tenure first spiked amid the Conservative leadership race in 2019, as while then-Secretary of State for Work and Pensions Amber Rudd had thrown her support behind Jeremy Hunt, Opperman nailed his colours to the mast of Michael Gove – with neither supporting front-runner Boris Johnson.

And then, even when frustration over Boris Johnson's leadership in the Conservative Party would later push Opperman to resign from his role on 7 July 2022, he was quickly reinstated the day after Johnson's resignation.

However, it seems it was not third time a charm for Opperman, as a similar leadership race would mark his final departure from pensions, when Opperman announced that he would no longer be Pensions Minister, following Liz Truss' ministerial reshuffle.

Many in the industry saw this as a core blow to the stability of the pensions landscape, with a number of key initiatives and reforms left in limbo whilst the industry hotly awaited the confirmation of a new minister.

The five-week Pensions Minister

Bet you'd nearly forgotten about this one! Alex Burghart was appointed as an Under-Secretary at the DWP on 20 September 2022 and was formally named Minister for Pensions and Growth on 12 October (that's another job title change too – but don't worry it didn't last).

In by far the shortest tenure of any of the ministers in this review, Burghart's key appearances included a speech at the annual PLSA conference, and a role in the 10-year anniversary video for AE.

Perhaps the most notable aspect of his time as Pensions Minister is just how long it took for his new role to be confirmed, as it took three weeks for his appointment to be officially confirmed; amid a time of significant volatility, as Truss' mini-Budget brought chaos in the markets and headlines warning of a pensions crisis.

Burghart would ultimately prove a victim of Truss' short tenure, as he confirmed that he would be leaving the pensions team at the DWP after Rishi Sunak stepped up to the position of Prime Minister, stating that he was glad to be "handing back" to previous Pensions Minister, Opperman.

But Opperman never made it back on to the pensions brief, with government newbie at the time, Laura Trott, instead named as the Pensions Minister.

The stepping stone minister

Trott was appointed to the post of Pensions Minister in November 2022, marking her first government post at the time. During her time in the role, she oversaw a number of key milestones, including the authorisation of the UK's first CDC scheme, a raft of DC and DB reforms, and AE reforms.

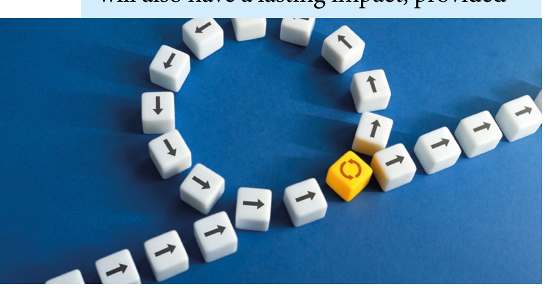
Industry concerns that those who thrive in the Pensions Minister role could use it as a stepping stone seemed to come to fruition, however, as it was announced that Trott had been promoted to the role of Chief Secretary to the Treasury after just one year in the role.

Despite her short time in the industry, her impact was clear, having driven forward a number of key reforms. Industry organisations also praised Trott for the progress made during her tenure, with Peaple stating that Trott "made a very substantial impact as Pensions Minister despite only being in the role for a little over a year".

He continued: "Her proposals to require more support from pension schemes for DC members at retirement will also have a lasting impact, provided it is followed through. And, of course, she has also done a great deal of thinking with her DWP team on the future direction of the pensions landscape which, depending on the views of whoever succeeds her, may also have a lasting legacy."

But many of these initiatives were in limbo after Trott's departure and, in particular, her hopes to push through a consultation to extend AE seem to have fallen to the wayside, in favour of broader industry reforms, which will now fall to the new Pensions Minister.

Indeed, Peaple argues that pension adequacy more broadly has been a key missed opportunity for a number of previous ministers, emphasising the need to increase AE contributions.



What next?

Thrown into the deep end, Paul Maynard has had a lot to get to grips with in his new role as the current Pensions Minister, including the Mansion House reforms, pensions dashboards, new funding regulations, CDC, small pots solutions, a new value for money framework and so much more.

"As we all know, this is just the tip of the iceberg when it comes to pension reform recently and although some of these initiatives aim to improve retirement provisions, enhance transparency and encourage engagement there is still more to be done to help everyone achieve a better pension at retirement," Peaple says.

It seems the new minister is open to hear the industry's views though, and just months into his role, Maynard has been hard at work to get to know the industry he will be working with, with a number of industry organisations confirming that they have already met with the new minister.

And Maynard was incredibly transparent in his first speech to the industry, admitting that he would be looking to experts for technical knowledge around the complex issues surrounding the pensions landscape.

"I am not an expert so I'm going to need your help," he stated. "We do the *[consultations]* for a reason. This is a technical field and I think the benefits you can make in this country are massive. This isn't just about pensions, it's about the country as a whole... I look forward to working with you all over the coming months and years."

But Maynard has been handed the pensions brief at a time of huge reform, inheriting initiatives that have been years, and many ministers, in the making.

And he has already been left to defend some of the less popular reforms to the industry, such as the governments preferred option to address small DC pots. With so much change ongoing at pace, it seems unclear whether Maynard will have the time to form his own informed views in this incredibly complex area.

However, Maynard has outlined a clear direction of travel, stating that the government is aiming to shift focus "unambiguously" from cost to value, and promising to push ahead with the initiatives awaited by industry.

Whether Maynard will have this chance is still unclear though, and with a General Election looming ahead and an Ipsa investigation underway, it is still uncertain just how many more Pension Ministers we'll have before so many crucial initiatives get across the line.

Written by Sophie Smith

Reset complete: Time for dashboard delivery?

Has the 'reset' of the pensions dashboards project, announced in March 2023, offered a valuable chance to review and refine projects, or has it killed the momentum behind the project? David Adams asks if the dash to build dashboards is about to resume

Summary

- The 'reset' of the dashboards programme timetable should have some beneficial effects, but has slowed momentum.
- A new timeline for connection dates will be published in DWP guidance during 2024, leading up to a legally binding final connection deadline of 31 October 2026.
- This year should also see the release of data, technical and design standards for dashboards, further details on how regulators will enforce dashboard requirements; and the start of detailed planning for user testing.
- There may be capacity constraints likely to affect availability of technical expertise in the years leading up to 2026.

A delay to a project overseen by the UK government is probably less surprising than news of such a project being completed on time. But while the 'reset' of the development of pensions dashboards, announced in March 2023, caused great frustration in some parts of the industry, it was greeted by sighs of relief elsewhere.

Building the dashboards ecosystem is difficult because it is so complex. It requires input from parties including the Department for Work and Pensions (DWP), both the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR), the data providers (trustees, managers and providers of thousands of DB and DC pension schemes, other pension vehicles and products), the integrated service providers (ISP) and administrators supporting those schemes, vehicles and pension providers, the government's MoneyHelper dashboard, provided by the Money and Pensions Service (Maps), plus the growing number of commercial dashboard providers; and the PDP itself, which will run the Central Digital Architecture (CDA) at the heart of the ecosystem.

The hope must be that the reset will help ensure each of those elements function properly. But inevitably the reset has also reduced the momentum that had been building ahead of the original initial connection deadline, which would have been in August 2023.

The new staging timeline will not be set out in legislation as before, but will instead be published in DWP guidance, based on industry consultation and expected to be published in Q1 2024. It will provide at least 12 months' notice before the first connection dates. A final connection deadline of 31 October 2026 has been set in amendment regulations by the DWP; and the government and the PDP have suggested that the Dashboards Available Point (DAP), the moment when the dashboards are made available for public use, could be before the October 2026 deadline.

Meanwhile, the Pensions Dashboards Programme (PDP) has been consulting the pensions industry and technology experts on data, technical and design standards for dashboards. The data standards will be made available before the other new standards in 2024, which will also see the start of detailed planning for user testing that will follow the first connection dates.

In addition to resources TPR and the PDP have already provided, in December 2023, the Pensions Administration Standards Association (PASA) published Connection Ready Guidance for schemes working on dashboard projects. This is based around five key steps PASA says schemes must take now: Consulting TPR's Pensions Dashboard Checklist, engaging with administrators and suppliers, developing a detailed understanding of compliance requirements in relation to the scheme's operations, identifying gaps in its ability to meet those requirements; and agreeing delivery plans.

Lost momentum

It is reasonable to suggest that a delay in refining all of these processes could enhance their final form, but it is also clear that, as ITM chief innovation officer, Maurice Titley, who is also co-chair of the dashboards working group at PASA, says, the reset was "a point where momentum was lost".

Mercer actuary and principal, Mark Woodward, believes many larger pension schemes have continued to make good progress on dashboards projects throughout 2023, but other schemes have put work towards dashboards on the back burner. PDP principal, Chris Curry, is keen to portray the reset as a chance to improve the effectiveness of the dashboards programme and projects across the industry.

"We know there were parts of the industry that were struggling with the initial timeline, so it's been an opportunity for them to catch up," he says. "Although *[schemes]* want to know when they can connect, there's a lot of work that can be done without that connection date, so when we do have those new timelines people will be ready."

The regulatory regime that the FCA and TPR will enforce to ensure schemes and providers comply with the new timeline and other dashboards programme requirements has not been finalised. But even before regulatory enforcement, once the new connection timeline has been published it will be clear that many schemes will need to have completed dashboard projects well before October 2026, says Titley.

But he stresses the need for more details about exactly what each scheme must do. "There is a need for details on the next level down, to show how long it is likely to take an average scheme to complete the work required," he says.

One aspect of this work being highlighted by TPR is the challenge schemes and administrators face in preparing data for use in the dashboards.

In October 2023, TPR launched a campaign to promote the need to prepare this data, stressing the amount of time that may be needed to clean data so it can be used to match pension pots with their owners. Many schemes will also need to make pension calculations in real time, which some have never needed to do before.

Dashboards and other technology providers continue to refine products and services, even before the full list of technical, design, regulatory and timeline requirements with which they will need to comply has been finalised.

"The UK will be the only country in the world to offer multiple dashboards and that means you are creating innovation"

Dashboard provider Moneyhub is enabling pension providers to connect to its Replica CDA for sandbox exercises in advance of the completion of the real CDA.

Moneyhub CEO, Samantha Seaton, says there is also a lot of activity underway involving pension providers beginning user testing. "We get to see some of that user testing … and *[end users]* are always delighted and a bit surprised that they can see all their pensions in one place," she says. She also reports new players entering the market. She says she can't name them at present, but that they include companies that "I don't think the industry would expect to be pensions dashboard providers" – another potentially promising sign for the future.

2024: A year of action

Schemes, administrators, dashboard and other technology providers will all need to contribute to the effort to complete dashboard projects on time, says Titley. But he suggests that one key challenge is likely to be capacity constraints across the industry due to demand for administrators and other service providers from every scheme or provider approaching connection deadlines.

Woodward agrees. "The key message we're putting to our clients is that it's crucial to start now," he says. "Don't rely on your administrators. Be proactive. Start planning now and avoid a mad scramble in 2026."

In the longer term, Seaton has high hopes for the technical capabilities that dashboard providers will make available to schemes, providers and consumers over the years ahead. "The UK will be the only country in the world to offer multiple dashboards and that means you are creating innovation," she says.

Curry believes the dashboards will also complement other improvements made to the UK pensions system in future, such as the pot for life concept. "Pot for life is likely to be quite a long way into the future, but if people want to do that consolidation they will need to know where their pensions are," he says. "We see the dashboard as a complement to that sort of activity." ISP Bravura Solutions' principal business consultant, Jon Hawkins, says the reset has been "frustrating", but that the industry needs to be ready for the next phase of the programme.

"We're just waiting for the updated standards and operational protocols, then we'll be ready to go," he says. "If 2023 was the year of the pause, 2024 has to be the year of action. The dashboard projects and programme will be part of the new pensions system, alongside the pot for life and consolidation of small pots. This is the first part of that new pensions infrastructure. It's really exciting – but we need to get on with it."

Written by David Adams, a freelance journalist

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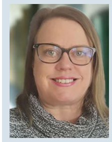
Digital transformation roundtable

CHAIR

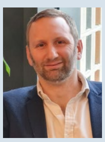
Sir Steve Webb, Partner, LCP
Steve was Minister of State for Pensions between 2010 and 2015. He was awarded a knighthood in the New Year's honours in 2017. Following his time in parliament, he worked for Royal London for four years, before joining LCP as a partner in 2020.

PANEL

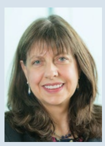
Deanne Stewart, CEO, Aware Super
Deanne joined Aware Super as CEO in 2018. She has successfully steered Aware Super to become one of Australia's leading superfunds. She has more than 25 years' leadership experience in financial services.



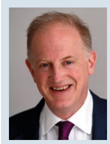
Karen Bolan, Director, Retirement Communications, Gallagher
Combining excellent pensions knowledge with a proven track record in developing engaging communications strategies, Karen helps trustees/heads of pensions empower members.



Mike Crossley, Head of Proposition, Workplace Accumulation & Consolidation, Legal & General
Mike has over 15 years' experience in pensions and wealth management. His current role puts him at the heart of digital transformation at Legal & General.

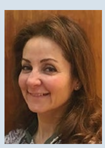


Emma Douglas, Director of Workplace Savings and Retirement, Aviva
Emma joined Aviva in 2021 with accountability to deliver the best possible outcomes for customers and members, and their assets. Emma is also Chair of the PLSA.

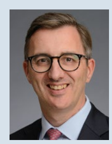


Jamie Jenkins, Director of Policy & Communications, Royal London
Jamie has worked in financial services for over 30 years, primarily in long-term savings. He has held positions in operations, marketing, proposition development, public relations and policy.

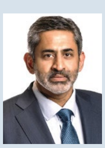
Vaughan Jenkins, Managing Director, Moneyhub
Vaughan has extensive experience across the financial services sector. He was a partner at Towers Perrin and at PA Consulting, and CEO of Bluerock Consulting. He contributes to several working groups and has also worked with the FCA.



Janine Menasakanian, Head of Workplace Savings Proposition, Coutts
Janine joined Coutts/NatWest Group to launch a workplace pensions and savings offering. She previously held roles at Altus Consulting, LGIM & Vanguard Asset Management.

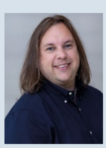


Dan Smith, Head of Workplace Investing Distribution, Fidelity International
Dan leads the overall strategic and corporate management of Fidelity's DC businesses in the UK. He has over 25 years' experience in the corporate pensions market.

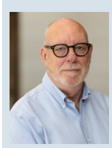


Bala Viswanathan, Group CEO, Aptia Group
Bala is the founder & group CEO for Aptia Group, created through the acquisition of Mercer's pension admin business in the UK and the health & benefits admin business in the US. He was group COO of Mercer since 2019.

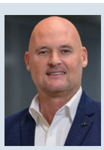
Bravura team:



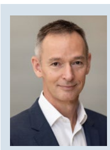
Jonathan Hawkins, Principal Consultant & Pensions Specialist, Bravura
Jonathan is a fintech expert with over 25 years' experience in pensions, platforms and business-focused technology. As part of his role, he designs industry-critical solutions.



Peter Mann, Chair, EMEA, Bravura
Peter was previously vice chairman at Old Mutual Group, where he was integral to the delivery of the organisation's growth strategy. Prior to that, he held a number of senior roles including CEO at Skandia and Bankhall.



Andrew Russell, Group CEO and Managing Director, Bravura
Andrew has 20 years of experience in the finance and technology industries. Formerly CEO and MD of SaaS technology firm, Class Ltd, he has a strong background in identifying and implementing market entry and growth strategies.



Chris Spencer, CEO – EMEA, Bravura
Chris has huge experience in motivating and developing teams to affect positive business change. He is responsible for driving revenue growth and profitability through leadership of the sales, account development, service management & delivery teams.

Digital transformation roundtable

The power of digital

Our panel of experts reflects on what digital transformation in pensions means today and where it could lead us into the future

Chair: The topic of today's event is digital transformation in pensions and it would be helpful to hear first from Deanne Stewart, CEO of Aware Super, one of Australia's biggest pension funds, as they have recently undergone a digital transformation with Bravura.

Stewart: Just to offer some background, Aware Super has been through several mergers to today holding approximately $165 billion in funds under management. We came historically, over 30 years ago, out of the New South Wales Government. We are now open to all Australians, and at the heart of our member base we have lots of keyworkers – teachers, nurses, doctors, emergency workers. As a result, nearly two-thirds of our member base is female.

We have approximately 1.2 million members now, and we serve over 35,000 unique employers.

Because it has been 30 years since we set up, we are now starting to see a huge number of members tipping into that retirement, so the race has now become much more in the retirement space rather than just pure accumulation.

This is hugely relevant as to why we did the digital transformation. As more and more members enter retirement, they want to access their money. They want to withdraw it, and they want it immediately, because that's what they can do in every other industry.

So while making the digital transformation, we wanted to look at how we could lead the market from a technology perspective, but also from a data perspective, as data is key to being able to give a mass personalisation journey for members.

One of the drivers therefore was knowing that our members want a first-class, digital-first experience. They don't want to be waiting several weeks to be able to withdraw their money or to be able to do things. They want things immediately and with immediate access, but they also want nudging and guidance and support along the journey, so we've attempted to do a lot of that in one.

At Aware Super, we focus on three core elements: How do we be super simple in what we do? How do we be super helpful and have the right guidance and advice, whether that be humans or whether that be digital for our members when they need it, in a proactive way? Then how do we make sure that is all underpinned by super returns?

Also, from the moment we began work on the digital transformation with Bravura, we had four key elements – first of all, to use the concept of 'profoundly simple'. That has to be simple to members, not simple to someone who has spent 20 years in the pensions industry, so we did a lot of member testing to get it as simple as possible.

The second one was 'member first' – not only do members want it simple, but when they want to talk to humans, they want to speak to the right person and get it handled first time every time.

Third was 'digital first', and this was around how we train up members, and change member behaviour. Members get very used to speaking to someone or filling out their forms, so digital first is our philosophy, because that's what ultimately will be a better member experience in the long run and drive down costs, importantly.

Finally, making sure that the technology ecosystem is 'future orientated'. This has been achieved with Bravura being both cloud based and with open API, but we also did this with safety in mind, with security and controls being put in.

To give you several examples of what we have achieved, since we've gone live, we've seen calls in our call centre drop between 20 per cent and 60 per cent because members now don't need to call us to find where things are at. Ninety-seven per cent of the transactions now are digital. We also added in extra investment options, such as a socially-conscious index, as well as our big default funds.

Also, we've moved to more case

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Digital transformation roundtable

management, so that when a member does need to come to us, they're not having to talk to someone in the service centre but then talk to someone else in operations.

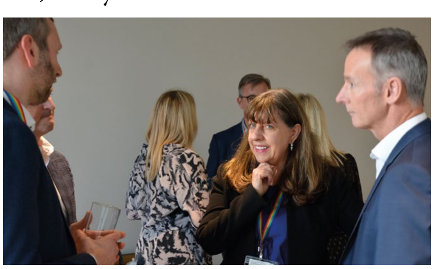
Finally, overall, as we get this right over the next three to five years, and the more that it's digitised, the more we aim to drive operational efficiency.

We have also won several awards for our app, because it's so simple to use. Members can even do everything related to a financial hardship claim pretty close to immediately via the app.

Working alongside Bravura, because of the automation technology and the ability to track where processes are at, we've also got the first 'my activities tracker', so that when members want to know where a transaction is at, they can see that via the tracker.

From our 'super helpful' perspective, we recently launched an option whereby, if members are over 50, they see a core tile that encourages them to start planning for their retirement. They'll let us know what type of retirement they are contemplating, and from there we guide them with questions such as, do you want to live life as you currently do with your current income? Do you want a bit less? Do you want a bit more? They answer several questions and, through that, they get a confidence score. If that's the type of retirement they want, how confident should they feel given what savings they have etc.

What we've found is, since that went live, nearly half of those members start



going and playing around with it. They look at what might happen, for example, if they went for a slightly higher growth option, or if they fine tune it a little more, what happens to their confidence score. Out of that, they can either book an appointment with a planner, or they can take action and that happens automatically.

That's a whirlwind whistlestop tour of some of the elements of the digital transformation.

Digital transformation: Key drivers

Chair: After hearing about what digital transformation has done for the Aware Super fund and its members, what do people around the table feel are the biggest drivers for digital transformation initiatives – is it to be as cheap as we can in a very price sensitive market? Is it member quality-of-service driven?

Douglas: It's both – as Deanne *[Stewart]* was saying, you get more members to self-serve because they're getting a great experience online – then they don't call you as much. Also, the more engaged a member is, the more interested they are in their pension, the more likely they are to take some action. That will benefit them. It can also benefit the provider.

Say a member chooses to consolidate their old pensions because they're engaged and they want to use the retirement forecaster in a way that is more holistic, so that it can show them a full forecast of what they're going to get as an income in retirement, that's a great benefit to them and to us as a provider. More money comes in. It's a virtuous circle if you can get these things right.

We heard about the benefit of apps too – about half a million people log on each month to the Aviva app. So much more is now being delivered through that app. The way we see this going is more use of nudges, more use of hyper personalisation, information that comes up when you first log on that is relevant to you as an individual. That's efficient, because it's useful to that individual. It's also cost-saving for the provider, because it stops people calling in as often.

What does the provider do with that money? They use it to improve the member experience, to make sure that we have call centre handlers to deal with the more difficult things, because not everything can be done at one click in an app. For example, we can invest in services for vulnerable customers, and in our Retirement Centre, as by that point people are faced with more complex decisions and often want to talk through their options.

Bolan: I agree it has to be both. But, putting the member first, we have got to be cognisant now of the experience that members have as consumers in anything that they do in their lives. Therefore, we as an industry have to be at least as good as the experience that they have on Amazon, for example.

In terms of the cost savings, if we can improve engagement through communication, then there will be a materialistic difference to the admin costs that you pay. That's something we will see more of.

Chair: Picking up on the point that in Australia everyone chooses their own superfund, is there much switching or do people tend to be quite loyal?

Stewart: Switching has actually increased in recent years. As the superannuation pot of money has got bigger and members' balances have got bigger, they engage more. If the fund isn't performing or the service is poor, they'll switch. So you're definitely seeing the flow in the industry change. The dynamics are changing quite rapidly, and the degree of competition therefore has heightened in the past couple of years.

There are also key moments when you see more movement, and it's either when they change occupation, or it's that moment perhaps 15 years (or less!) before retirement when someone wakes up and realises they need to get serious about their retirement, they need to see what the options are, or they get advice.

Menasakanian: The advice, who delivers that? Is that part of the service you offer or is it outsourced?

Stewart: It's part of what we offer. We're trying to do more of it digitally, and that's certainly what members are engaging with but, in Australia, it's a labyrinth of advice regulations. There are two types of advice you can give. One is called intra-fund advice. That means, for no additional cost, you can provide advice on the fund. The intra bit means it has to be fund related, so questions such as: Have I got enough insurance? Am I in the right investment option? Am I contributing enough?

But then there's much more comprehensive advice – so, the moment you want advice with your spouse or you're beyond just your superannuation, that's a fee-for-service and you must pay the full cost of that.

We offer both. Not all superfunds have digital intra and comprehensive advice. But, given we've typically got an older member base, we have invested heavily in the guidance and advice, because we see it as paramount to a better outcome.

The power of technology

Chair: How far can we use cutting-edge technology going forward? How big is the potential?

J. Jenkins: It's huge. The possibilities with generative AI are endless. When you think about the conversations that people might have now in the absence of AI with a chatbot – maybe that is AI but certainly not current versions of AI – it's difficult, it's stilted, it tends to be unintuitive.

If you think about bringing natural language into that and the difference it would make in terms of people's confidence in dealing with a chatbot, then you can see the possibilities are infinite.

You can also see how AI will take a lot of the legwork out of all the communications work that we need to do in a transactional way to allow people to focus on more value-based conversations with our customers, so not dealing with the customer who just asks, "where is that thing I asked for last week?" There's no value in that. They don't even want to make that call. If we can absorb more of that through technology and AI, and focus our people's time on the more valuable stuff that people do need to talk about, that could lead to a real change in trust in the industry.

V. Jenkins: People talk about generative AI, ChatGPT etc as if it came from nowhere, but artificial intelligence has been around for a long time, and we've certainly been using it in our machine learning categorisation engine for a long time, and now we use it internally exactly for some of the efficiency reasons rather than customer communication.

The concept of smart data goes back to when we had an industrial strategy in 2017. That pointed out the GDP gains that could be achieved through having the interoperability of data, the ability to move information around – it's sort of open banking/open finance meets GDPR. It was particularly around that portability of data, and leveraging the data for the customer's own benefit, which was sacrosanct within that.

We're still battling with that a little.

We're product providers. Whose data is it? Providers seem to still have the illusion that it's their data, not the customer's data. We're doing the best we can to liberate that information, and with the data protection and information bill, which is grinding its way along, that's the vehicle for seeing that come to fruition.

Smith: The big thing for us is using AI to help our associates help customers, so I don't think it's necessarily about the customers interacting with AI. Some of this technology is throwing up information more quickly. It's listening to the customer. It's suggesting where the conversation might go next. It can also make suggestions to our associates where we suspect there may be an element of vulnerability.

Some of this technology is not visible to the customer. You can use more of it to deliver a more consistent, better, high-quality experience. That's where we see the primary use in the near term, as it relates to helping customers.

Viswanathan: I agree. One of the biggest challenges that we have in the pension industry is the ability to get high-quality technical talent. There's a very limited supply of that kind of talent available. Typically, it takes you anywhere between six and nine months to get somebody even reasonably good and you can put them in front of a computer to generate a retirement quote for somebody. Yet, we tend to utilise that high-quality, technical talent for all

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activities, when you could use artificial intelligence, machine learning, generative AI as part of the process.

If you break down a transaction today, part of it is about understanding what the client wants and getting all the data together. The second part of it is using all your technical skills and then doing the calculation and whatever necessary to generate the answer. The third part of it is framing a letter or an email and sending it out.

The first and the third can be done with a machine so much better. They can certainly gather data so much better than humans can, and they can certainly write – particularly with generative AI today – so much better than humans. So, why not use them for that, and use the people who have been trained with all the technical knowledge for what they need to do and what they've been trained for?

That's what I think the technology today allows you to do. You can put a human in the loop as opposed to saying, I'm going to digitise the entire end-to-end process. Start thinking more in terms of the parts of the transaction where you need humans and parts of the transaction where you need machines. When you get the right mix, you can deliver a much better service, more accurate answers, in a much faster timeframe. That's the real opportunity that's in front of us.

Menasakanian: Just to pick up on that point, being able to deliver a service to customers to cater for their different life stages was a factor for NatWest Group wanting to participate in the workplace pensions market.

There are multiple AI projects that the bank is managing. We're now exploring how we can utilise the capability we have within the bank and bring that to the pensions world. Cost saving is part of it; it is also important that we use our talent in the best way; but another important factor is being able to offer personalisation for the customer, creating a more enduring relationship with customers.

Hawkins: It's about using the technologies to deliver that personalised conversation with that individual. What is the language they understand? What is their scenario? How can you use that data to pick up that, maybe they're not doing so well at the moment, or something has happened in their life? Also, by talking to them in a language they understand.

Finally, we have in this industry so many different terms for the same thing. We bamboozle people. Many of us will be questioned by friends and acquaintances, people we bump into in the pub, about something to do with pensions, because people just can't understand what's currently coming through in a lot of cases. So I think the tech is going to allow that simplification to happen.

Mann: In the past, we did a survey of direct pension holders. We were thinking about changing the phraseology, the way that we interacted with them. The two words they most disliked about pensions and retirement were 'pensions' and 'retirement'! It goes to show these words engender a kind of fear. So the language that you use and the way you communicate with people is really important in helping them to interact with their money.

Stewart: One thing I would add – and it might be less relevant where you've got a really heavy defined benefit (DB) book – as more and more members move into the retirement phase, the use of data to serve up a more personalised cohort and option into retirement will become paramount, rather than just your passive default retirement fund. It depends, for example, on whether they are healthy. Do they own a home? Do they have a family? So your ability to, with a consumer's consent, serve up a much more personalised retirement and retirement income stream, and help them work through that, these are all going to be data-led.

Bolan: That's critical. With automatic enrolment in the UK, we have built a society of people who have not had to make decisions around pensions, and then when they come up to retirement, we're going to ask them to make really big decisions around how they are going to fund their retirement, when we simply have not prepared them to do so. At that point, it becomes absolutely critical.

Barriers to new technology

Chair: What are the barriers to all of this? Do you trust this stuff?

Crossley: There are potential issues because we know the way these models learn is by looking at existing information, but if that information is wrong, they're just perpetuating the wrong thing! That, in itself, is a challenge and any big organisation is going to agree that we need to have really close controls around this.

But I would argue it's not even about next gen tech; it's the current gen tech where we've got challenges to overcome in order to maximise and leverage it.

Deanne *[Stewart]* touched earlier on permissibility. Unless you've got your members' permissions and you've managed to capture them in the right

Digital transformation roundtable

way, you're going to struggle with personalisation and delivering the right messages to them. If you haven't managed to hook the customer and get them engaged early enough or at the right place, you're going to struggle to give them the experience that they probably want but don't know is there.

We've also got aspects of regulation that we need to navigate, including the guidance/advice boundary. When we're thinking about that retirement point and how we help people navigate choices, what we do in that space is critical, it's an issue and government could do more to help us there.

The other one we shouldn't forget about is the industry itself – I spend a lot of time on pension consolidation. We recently launched a new iteration of our service. We digitised lots of it, included lots of automation, and we had one customer's pot consolidate in less than three days!

Because we'd set the customer's expectation, and told them it will generally take two to four weeks, one customer even rang us wondering what was going on as it was so quick.

But on the flipside, if the counterparty isn't with you, that can be eight weeks, 12 weeks for what is effectively the same process. So as we're all very interdependent on each other, we have to think about industry standards and where they're needed.

Chair: On that theme of barriers to adoption, is there a generational difference with organisations' willingness to adopt new technology?

Jenkins: In our organisation, we're very much looking forward to the opportunities that it brings. The point about risk with technology and AI is that risk is not a new thing, and controlling that risk is not a new thing.

Looking at AI, we're not going to say, let's put it in a system and see what it does, then come back and look at it in a couple of years and see what happens. We don't do that. We manage risk, and we have controls, and we do things carefully.

It's the same principle here. We just need to think about how we might do that differently in an environment where technology is much more front and centre of what we're doing. It's that technology in the main that we need to manage the risks of.

Chair: Given that AI can be a bit of a black box, how worried are you when you have something AI-enabled as part of something but you're not 100 per cent sure why it has done what it has done? Does that trouble you, or is that just the nature of the beast?

Hawkins: It's the nature of the beast to some extent, but it's about putting the right guardrails around it. At the moment, we still have quite stupid AI. All it knows is what it knows – it's developing and it's getting much better. If you look at ChatGPT4, it's far better than ChatGPT3. It's more precise.

But, while it does still throw out wrong information, having it within a specified area where you've trained it, like you would a member of staff, you've put it through those quality assurances and then you have a quality assurance gate at the end of it to make sure it has not just made something up, it can be useful. It's about building a very specific use case for AI and not just letting it run amok.

There's work to be done, but it is going to help drive the quality of advice and information coming through to members. In particular, being able to personalise it and still keep the same accuracy but put in a method that isn't bog standard that's going to go out to everybody.

Smith: Exactly. We've been creating our own secure model for this – as has

been said, AI knows what it knows, so if you're in charge of teaching it what to do for you, you've got to be prescriptive in terms of the tasks you want it to do and the guardrails that support that activity.

Hawkins: An interesting area I have been exploring is around third-party administration, where you've got lots of sets of scheme rules and addendums and everything else – to have AI consume that information and then regurgitate it and bring it back in a better way for a human to then do something with it, that would be useful and save lots of time.

Viswanathan: One of the schemes that we administer has two million members. We have about 150 people that we require to service that scheme. It's a DC master trust. A significant proportion of the work is automated. But then we've got a DB scheme which has got 10,000 members and you'd probably take 150 people to do that as well!

There are roughly about 5,000 DB schemes today, many of them tiny, and you could argue that it's not necessarily the regulation or the technology that's an issue, but the cost of implementing full functionality for a 100-person DB scheme. It's just too prohibitive and given the fact that no two schemes are the same, there aren't any economies of scale. That's where the biggest challenge is today, lack of standardisation of scheme rules and benefit structures.

There's a lot of applicability directly today, even as technology stands today with the right kind of guardrails, on the

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DC side of the work. It's the DB bit that is so much more challenging. Quality of data is a challenge; the scale and size of the scheme is a challenge; and the intensity and the capital expense that is required is a challenge as well. We've got to be able to break the back of DB. That's the point in time when next-gen technology could actually crack the nut.

Pot for life

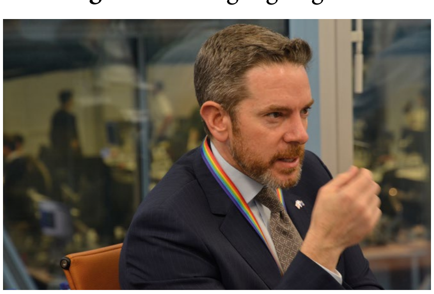
Chair: One of the ideas that the government has trailed recently is a pot for life/lifetime provider. Currently in the UK, your employer chooses your workplace pension provider. Everybody is in that one arrangement. You can have other pensions as well, but the money your employer is putting in is into the workplace scheme.

The proposition is that you'll be able to say to your employer, I don't want the one you've picked for me; I want you to divert my contributions and your contributions somewhere else.

Where does technology fit in all of this? If the government is going to do this, how does technology enable that to work as well as it can?

Crossley: I did raise my eyebrows when I heard this – they want to do pot for life and they want to do default consolidators, while we continue doing pensions dashboards. That's an awful lot of wires to plug into an awful lot of different things to make it work. Undoubtedly a big challenge.

Douglas: Ordering is going to be so



important. We are on a road to pensions dashboards. It's a long and winding road but we are on that road, and that isn't using a central clearing house, whereas now we're talking about a central clearing house that potentially presages pot for life. It's important to get the deliveries in the right order otherwise, you're trying to connect too many different things at the same time. I'm not sure that AI, or indeed any tech, helps if what you're trying to do is not following a logical order.

Of course we all want to reduce the number of small pots. That's good for the end customer. It's good for providers. That's both an efficiency gain and a gain for the individual. But there are ways to do it which offer an alternative to the one that has been suggested.

Crossley: I agree – looking at the sorts of things that get in the way of customers consolidating today, they require a lot less radical change than some of what is in the Mansion House recommendations. As an example, if we want to email our members today telling them they can consolidate if they want to, we face various challenges around the electronic communications laws that can ultimately prevent us doing it.

Douglas: Yes, and that's just electronic communications. One of the not so good things about auto-enrolment – and there are many good things – is that, because you're automatically enrolled, you can't give marketing permissions at that point. Therefore, it is hard to talk to members about consolidation in a way that encourages them to consolidate, for example. If the PECR rules could be amended, then I am sure that more members would consolidate with their existing provider, and then technology does start to play its part. But at the moment, it's a barrier.

Chair: I would say there's a set of voices in the UK who are very keen on all of this and, by and large, it's the people who deal with retail customers, I'd say larger pots typically, consolidation businesses. Then on the whole, the providers of workplace pensions are less keen. Deanne *[Stewart]*, how do you view this from outside of the UK?

Stewart: First of all, the government has to think about this much more holistically than one element. If I look at the Australian system, it's a combination of things that have made it successful, to the point where I would sit here wondering why on earth you wouldn't want to give the member choice, so long as it's done in the right way?

But if I take a step back and consider what elements you need to get it right, we have what's called 'super stream' – the connectivity of the data behind the scenes that is the one standard, so consolidation takes 10 seconds, because it's all in the plumbing behind the scenes.

Secondly, superannuation is mandated, so you don't have the auto-enrol component.

Thirdly, the government has brought in what's called the APRA Heatmap, whereby any poor-performing fund must write to their members and say, we are a poor-performing fund, and we recommend you look elsewhere. They get two strikes, and then they are closed for new members.

To sum up, I would argue that it's important for members to be able to have choice and not to have multiple pots, where they're paying multiple lots of fees. Why would the system not want to come to that in some shape or form?

Stapling

Chair: Can you explain stapling?

Stewart: Stapling is a new feature in Australia that started about two years ago – you have your first superannuation fund that you go into. Then, as you change workplaces, you have the choice to go into whatever superfund you want, or that employer's superfund; but if you make no choice, you stay in the original fund. So you're stapled to that for life if you're not then making active choices. Once again, it gets rid of this combination of having multiple funds

Chair: Is inertia winning?

Stewart: No, choice is winning! As the system has matured, and more and more members see this as their money, we've seen much more happen in the choice phase. Of course, those funds that had typically the younger demographics are definitely winning market share, but there's a lot more choice actively happening than ever before. It has really lifted the bar on the degree of engagement, technology and competition, which ultimately is healthy!

Bolan: Is it still the case that people tend to join the fund that is aligned to the industry that they've first gone into?

Stewart: Yes, but those dynamics are changing. That has been one of the most fascinating things in the industry. Everyone was playing nice in their swim lane, and now it's a free-for-all.

Smith: In the UK, we need to be slightly cognisant of starting from where we are and the employer-funded, employer-facilitated market we operate in. Also, we need to think about the societal impacts – at the moment, we've got low financial literacy levels in this country; we've got low levels of engagement; and most employers, in my experience, are trying to step up and fill in that gap. I'd be cautious that we don't try to disintermediate these employers that are essentially paying, funding and supporting the UK retirement landscape. We need to be realistic.

Also, we have low productivity, high wage inflation, and low employee satisfaction. These employers have these massive issues to deal with. They see retirement offerings as part of their benefits package and where they can add value to their employees' overall financial wellness.

Menasakanian: I agree but, equally, a lot of employers are frustrated that despite having spent all the money they are on employee benefits, they are not seeing the right level of engagement and appreciation from their employees. If we can help with that, then great.

Looking ahead

Chair: What is the next big thing?

Douglas: I would say it's around how we deal with the issue of what people do at retirement. We haven't really got to grips with it yet as an industry, and that is partly because the people coming through to retirement now have got DB, at least at a household level, so DC is often more of a top-up. But, roll forward a few years and DC will be the main source of retirement income and how to spend that pot of money is something that needs a solution.

It's probably the nastiest problem that anyone has to deal with in personal finance – how do we help members at this point? How do we set what is a default or a quasi default for people in retirement? We would like to suggest a way of spending your money that may not be exactly right for you, but maybe we can use some of the technology to tailor it a bit more, and here's a solution that makes sense.

We did some research at Aviva – *Planning for retirement in the 2050s*. The average DC pot size by that point would be £225,000, assuming auto-enrolment stays at 8 per cent. That's in today's terms, so that's quite a bit of money in real terms, but it's not really enough to provide a luxurious retirement. The income generated would still be below

the moderate retirement living standard from PLSA.

The most horrifying statistic from that report was that one in 10 people said they would take the £225,000 all as cash! That would create a tax bill of over £70,000 and wipe out 15 years of contributions. It felt to me, after reviewing our research, that there is a need for a safety net, a place to start. Maybe it's not a default but it's a quasi-default to help people spend their money in a sensible way.

Chair: What about the issue of technology and servicing people in later retirement?

Stewart: I would say, most members under 55 will be digital first. In retirement, there's definitely a bell curve, but it's a smaller part of the bell curve that are only paper – they like to come into the local office. That is decreasing. We have been surprised by how many will get on their computer and so many of the queries now into the service centre are digital queries, so we're teaching them how to do things – there is a lot of digital coaching.

Closing remarks

Chair: What are the panel's key takeaways from today?

Mann: Listening to people talk authoritatively about the role of digitalisation in the process has been enlightening for me. I would like people to think more about the interplay between digitalisation and the advice

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process, because I've spent many years trying to drag advisers kicking and screaming to the altar of digitalisation, and there's a disconnect with the pace at which people are prepared to move.

Menasakanian: For me, it's better understanding how we can leverage technology to help us better service our customers' holistic financial needs.

Smith: There are three points for me. The first one is quality of data. We're in an industry that's decades old, and we all know there's some poor quality data around, so we've got to unpick that to move forward.

One of the topics we didn't get to today was around different cohorts and minorities and how they might be impacted by the use of technology in retirement savings. That comes back to the data point. We're auto-enrolling employees and the rules are very prescriptive about the data employers have to provide. Some of the data that would be helpful, we're simply not allowed to collect. Increasingly employers are pushing back on the need to collect some of this data, specifically gender. Having access to data to help you with that analysis gets harder and is reliant on members to self-disclose which we know is very hard.

The other topic is, if we start getting into the world of comparisons and choice, as an industry, we have to do a lot more around fee transparency. Providing comparisons on value for money will require us as an industry to be clearer

about what members are paying for investments and service.

Stewart: One of the biggest surprises from the research we've done is how much members expect you to serve up what the right thing for them to do is. I would say the combination of data and generative AI will blow out of the water what we think digital advice is into the future, and what we think it is today will be very different.

Russell: Today's discussion has made me reflect back to when I was working for Virgin both here and in Australia. As a result of legislation change in the portability of superfunds, we thought that the choice offering was a great way to set up a superfund. Part of that was thinking about creating personalised experiences in line with the Virgin ethos at that time. Reflecting back to where we are now, working with Bravura many years later, the demand for personalised services and the use of technology to be able to deliver that continues to move. The pace of that change now is accelerating even more.

The second point I would like to raise is around the challenge of digital advice as well as the hybrid advice – it's critically important to be able to understand your wealth needs and the mapping through of that, but how we go about pricing that and getting the adoption of that technology and the trust for the face-to-face is the challenge that all of us have to still push through. I'm hoping that the technology will get us to that point.

Viswanathan: I know today's discussion is about digital transformation, but I don't want us to forget about people and good technical people at that. In a market where there's a significant number of DB schemes that are open, the need for people with good technical understanding and good client focus is paramount. I don't think we should be rushing into digital transformation without thinking in terms of how we would bring a good cadre of highly talented people into the market.

We need to make pensions and insurance attractive as a career again. We want more people to be attracted to this industry. It's not the case today.

Also, in my mind, there is apathy towards pensions. The reason why auto-enrolment is needed is because people don't plan, and it has a very strong link to productivity in the UK. If you don't have enough money, you can't retire. Education, guidance and all that is an extremely important part. Digital can also play an important role in terms of how we guide people, nudge people and educate them in terms of making sure that they plan well for themselves.

Hawkins: Having worked for an Australian fintech for six years, I have had insight into what happens in Australia; where in the UK we are getting worried about the interface and the way it might work, there is clearly a proven way through that maze. We, as an industry, must help the government one way or another to make those core decisions about getting that technology, that interfacing, right to help with consolidation.

Also, there are people who want two things. One is to be able to choose where they put their money and what they do with it and be able to access it; and there is another cohort who hate the fact that every time they change provider, they get something with different language, different wording. There is an advantage in just having one common way of explaining things!

Crossley: Previous technology jumps tell us that what is cutting-edge innovation today will be bare minimum standard in five years' time. So I'm going to be bold and make a prediction of what we're going to see in five years' time.

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I believe we're going to have digitally-enabled holistic retirement guidance for workplace members at retirement as a basic standard service.

I also think that, as you start to give customers these digital services that help them better understand, it will also unlock the value of traditional face-to-face advice. Once you start to feed the breadcrumbs to the customer, they see it, and financial advice goes from looking very expensive to really good value. Those digital journeys and that digital advice will be a way of getting there.

Douglas: What we've seen so far in terms of use of AI is much more along the lines of machine learning. It has worked quite well in speeding up pension transfers, tracing, checking whether there are any reasons you should not transfer, and that's great. But we could see so much more from it – the hyper personalisation, the leaning towards advice or personalised guidance, and my vision would be that we all have common words that we use to describe each stage of the pension journey .

And why shouldn't Pension Wise offer this, as well as providers? This guidance should be accessible to everyone everywhere, and the more we can use common terms and common technology, the more useful it will be for people. There's still a long way to go with using some of the technology that exists already, but we're not really using it in pensions yet.

Bolan: Choice as to how people want to consume information is a big thing. We assume everyone likes to read the 1,000 words, so we write the 1,000 words! Giving people the opportunity to have hyper personalised information, but also customisable to their own preferences, is important.

The generational considerations are fascinating, and it's something that we've been doing a lot of work on recently. People who are being born now – the Alpha generation – as well as Gen X are much more interested in environmental issues; more interested in people being treated fairly in society. So we will get more pressure as an industry from that cohort to make sure we're doing that.

Also, we're no longer in a world where our lives are linear. We're no longer born, go through education, work and then retire. It's far more flexible and we're more fluid as a society. Therefore, perhaps the propositions that we have as an industry have to adapt to that as well.

There was a stat recently that said far more people now expect to work beyond 70. We've got to allow for that.

Finally, we need government help here. We need an apolitical pensions minister that isn't term-driven, because we all know that pensions is long term, and yet we continue to put this subject in the hands of somebody who is only going to be in the role for maybe a short period of time.

If we are seriously long-term about pensions, and serious about enabling people to live when they're no longer working, then something has to change.

J. Jenkins: Let me pick up on the policy piece – we do have to start from where we are. We can't start from somewhere else.

We have a government now that has looked around and said, we've heard examples of great productive finance in pensions in Germany, and we see that the Dutch system of collective DC seems to be a good idea, and we'll take stapling from Australia, and we'll bring all these jigsaw pieces together in the hope that it works. I'm not entirely sure that it will.

Finally, the one thing we don't seem to be talking about, which is admirable about the Australian system, is that you have contributions of over 11 per cent

from the employer. Ours is less than a quarter of that and nobody wants to talk about that!

Spencer: We talk about an advice gap, but it's an education gap that you've got to solve before you solve the advice gap, and then that leads into it. Collaboration is also critical for us – that means government plus bodies plus all of the players in the industry.

V. Jenkins: Technology does not exist in a vacuum – we've got many societal risk-bearing issues that we've been talking about today and I don't think that technology solves those. Also, I don't think we've really got it straight as to who can bear risk, particularly in retirement. Where competitive advantage does lie for firms is around financial wellbeing. A lot of roads are leading in that direction. It's not pensions. It's not retirement. It is holistic. I mentioned wellbeing. There'll be winners and losers in that, and the winners will be the ones that have got not just the data but the information architecture and the propositions that they can orchestrate well through technology. They will be the few rather than the many, from what I can see in the industry.

Chair: I think we have all learned a lot from today, and it's very exciting about how quickly all of this is going to change. It is frightening too though. But the potential to do things so much better than we've ever done is there, so I emerge hopeful from today's discussion, but I also recognise the scale of the challenge.

Boots Pension Scheme chair of trustees and Law Debenture Pension Trust Corporation director, Alan Baker

Boots Pension Scheme secretary to the trustees, Steve Jones

The secrets to buy-in success

Boots Pension Scheme chair of trustees, Alan Baker, and secretary to the trustees, Steve Jones, talk to Francesca Fabrizi about the challenges and successes of the recently transacted buy-in with Legal & General

Congratulations on your involvement with the recent Boots Pension Scheme buy-in with Legal & General. What were the main objectives of the transaction and what has been achieved?

Alan Baker: From the perspective of the trustees, the key objective of the transaction was to provide added long-term protection to our members' benefits by removing market uncertainty, longevity risk and reliance on the long-term covenant of Boots.

Boots agreed to support a £4.8 billion buy-in policy with Legal & General to insure all 53,000 members, making it the largest single transaction of its kind. The company is bringing forward approximately £170 million of already committed payments to the scheme and has committed to pay extra contributions, expected to be in the region of £500 million.

To state the obvious, the scheme did not have enough funds to purchase this insurance policy on its own.

The additional payment from Boots, in addition to the sum it has already committed, means that the scheme is no longer reliant on Boots to pay benefits to members; the variable risks are insured and pensions are protected for decades to come. This was the outcome we were seeking.

Were there any key features that made this transaction stand out?

Steve Jones: The company wanted to complete the transaction in 2023. This created a particular challenge, as the scheme had significant investments in illiquid assets, including property, private credit and infrastructure investments.

We challenged the insurers and our advisers to come up with innovative solutions to give us price certainty and certainty of execution within that timeframe. We landed on a combination of solutions that included:

- Selling some assets on the secondary market.
- Selling to existing illiquid asset investors with support of the relevant fund manager.
- Transferring some to the insurer in-specie; and
- Warehousing some on our balance sheet whilst Legal & General took on responsibility for the sale of these assets.

The flexibility of the insurer and the innovation of all parties involved meant that, even with over £1 billion of illiquid assets, we were able to transact quickly.

Baker: As with any insurance transaction, we needed to review the discretionary benefits provided by the scheme, including the ability of the trustees to pay a pension to a qualifying dependant on a member's death. As part of the announced package of measures, these death benefits will now be paid automatically where the eligibility criteria are satisfied rather than on a discretionary basis (and have been secured with Legal & General).

We also looked at the discretionary early retirement provision. While the trustees had in the past been able to offer enhanced early retirement terms, this had been with the company's support and on a discretionary basis. It was not something to which members were automatically entitled to under the rules of the scheme.

Continuing to pay unreduced pensions for those members who choose to retire early from age 60 would have made insuring the scheme unaffordable. We therefore had to focus on securing members' legal entitlements in the first instance. We acted in the collective interest of all members and with independent, professional advice to safeguard the long-term financial security of all members' benefits.

It was a decision that the trustees considered very carefully – we had to consider the impact of proceeding versus the regret risk and potential downside for all members if we'd not gone ahead.

How long did the process take from start to finish?

Jones: Walgreens Boots Alliance and the trustees had been considering a number of options for the scheme over the course of 2023. However, the decision to pursue a full buyout was only taken in August, so there was rapid progress made in the three to four months to signing the deal that was only possible with collaboration of all the parties involved.

Why did the trustees choose Legal & General and how was the selection process carried out?

Baker: Working closely with the appropriate independent, professional advisers and the company, we conducted a thorough review of the different options available to us. The final short-list of companies, which included Legal & General, was three and we then ran a competitive tender process.

Following a competitive process, we selected Legal & General as the best-placed partner, given its wealth of experience, its reputation in the insurance market and excellent financial strength. Indeed, its excellent AA- credit rating (Fitch and S&P Insurer Financial Strength Rating) is considerably stronger than that of Walgreens Boots Alliance.

As mentioned above, one of the key factors for the trustees was how to accommodate the illiquid assets. As well as providing competitive pricing for the liabilities, Legal & General was also the most compelling with its solution for these assets.

Jones: Legal & General had also completed a similar insurance transaction for another smaller Boots scheme (the Boots Supplementary Pension Plan).

What were the challenges along the way? How were they overcome?

Jones: Managing the number of moving parts and the sheer volume of the work was one of the biggest challenges. There were significant amounts of work – particularly on the legal side, which had to deal with the usual negotiations on bulk annuity contracts, but complicated by the unique aspects of the illiquid asset solution. The sale of assets on the secondary market were also much more labour intensive that we had expected at the outset.

Baker: The other challenge the trustees faced was the shifting size of the deficit. We needed a cash injection from Boots to make this deal work. With a scheme the size of ours, a small movement in the liabilities relative to the assets could have a big impact on the amount of cash required and the risk that the whole transaction became unaffordable. As soon as it became clear that a full buyout was within reach, the trustees, with the support of the company, began to reshape the assets to better align with the insurer's pricing to mitigate this risk – largely by selling down volatile liquid assets and aligning our rates and inflation hedging.

We overcame these challenges by excellent project management and a strong focus on collaborative working between company and trustees (that allowed a sharp focus on what the important aspects of the deal were). And thanks to the hard work and long hours put in by our advisers.

What would you say to trustees embarking on a similar transaction – any words of wisdom? What have you learnt from the process?

Baker: It's probably a cliché, but preparation is key. The trustees had already completed some preparation work earlier in the year around a benefit audit and member tracing that increased the confidence in our data.

Jones: I would also recommend working with people that you trust and enjoy spending time with – because you will be spending a lot of time with them!

Written by Francesca Fabrizi

More mergers ahead?

Lynn Strongin Dodds explores whether consolidation remains the name of the game for DC master trusts

Summary
• Master trust consolidation may have slowed but the direction of travel is for more mergers.
• Master trusts of a certain size are being more selective in who they acquire in the next round.
• Scale and resources will be even more important as DC schemes invest in a broader range of assets.

Although the tempo may have slowed this year, consolidation remains the name of the game in the master trust world. Regulatory and economic pressures will continue to be the main themes, with smaller trusts struggling to achieve the scale, resources and deep pockets required to tighten governance and invest in a wider array of investments, including illiquid assets.

As WTW senior director, James Colegrave, notes, there was certainly an initial consolidation rush as many well-governed schemes concluded that their members would be better off in a master trust. This was driven by both sponsors and trustees. "Consolidations have now slowed," he says. "When we look to WTW's *2023 DC Pension and Savings Survey,* we can see that many smaller, perhaps less well-governed, schemes have yet to consolidate, with the remaining, larger, own-trust schemes committed to continue, at least in the more immediate term."

A pause

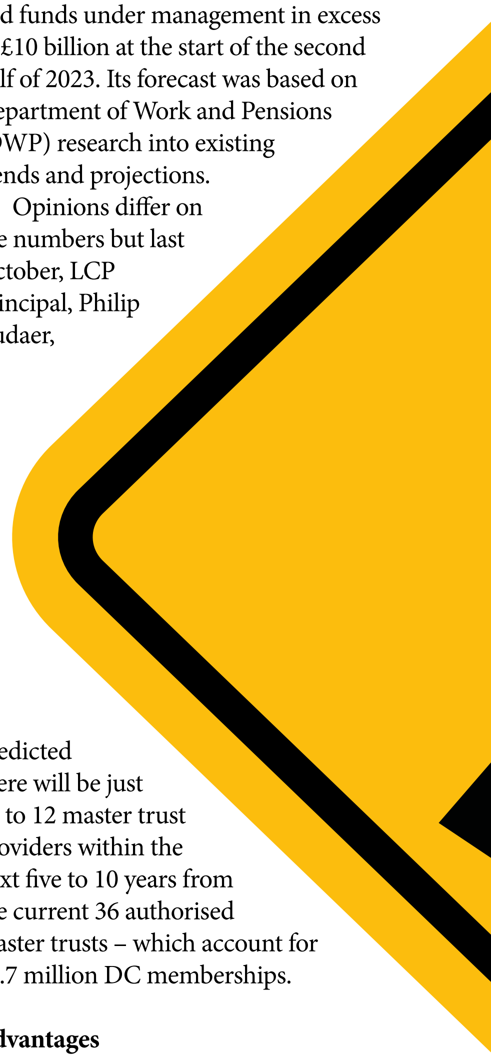
One reason causing a pause for thought is the volatility in stock markets over the past two years. Trustees have adopted a more cautious stance due to the Russia-Ukraine conflict, as well as the uncertainty over the macro-economic picture, given the rising inflation and interest rates.

However, SEI DC and solutions managing director, Steve Charlton, believes that the pace has not waned, but the dynamics have changed. The flurry of activity seen a few years ago has meant that the industry is in the second wave and players will be more selective. "There are a lot of bigger players who do not want to sell," he says. "The question is who will blink first and make the first move. It is also about finding the right opportunities for your model. For example, we are looking at a large number of assets and members but a modest number of employers."

Hymans Robertson head of DC investment, Alison Leslie, echoes these sentiments. "The low hanging fruit has happened where there have been natural synergies," she says. "We now expect to see consolidation among master trusts that are not necessarily structurally aligned or between commercial and non-commercial ones. The trend is also being driven by The Pensions Regulator (TPR), who has already announced that it would like to see 90 per cent of members belong to a scheme of £30 billion or more by 2030."

This was reiterated in Chancellor of the Exchequer, Jeremy Hunt's, 2023 Autumn Statement. The government estimated that only four of the commercial authorised master trusts had funds under management in excess of £10 billion at the start of the second half of 2023. Its forecast was based on Department of Work and Pensions (DWP) research into existing trends and projections.

Opinions differ on the numbers but last October, LCP principal, Philip Audaer, predicted there will be just 10 to 12 master trust providers within the next five to 10 years from the current 36 authorised master trusts – which account for 20.7 million DC memberships.



Advantages

There is no argument though over the advantages of mergers. Market participants note that smaller, less robust trusts that join forces with a larger counterpart will create a more stable and resilient pension landscape. Those with heft can also benefit from economies of scale, lowering costs and enhancing returns for members. Last but not least, it ensures stronger regulatory oversight and safeguarding members' interests.

In addition, many think it encourages innovation and efficiency within the

sector. In other words, a consolidated market can better weather economic challenges, offer improved retirement outcomes, and generate greater public trust in pensions.

Looking ahead, LCP DC team partner, Lydia Fearn, believes that "future consolidation may be driven by the forthcoming value for money (VFM) policy, when it lands". These views are also reflected in the Pensions and Lifetime Savings Association (PLSA) comments, which note that the VFM framework for DC workplace pensions will enable smaller schemes to benchmark larger trusts across measurable metrics, such as investment performance and costs.

The devil, of course, is always in the detail and the Financial Conduct Authority (FCA) will be consulting on the finer points next spring. This follows earlier joint papers from the DWP and TPR which have aimed to enable those running pension schemes to compare and improve the VFM they provide. It also looks to generate competition and remove under-performing schemes from the market.

Many industry participants also see the Mansion House Compact as a contributing factor in creating alliances. The government objective is to get DC schemes to invest up to 5 per cent of their default funds into unlisted equities by 2030. Currently it is around 1 per cent and DC schemes must now consider the use of illiquid assets in their defaults and update their SIPs no later than 1 October 2024, according to Colegrave. Importantly, if illiquids are not to be used in the default, the trustees must explain why that is the case.

"This, along with the proposed new VFM requirements, will undoubtedly prompt more consolidations," he says. "However, we worry that many of the smaller, less well-governed schemes will just muddle though, perhaps unaware of the new requirements. This is where TPR will need to use their power to encourage the consolidation of those less well-governed schemes."

Challenges

Size will matter as it will not be easy for smaller schemes to invest in illiquid assets. Colegrave believes that it may prove difficult because "by their very nature, those illiquid assets cannot just be sold. However, he expects many of the master-trusts to become more creative in accepting the in-specie transfer of illiquid assets – potentially then holding them within their much larger defaults – or hybrid schemes could potentially hold on to the illiquid assets through their DB section investment portfolios.

He adds: "Although the presence of illiquid assets will make it more complicated to transfer a DC scheme or a DC section into a master trust, we expect that there will often be a solution that can be found. We will just need to learn to think out of the box."

Fearn stresses that it is still early days, and that the implementation of illiquid assets is still being developed. She believes that current solutions allow, in the main, liquidity within the funds.

For those funds that may experience gating, she says, "they could either remain in place until such time members can be transferred out or they could be moved 'as is' to a new provider, where the new provider can manage the liquidity over time. We expect to this become more of a discussion point as the illiquid allocation grows and any scheme or master trust moving to a larger scheme should ask for clarity on how this will be handled before any transfer begins".

"We now expect to see consolidation among master trusts that are not necessarily structurally aligned or between commercial and non-commercial ones"

Invesco EMEA head of consultant relations and UK pensions, Sachin Bhatia, also points out that some of the key differences are linked to the ability of third parties, such as platforms and administrators, to link to illiquid assets. "As the UK DC market has to date had little exposure to illiquids there has been limited focus on this," he adds. "However, given current market attention on illiquids we expect schemes, master trusts and related third parties to start focusing on this issue more going forward." There is a view that in time many will leverage the Long-Term Asset Fund (LTAF),which launched two years ago. This comprises of an open-ended authorised structure, covering private equity as well as venture capital, real estate, private debt and infrastructure. Unlike most existing retail vehicles, LTAFs do not offer daily dealing, but fund managers have to align their redemption terms with the liquidity of their underlying assets.

The larger master trusts already invest in illiquid assets and Leslie expects "consolidation will bring scale for accessing LTAFs and for now I think they will be the preferred vehicle for accessing private markets. Overall, size and scale will be important because larger master trusts will have more influence on pricing, which is a concern in private markets. Although value over cost should be a focus that is not always the case, even if the potential outcomes may be beneficial."

Written by Lynn Strongin Dodds, a freelance journalist

Small schemes stand up to general levy hike

Niamh Smith explores why the leading proposal to change the general levy has sparked a backlash from small schemes, and what could be done to limit the negative impacts

Summary
- The DWP's favoured proposal is unlikely to increase the consolidation of smaller schemes and does not factor in schemes' governance levels.
- An additional premium of £10,000 for smaller schemes is likely to be passed on to members, which would make them disproportionately expensive.
- The industry has urged the DWP to use the levy only to fund regulation, not as a tool to promote the consolidation or standardisation of pension schemes.

The Department for Work and Pensions' (DWP) latest change to the ever-evolving pension regulation landscape is a proposal to restructure the general levy on occupational and personal schemes.

The general levy is collected to fund The Pensions Regulator (TPR) and The Pensions Ombudsman, as well as contribute to the Money and Pensions Service.

The DWP has presented three potential plans to address the accumulated deficit in levy funding, which was £80 million in 2021 and continues to grow. However, the proposals to increase the general levy have been met with a backlash.

Option one is to continue the current levy and structure, allowing the accumulated deficit to grow. Option two would maintain the current levy structure and increase rates by 6.5 per cent per year.

However, option three would increase rates by 4 per cent per year and entail an additional premium rate for schemes with up to 10,000 members from 2026. The government has stated this is its preferred plan – and this has sparked concerns across the industry and from small schemes in particular.

During a consultation that ended on 13 November 2023, many small schemes warned of the potential adverse impacts that the levy increase would have on their operations.

To consolidate or not to consolidate?

The DWP's plan to introduce a premium rate of £10,000 for schemes with under 10,000 members from April 2026 is

aligned with the government's efforts to encourage the consolidation of smaller schemes.

However, Society of Pension Professionals (SPP) Legislation Committee chair, Faye Jarvis, says the premium is unlikely to increase consolidation.

She says many small schemes are unable to consolidate, for various reasons, and therefore the premium would only serve as a punishment to schemes and their members instead of a tool to drive consolidation.

"For example, orphan schemes that no longer have a sponsor that can exercise the necessary powers to enable consolidation, or schemes that provide members with valuable guarantees that would be lost on consolidation," she says.

She adds the push to consolidate is particularly difficult for small DB schemes because many are seen as unattractive to commercial consolidators. This limits their options, which is an issue that the government noted in its options for defined benefit schemes call for evidence. The Association of Member-Directed Pension Schemes (AMPS) chair, Andrew Phipps, also believes that the DWP would not achieve the level of consolidation that it expects from option three. This is because many small self-administered schemes (SSAS) hold commercial property that is let to the sponsoring business, the principal employer of the scheme, to allow it to invest in illiquid assets.

"The prospect of incurring the costs to transfer a property to a larger scheme would be deeply unpalatable as they would exceed the additional, one-off levy being proposed," he says.

The DWP's drive to increase consolidation is rooted in the government's concerns that small schemes tend to have lower levels of governance, knowledge and compliance.

However, many in the industry have voiced frustration that the £10,000 premium unfairly assumes all small schemes are not well governed and does not account for individual scheme circumstances.

BESTrustees trustee executive, Bob Hymas, says a distinction must be made between small schemes that have big sponsors and those with smaller sponsors in potentially distressed situations.

"Those with the bigger sponsors are likely to be better governed and also have greater access to resources or funding to meet costs, so you can't just use this as the single measure," he says.

The DWP has also failed to consider the impact of a professional trustee on a scheme's governance level, adds Association of Professional Pension Trustees (APPT) member, Vassos Vassou.

He notes the regulator has said schemes with a professional trustee on their boards already achieve higher governance standards, so the push to consolidate and impose an additional premium seems unnecessary.

"Smaller schemes with a professional trustee are achieving the highest standards and are still being asked to pay. There's a sense of unfairness basing the premium on size – because we're small, we have to pay – rather than on not being well governed," he says.

"The levy needs to be proportionate to avoid unintended consequences for small schemes"

Impact on members

Since many small schemes are unable to consolidate into larger schemes, they will be forced to pay the additional cost of £10,000. This is likely to lead to a negative impact on member outcomes.

Firms that provide services to smaller schemes are concerned they will have no choice but to pass on the cost of the premium to the scheme itself, which will have to fund the costs directly from the scheme's assets, says Phipps.

"The outcome of this is that the £10,000 additional charge will be spread across just a handful of members in these schemes, which is both disproportionate and unfair," he adds.

Jarvis agrees there is a risk that members of the schemes impacted by the premium will be unfairly burdened with excessive charges.

"A premium of £10,000 could mean each member in a scheme with, say, a total of 50 members has a reduction to their pension savings of £200. That seems very unfair to those members," she says.

Dalriada Trustees managing director, Chris Roberts, adds the additional cost exacerbates the overall challenge that smaller schemes are becoming more expensive to run because of regulatory guidance.

Professional trustees are already

working to achieve appropriate governance with finite budgets, so the increased running costs could reduce the funds available to improve governance standards, he says.

"The concern we have is that increased levies are simply going to move available funds away from strategic advice, member benefits and/or governance-enhancing activities," he says.

Consultation response

A large number of firms and industry bodies have responded to the consultation on the potential plans, with many urging the DWP to reconsider its favoured proposal of option three.

The DWP has also been encouraged to engage with the industry to find a more appropriate solution to fund the general levy, with many organisations having put forward suggestions to limit the negative impact on small schemes and their members.

Vassou recommends the DWP should focus more on encouraging smaller schemes to improve their governance rather than penalise or force them to consolidate into a larger scheme.

"Why should you just give the money to the DWP when you could spend it on effectively raising your own scheme governance directly? And you would not need to spend quite that much either," he says. He adds that a scheme with a professional trustee on its board should not be charged the £10,000 additional fee because it is clear that its governance standards would already be higher.

This would also support TPR's and DWP's objective to enlist more professional trustees on scheme boards, he says.

Phipps agrees that schemes with professional trustees should be exempt from the premium rate.

"If there is concern about how SSASs are run, a reasonable response to this would be the return to requiring a mandatory professional trustee to be part of schemes that have between two and 11 members," he says.

He adds this is a realistic measure because the levy change is anticipated to come into effect in 2026; therefore, trustee boards have an achievable timeframe of 2.5 years to appoint a professional trustee.

Even if the DWP makes amendments to the premium, the industry has been clear in its view that the government should not use the levy as a mechanism to promote consolidation.

"Ultimately, the purpose of the levy is to fund regulation," Robert says, "The levy is not a tool to drive consolidation and it should be set at an appropriate level to achieve its primary function."

He notes the levy needs to be proportionate to avoid unintended consequences for small schemes and ensure it does not discriminate against schemes that provide valuable benefits to their members.

Jarvis adds the regulator should focus on enforcing compliance with existing regulation designed to drive consolidation, instead of using the levy for this purpose.

"There are already legislative measures in place to achieve this aim. For example, the value for money assessments that require DC schemes with less than £100 million in assets to assess whether they provide value to members and, if they don't, wind-up," she says.

The DWP is currently analysing industry feedback from the consultation and aims to provide a final outcome in the near future.

Written by Niamh Smith, a freelance journalist

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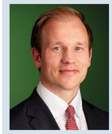
CHAIR

Andy Cheseldine, Professional Trustee, CCTL
Andy joined Capital Cranfield in 2017 after a career as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and LCP. Using his experience of over 30 years in consulting on DC and DB pensions and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013. Andy has a long record of advising on regulatory, governance, change management, investment provider selection and communication issues.

PANEL

Paul Farrell, Head of UK Institutional Business, J.P. Morgan Asset Management
Paul is managing director and the head of J.P. Morgan Asset Management's UK institutional business. An employee since 2016, he previously worked at Dimensional as head of UK institutional clients, with responsibility for the UK institutional client team, including new business development, RFP, client service and consultant relations. Prior to this, Paul spent 15 years at BGI/BlackRock working in both London and Amsterdam. He has also held positions at Newton Asset Management and Confederation Life.



James Fouracre, Director – UK Institutional, Ruffer
James joined Ruffer in 2022 as head of DC, leading on strategy and distribution across DC pension schemes in the UK and Ireland. Previous roles include a range of senior distribution and strategy appointments at HSBC Global Asset Management, across the wholesale and institutional businesses at regional and global level. James read politics with business at Loughborough University. He is a regular contributor to the investment and pensions press.

Jit Parekh, DC Investment Partner, Aon
Jit joined Aon as an investment partner in the DC team in 2023. He advises on all aspects of DC investment strategy. Prior to joining Aon, Jit led the DC investment team at Schroders Solutions, where he was responsible for a number of key advisory and fiduciary clients. His role also involved wider proposition development across DB and DC, focusing on developing solutions in consolidating markets. He is a keen advocate of improving financial literacy in the UK market, and looking at wider innovative solutions to solve the DC retirement savings and advice gap. He also previously worked at Isio and WTW.

Jeanette Smith, Senior Pension Consultant, Capita Pension Solutions
Jeanette leads the Capita Pension Consulting DC consultancy team and has been with Capita since 2012. She uses her experience and expertise gained working in the pension and benefits industry over the past 35 years to provide innovative and relevant solutions to employers and trustees, focusing on creating better outcomes for clients, individuals and colleagues. She is a regular contributor to the pensions press.

Matthew Swynnerton, Partner, DLA Piper
Matthew is a partner at global law firm DLA Piper where he heads the London employment and pensions team. He advises on all aspects of pensions law, including the pensions aspects of corporate transactions, The Pensions Regulator risk issues and moral hazard powers, reorganisations and restructuring. Recent notable work includes advising Uber on its automatic enrolment duties following the recent Supreme Court judgment on worker status and, as a member of the Pension Scams Industry Group, drafting key legal sections of the Combatting Pension Scams Code of Practice.

Donna Walsh, Head of Master Trust, Standard Life
Donna has responsibility for Standard Life's Master Trust, working closely with the trustees to design and deliver on its strategy. She has been heavily involved in Standard Life's Workplace developments over the past 10 years and is passionate about improving the experience for members, employers, trustees and advisers. Donna loves hearing from clients and co-creating solutions for the future. She is a regular contributor to the pensions press.

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The future of DC

Our panel of DC experts discusses lifetime pots, productive finance, at-retirement support and the future of DE&I in our final roundtable of 2023

Chair: Thinking first about the Autumn Statement, are lifetime pots a good idea?

Farrell: If you were starting from a blank piece of paper, lifetime pots could be a good idea. I could make the argument for them. But on a cost/benefit trade-off relative to where we are today, then maybe it's worth having a quick look and a review of it. But I'm interested to see what the review comes out with.

Smith: One of the positives that could come from this is the potential for more empowerment of the individual as they would have to make some decisions. They would have the ability to take charge and understand that this is something significant – just like purchasing a house or obtaining a mortgage, this will be on their agenda. So that's a positive that will possibly come from it. But there are some challenges that need to be addressed.

Parekh: Small pots are an issue. So the intention of doing something around this is admirable. But, are there other ways?

Fouracre: The intention is a good one i.e. how can we think about reducing complexity, with the ultimate goal of increasing retirement pot sizes. There is an opportunity to take the learnings from auto-enrolment, and more specifically how its success was vastly strengthened by leveraging behavioural inertia via a default framework. A fair challenge might be posed to suggest that there are other more important priorities in the current climate, percentage contributions clearly being one of those.

Swynnerton: There are potentially a lot of risks associated with the model that don't necessarily exist currently. I completely agree that auto-enrolment's been a huge success largely because of inertia. The concern is that people tend not to focus on their retirement planning until quite late in life. Will that be the case here? Could there be increased mis-selling claims associated with this kind of model that we don't have with the auto-enrolment regime?

Walsh: You can see the appeal from a simplicity-for-member perspective. But it needs careful consideration, because there are other challenges facing savers today that we should prioritise – auto-enrolment contribution levels, identifying ways to extend advice and guidance to support decision-making, and implementing the value-for-money framework to help people to determine whether their pension offers good value.

And there's obviously the practical consideration of how you implement this going forward. But I also wonder how employers will react to this? Workplace pensions are a significant part of recruitment and retention for many employers and a significant proportion of their reward spend. How will they react? If they lose control over the pension provision for their employees, do they disengage somewhat?

You cannot underestimate the power of employer advocacy. When we run campaigns alongside employers, you can get much better engagement from employees, and we'll lose some of that.

Smith: Yes – your pension is very much an attraction and retention tool. Could we therefore see employers re-evaluating their spend and investment on pensions as a result of it?

Chair: I chaired the Small Pots Co-ordination Group and, while I'm all in favour in consolidation, it's not clear whether we're talking about it being compulsory in any form, or non-compulsory. If it's non-compulsory, then I can't see more than 10 per cent of the population using it. If it's compulsory, there's lots of variations – compulsory on providers to compulsory on members, and some bits in between. There's an issue over employers because, if you've got over 100 employees, you're probably going to be paying to 10 different schemes, some of which will be net pay, some of which will be relief at source, which will probably increase your payroll pension costs by a factor of 10 to 20.

Fouracre: If we were to come to a conclusion that it is not the optimal framework moving forward, then what is? To reflect on one of the tabled alternatives – pot-follows-member – to me, that feels like a more sensible

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framework to want to build towards, touching on some of the reasons that have been raised – administrative and so on. There are also some associated benefits to the centrality of the employer as part of that conversation as well.

Farrell: The only other angle on this is whether or not the pensions could be a mechanism to try and consolidate, and move things around. But we need to give one system a chance!

Productive finance

Chair: What about productive finance in the wider sense? Is it a good idea?

Farrell: Absolutely. It has to be. Many DC schemes when they were originally configured were around public markets. But as investors around the world have embraced private markets in various shapes and flavours, it's only right that DC members get the benefit of a higher level of compounding through time. So, in principle, absolutely great. How you do it? There are some mechanical challenges. But definitely, in principle, it has to be the right thing to do.

Smith: I agree it's something that's needed and should be considered further.

Fouracre: If you think about the investment environment that we're currently in, you've got asset classes increasingly moving in the same direction. You've got bonds and equities positively correlated. There's clearly a need to start to think about diversification differently. Illiquids are an opportunity to do that.

The Mansion House reforms have laid out numerous progressive intentions although, as always, the devil is in the detail. If you take the simple example of MSCI World, there's a 5 per cent allocation to the UK. The suggestion here is not a 5 per cent allocation to the UK. The suggestion being promoted by the government is a 100 per cent allocation to the UK within the illiquids portion of the portfolio. Any multi-asset solutions provider will tell you that someone needs to think long and hard about diversification beyond the confines of what the government has laid out currently. And whilst the UK might be a key component part of that allocation, it is unlikely to be the entirety of it.

Parekh: It comes back to the fact that, ultimately, trustees need to be able to get themselves comfortable with the inclusion of private assets within DC portfolios, and a key part of their decision will be looking at the risk and return profile alongside other asset classes that can be incorporated into portfolios. Also, if we are looking at private assets with a UK bias, that itself carries certain risks versus wider geographical diversification that will be a consideration for trustees.

The other factor is cost, particularly in DC where cost to a degree is tangible. People understand it. People can see it. How do you facilitate getting these into portfolios? I appreciate you said 5 per cent or 10 per cent allocation.

But, again, in the round, trustees sometimes have to make decisions around potentially allocating to this instead of an alternative asset class, which may increase costs for members. So the investment argument from a pure risk and return perspective is there. But when you look at it across the board, factoring in additional costs and the need for transparency, that's when you can see why it can be quite tricky to get it into portfolios easily.

Chair: How comfortable can trustees be in taking 'guidance' from the government that they should be doing more of this, whether or not it's in members' best interests?

Swynnerton: That's the problem from many trustees' perspectives. Guidance is just that, it's guidance. Guidance cannot override trustees' trust law duty to act in the best interests of their members. Whilst attempting to reconcile that duty with their investment strategy, and whilst noting that diversification is generally seen as positive, they need to balance that against whether 5 per cent is too high, too much risk. It doesn't necessarily follow that that is in members' best interests. The other legal side of it is the practical implementation. It also needs to also consistent with trustees' scheme documentation. They need to have sufficient flexibility within their scheme rules to do this.

Chair: How important is the cost element of these sorts of investments? As a trustee, I'm even comfortable with paying 20 per cent performance fees above a hurdle rate, because if that hurdle rate's set at what I'm going to get everywhere else, then my members are only paying 20 per cent performance in excess returns. But I want to make sure that they're getting good value for money, and they're not paying 20 per cent on stuff below that hurdle.

Also, how do we cope with the hockey stick shape of costs in a lot of these things, where you're not getting any return on the first five or six years, and it all comes in years seven to 10, but you're paying the costs upfront? Is there a way around that?

Fouracre: Your reflections quite rightly focus on access and expense – I

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would also add to that list suitability. Many would take the view that a notable portion of the illiquids investible universe is not suitable for a DC member. Take early-stage VCs, for example – extreme levels of volatility, therefore exposing a member to significant levels of sequencing risk.

Smith: It also depends where you are on the member's journey as to how appropriate it is at that point in time. Your point about performance fees, that's something I was challenged about from a pension steering committee many years ago. Can we have performance fees? So I think that would be great if we can have that debate to determine how we can deliver the best outcomes.

Farrell: Private markets have a valid role in the accumulation phase. They have equally a valid role in the decumulation phase. It's about the characteristics of the assets. Private markets are a big area, and they don't all have to be J-stick effects. Some are about growth, and there are ways of structuring things in the growth phase, which makes it look very attractive, and likewise in the decumulation phase, where it's maybe about, depending upon what cohort of member you've got, the consistency of income, and the volatility of income, rather than about volatility of returns. Again, there's normally ways of putting structures in around that.

So, for me, private markets have a place, regardless of which end of the member journey you're at. It's just getting the right asset configured in the right way to do the right job for the member to help them achieve whatever their goal is.

Smith: How can you make sure it's well governed in order to achieve that?

Farrell: Within single-employer trusts, people probably want something to be well managed in its own format. The work that governments have done with LTAFs is probably a way for people to get comfortable – that there is a regime that is government-backed, FCA-supported, that that structure works. The question then becomes whether or not the people that facilitate the member platforms, can they deal with those types of structures? That's probably the subject for a different debate.

But the governance frameworks are there. We're now starting to see them being used. The question then becomes, if you're a trustee base, where does it slot in with all the other things you've got going on, and how do you manage that? So I think within the framework and within the guidelines the FCA have given us, the government have given us, that can all work. It's now just about how that component sings with all the other components you have.

Swynnerton: There's also a practical issue to be considered here about the amount that trustees have got on their plates at the moment. As I mentioned earlier, trustees have to bear in mind their trust law duty to act in their members' best interests and trustees will inevitably be guided by their investment advice.

Parekh: I agree when you look at number headlines, 80 per cent feels like you're missing out. But in reality, it's probably a narrow opportunity set. But there is definitely an opportunity set. It comes back to what I said earlier around transparency and the operational difficulty. Those two are some of the barriers in DC, where there's a need for greater transparency. Sometimes the governance around private markets can become more difficult, particularly for trustees, where actually there's this one opportunity against other opportunities, and you're trying to balance the risk and return.

It's a balancing act, ultimately; the opportunity is there and the investment case is there, because DC members do have the longevity. DC members do have a much longer time horizon to be able to benefit from private markets.

Walsh: We signed up to the Mansion House Compact but at the forefront of our minds will always be whether it is right for members. Will it have a positive impact on member outcomes?

So we'll only put things in place if we believe it will improve member outcomes. We absolutely acknowledge the potential opportunities that private investment can offer to improve member outcomes; and we'll go in with eyes wide open to the challenges and risks that it will present as well in a DC environment.

Increasing pensions take-up

Chair: What can be done to increase pensions take-up?

Swynnerton: We have already talked about auto-enrolment, which has been a great success. We could see that broadened, and hopefully that will happen. A Private Members' Bill to extend auto-enrolment has now received royal assent, so that is something that will happen and should help millions save more in their pensions and start saving sooner. But more can always be done in that area.

Also, more can be done to improve financial literacy and understanding of members, particularly if you're trying to implement an initiative like a pot for life that's placing more of an onus on members than is currently the case.

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Walsh: When we think about an inclusive solution for all, auto-enrolment has got many more savers into workplace pensions, which is great. That has increased the diversity of those savers. It's worrying that the average reading age of an individual adult in the UK is nine, and 40 per cent of UK adults don't have the digital literacy skills to thrive in society today, and we are moving as an industry towards digital first, so we need to work together to solve that problem.

On auto-enrolment, we have just issued a report called *Raising the Bar*, and it sets out an economic framework for the government to work with, where they can use some metrics such as real household disposable income per person, employment vacancies, and auto-enrolment opt-out rates to assess when might be the right time to raise those contributions, because while we're all advocating that we do need to increase them, we also need to be mindful of external factors that are impacting people's spending today.

We also need to help people make the most of their savings in retirement. They can make an irrevocable decision in retirement that wipes out years of contributions, so again that guidance and advice piece is key, and we're very much looking forward to the FCA's conclusions on the advice and guidance boundary.

Parekh: Financial literacy is really important here, and we need more, earlier because there's an issue not just around decumulation but also around accumulation, and getting people to think about saving a lot sooner.

Also, we talk about savings, but are we just thinking purely retirement savings, or savings in general? The big difficulty is, in general in the UK, 40 per cent of the population have less than £1,000 in savings. So auto-enrolment's done a great job encouraging and getting people into the system, and getting them saving for retirement. Auto-escalation will play a big part there in terms of getting people to save more. However, we need to think a little bit wider, because financial literacy and financial well-being in general have become much more important. Pension savings is one element of that, but educating on wider savings may also play a role in better engaging people into their retirement savings.

Smith: Trying to raise the bar on financial literacy is absolutely something we should look at doing. But how far can we raise it realistically? I am not quite sure. I therefore feel that the employer has a role here to help employees with regard to that.

On the digital/technology side, are we limiting its potential in the way that we're currently using it? Should we be looking at perhaps using more AI, to help people have a better understanding of what they should be doing? So they're more empowered, because information is being provided in a way that will help them make their choices?

So we need a combination of employer support, alongside using digital/AI tools, to empower the individual to have an understanding of what their future might look like when they stop work and also for them to consider what their key goals are as they go on that journey.

On investment, yes we want to make sure that they get as much return as they possibly can based on their risk appetite. But most individuals, given their limited financial literacy, just want to be told exactly what's best for them.

Farrell: For most people, pensions and retirement are abstract concepts – you can try and educate them as much as you like, but that's the reality. I lived and worked in the Netherlands for a few years and, on the topic of contribution rates, they made a comment that if you work five days a week, four days should be for consumption now, and one day should be for retirement. That's basically their way of saying the savings rate is 20 per cent.

But bearing in mind everything that's going on in the world today, if you were to say to people, that 8 per cent you're paying in, it should be more like 20 per cent. That would just scare people off. So the system needs to get a little bit better. We can build a better mousetrap in terms of building the best investment engine you can. We can try and educate people a bit. But, ultimately, the system just needs to be better. It needs to be better for people to give them what they ultimately want.

Smith: Do you think the use of digital planning tools that provide nudges throughout the savings journey could result in improved engagement with better outcomes?

Farrell: Maybe. Things move on all the time. Someone I used to work with, who was a leading academic in the Netherlands, did loads of surveys on the Dutch population looking at whether we could nudge people in order to increase engagement rates. He found however that, you could spend millions on trying to engage, trying to improve things, but when you'd get the results back, you'd have improved engagement rates from 3-6 per cent of the population. Not great! That still leaves 94 per cent disengaged.

So are we nudging the wrong part, and actually should we just focus on, in his particular scenario, that 90 per cent

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plus cohort and actually try and work out what is it that we can get the system to do for them? Is it about income replacement rates? What does the average person want? Should the system try and deliver what the average person wants to them, rather than trying to educate them, and engage them?

Parekh: Let's take ourselves out of pensions and retirement savings, and delve into how people shop, for example. The way consumers spend money today is very different to 10 years ago, with Amazon and online shopping.

So I think the role of AI, a better system with the right nudges, is definitely the answer. My overarching view there comes back to savings versus retirement because, ultimately, do we want people to treat their retirement pot in the same way that they might treat other savings, or do we actually want to protect themselves from their retirement savings? So it's having the right system to make sure, yes, we want people to be engaged, but do we want them to be so engaged that, actually, they're seeing things move around, and they're panicking, and they want to do something with it?

Farrell: I've heard so many employers say that over the years, be careful with engagement because there's got to be a mechanism to protect people from accidental self-harm. And actually, are you just better off having the system just trying to be better configured for them?

Engagement versus inertia

Chair: Auto-enrolment is great because things happen automatically, and we get lots of take-up. Engagement is great because members will understand more. The two however are at opposite ends of the spectrum. Where should the balance be? Is it 50-50? Or 70-30?

Swynnerton: We know that auto-enrolment works for people who aren't engaged and possibly never will be. I don't think you can necessarily move the dial much further in terms of engagement for that group of people. It would be great if we could, and we didn't need to rely on auto-enrolment, because everyone was at the other end of the spectrum and was fully engaged, but we know that will never be the case and many will never be sufficiently financially literate to make decisions that are being made for them currently through requirements of the auto-enrolment regime.

The ideal probably would be somewhere in the middle. But everybody has different needs which would lead to the need for different systems and requirements to cater for different levels of financial literacy, different levels of interest and if you don't have a one-size-fits-all regime, it's impossible to regulate, because how do you make the assessment as to where somebody is on the spectrum?

Walsh: I personally would always advocate for increased engagement. However, I don't believe we will get to a point where the whole population is going to be engaged in their pensions. So we need to make sure that we have safety nets for people. Auto-enrolment has been brilliant. It's predicated on inertia. We've seen it work. We've seen the results from the research coming through, that people through the cost-of-living challenges are much more likely to switch off Netflix, or cancel their gym memberships than reduce their pension contributions and that may be because they don't actually realise they can reduce their pension contributions!

I do think we need to have preset options or 'defaults' even into the decumulation space. That's the complicated bit! Inertia's got them into auto-enrolment, then they come to

retirement, and have to make a complex decision, they've not been engaged, and they don't know what to do. To support people we need to look at the model for decumulation to have preset options in language that people can understand and relate to, and they can pick one of those. Or if they're fully engaged, they can do what they want themselves or flex a preset option. You've got to have solutions that cater for all.

Parekh: I would echo all of that. If you think about setting the guide rails, then maybe the answer is somewhere in between, because while engagement is good, we don't want people to panic. So, actually, the tactical engagement around, depending on their ages, what they want, what they need at that particular time, how they should be saving, would be much more powerful, and also give people would also give people comfort that they're on a journey here. It needs to be much more focused and personalised.

Fouracre: In terms of what levers you can pull that will have the most impact, we mentioned contributions earlier, and it's difficult to move away from that. The average UK contribution is 3.4 per cent. PLSA reference and promote moving to a world that's 12 per cent, six and six.

There are cyclical challenges to be considered like the cost-of-living crisis, and there are structural challenges that could be assisted by government intervention. That could be lifetime allowance, inheritance tax, income tax. Focussing on some of these issues could have more of a significant positive impact

DC roundtable

to improving conditions and associated improved outcomes.

Smith. I'm not sure people will always remain disengaged. If an individual gets to a stage where they've built up their pension pot, and they're being told that's their money, that's their pension pot, there will be a level at which they will become engaged. And it's the mechanism that we use to tell them that will also make a difference. We need to also make sure that point starts a lot sooner than just 10 years before their planned retirement date.

Farrell: It depends on which cohort you look at. What are the average earnings for someone in the UK – £30,000-something a year before tax? After tax that's about £26,000. So most people think, when they retire, if they need £2,000 a month in today's money, where's that going to come from? State benefits are approximately £200 and something a week or so. So they're probably going to get half of that through state benefits.

They then need their pension to do a lot of that heavy lifting, but hopefully it won't be the only stream they have. They may have other assets somewhere else – although for most people on that income level it probably is a pension and a house. Then the question becomes how one thinks about their own personal balance sheet. Retirement assets are hopefully, for some, just one item. So it's about making the whole thing relevant for someone, and that's where it starts to get very difficult.

Walsh: Can I come back to the point about auto-escalation, and saving more for tomorrow? This is something that we did put in a while ago. But due to FCA rules, you can't do it on an opt-out basis, so you've got to do it on an opt-in basis and unsurprisingly the opt-in rates are very low. I believe that if you do it on an opt-out basis, just like auto-enrolment, more people will stay in. The people who opt in do tend to stay in, so they have an automatic 1 per cent increase each year.

Auto-escalation can also help if there are matching structures in place. Interestingly, we've just appointed our new master trust DE&I lead and he was telling me, that whilst these structures are in place to try and encourage people to save more, if you think about the socioeconomic background of people, that matching structure tends to benefit the wealthier more because they can afford to save more.

So, while there are these tactics that you can do to try and encourage people to save more, you've got to put that inclusive lens over it as well, and make sure that you are being fair, or we're going to see the pension gaps increase even more across different groups.

Smith: On that inclusion point, some employers have woken up to that particular fact, because what they do is they match the pension contributions into the pension scheme if they see the contributions are going to some other sort of savings vehicle, or reducing debt, or that sort of thing. That's something that should be welcomed.

At-retirement support

Chair: How do we help people at retirement rather than just accumulation?

Fouracre: As ever, progressive regulatory updates have the power to help drive positive change. With that in mind, the raft of consultation papers that followed the Mansion House reforms brings decumulation firmly into the spotlight via a proposed decumulation framework in which responsibility sits with trustees to offer decumulation services to schemes members, either in-house or by partnering with another supplier who could provide them.

Smith: I think it is about the whole journey that you need to take individuals on. We look at holding their hands throughout this journey in three clear phases – planning for it; thinking about it; and living it. It is about the bigger picture. It's not just about taking your retirement from your pension pots; it's that whole financial well-being piece that should be considered.

Pension schemes and employers should make sure that support is in place. We look into a future where individuals are going to have bigger DC pots than they've got now. We therefore need to make sure that there's a protection in place that they don't make decisions that harm them. Pension providers need to make sure they have the ability to provide all the different options and, when the individual is being presented with those options, that they are empowered, using technology, to look at all the options available, both with the provider and externally. Otherwise, we'll potentially be looking at undoing what freedom and choice put in place.

Farrell: This is where technology has to step in here, because you can have auto-enrolment, and you can create the right contribution rates. But when it comes to retirement, it becomes very personal very quickly, it's about an individual. Your retirement assets will hopefully just be one part of a wider balance sheet. But you have to get the right tech in place, and make the whole thing simpler, and in a language that any customer genuinely understands so that they can make decisions with it.

Swynnerton: Improving financial literacy becomes even more important at retirement, and whilst financial decisions come into sharper focus at retirement, that doesn't mean that bad decisions aren't still made. So anything that can be done there is fantastic, and to the extent it can be done through technology as well, then so much the better.

What ends up happening following the DWP's consultation on this area, which is trustee-focused rather than employer-focused, will also be interesting. However it seems broadly positive in terms of decumulation services, and backstops, and offering of services and products. But that could be seen by some schemes, particularly the smaller non-master trust schemes, as being quite a lot to deal with again. Perhaps it will therefore be a another factor accelerating the charge towards master trust provision by employers.

Walsh: I agree with Jeanette *[Smith's]* point that we need to absolutely help people to and through retirement. Our master trust already has investment pathways as part of the guided journey through retirement for members and we monitor drawdown activity, communicating to members to review their withdrawals and investment option if the pattern of withdrawals is at odds with their chosen pathway. But nine out of 10 people through our research are telling us that they want a combination of guaranteed income to cover the essentials, and then flexibility over the rest for their discretionary spend.

So we are developing solutions around this. This relates back to my point earlier about having preset options for people to choose from using real life language and real life actions to support understanding.

Parekh: I completely agree with what's been said around the room – using technology, looking at people's circumstances, and what propositions and products can be offered. But also, we need to recognise we are in between two generations: The generation of DB people who knew what their pension was, it was an income through retirement, it was quite clear; and DC people. And we're now getting DC members coming through and getting to a cliff edge.

Retirement itself isn't as clear as it used to be and so, ultimately, that's where people need a lot more help and a lot more guidance. So financial literacy, much earlier, is key, and getting people to understand what that pot is for, because when you get to the point of retirement, you'd hope there's a greater understanding and a greater appreciation of what they need to do with it.

In terms of wider products, it's great the conversation is evolving. It's great that providers and consultants are coming up with ideas. Master trusts have a part to play here. Collective defined contribution (CDC) has also not been mentioned today, which is another solution which has some element of risk pooling, and there are pros and cons there. But, ultimately, the aspiration behind CDC and some of the other products is around the fact that, actually, what members really want is an income at retirement. That's what needs to be built in, so how can we help members achieve that?

Walsh: In terms of getting member feedback, our trustees have started to do member webinars. They join us on a webinar, and they give top tips to their members, and then they can hear from their members what's important to them. They've been finding it really useful because, up until now, they've been relying a lot on us to bring insight and member feedback into the boardroom.

It's great because they can focus their attention on the themes that came through from that webinar that are really important to members, and then they can work with us on helping develop new solutions or enhance experiences.

Smith: That's a great concept. Some of the businesses that we deal with that have their own pension steering committees, even if it's a contract group personal pension or master trust, what they're trying to achieve there, they have member representation or employee representation on those pension steering committees, and bring that into the fold.

Full service providers

Chair: TPR published a blog recently on proposals for workplace schemes to eventually become 'full-service providers'. What are the panel's thoughts?

Swynnerton: One of the problems, again, is potentially overloading trustee boards, especially where the scheme and/or trustee board is small. It's not necessarily a bad thing to drive schemes towards master trust provision, but a requirement to be a full-service provider could be seen as an additional burden for DC schemes to deal with. So there are challenges, and I think there'll be huge variation between different boards, depending on their size, as to how easy that is for them to accommodate. So the impact will be very different from scheme to scheme.

Farrell: So much of this is linked to scale. The bigger you are, the more you can offer. Hence, for single-employer trusts, it becomes really difficult, whereas the bigger the master trusts are, the more scale they have, then it becomes a little bit easier for them to maybe start thinking

In association with

DC roundtable

about all these extra responsibilities and services.

Smith: What will be the impact on innovation, would it reduce as there are fewer schemes, but with scale?

Swynnerton: As well as innovation, it's possibly harder to determine value for money if you've got one provider responsible for everything, including post-retirement services. There are risks.

Farrell: Or are we going to see mergers between pension providers, retail platforms, IFAs, to try and have more of a holistic view for people?

Smith: I appreciate the benefits such as lower costs, but you're weighing that up with potential loss of innovation and choice. We've been talking about trying to engage people, and make decisions, and equip them. But if they're just being put into something that is very standardised, is that all undone?

Fouracre: This framework is a pragmatic way for the government and regulator to drive their broad agenda. What's the ultimate outcome of this decision? It is that the market consolidates and consolidates in the large part into master trusts. That's the end goal that they're trying to achieve.

Parekh: I agree – you can see the direction of travel around consolidation here. And in some cases, consolidation makes sense. But in other cases, where you've got paternalistic employers, where they really understand their membership, actually, this gives them another thing that they need to be thinking about, along with all the governance burdens they have.

So, ultimately, does this then deliver better outcomes for members? Moving to a master trust consolidation, does that really deliver the best outcome? For some, it will, absolutely, but not for everybody, and there are some single trusts out there which are very well run, that have member-nominated directors that understand their membership. Ultimately, there is no reason why they wouldn't be best placed to deliver the best outcomes for their members.

Walsh: Picking up on the point about innovation, I do believe we will end up with fewer, larger master trusts in the market with the financial backing to continue to invest and my view is that there will still be enough to drive healthy competition. Where you have providers, like Standard Life, with a strong social purpose and trustees aligned to this, you will see continued innovation.

We offer full to and through retirement solutions in our master trust and can support our own single-employer trust clients and others in the markets that don't want to move to a master trust, by offering a retirement-only section within the master trust. If their members chose to move to us when they start to access their retirement savings, they would get the same service that people within the master trust get today, and the continued oversight from a board of trustees. By doing this, we are supporting both single-employer trusts looking to move to master trust and those comfortable keeping their own trust arrangements by offering a solution that meets the direction of travel for decumulation from the DWP and the regulator.

Conditions for Transfers Regulations

Chair: The Pensions Ombudsman recently published its first determination on an amber flag relating to overseas investments under the Conditions for Transfers Regulations. How helpful is this determination for trustees faced with an amber flag following a transfer request?

Swynnerton: This determination is to do with pension scams, so it's relevant to all pension schemes. It's the first determination that the ombudsman has issued on the Conditions for Transfers Regulations, which are the regulations that came into force in 2021 that set out the amber and red flag due diligence regime. It's interesting because it's to do with one of the areas of uncertainty in the regulations, which is where there are overseas investments in the receiving scheme, as there almost always are, a literal reading of the regulations would require the trustees to refer the transferring member for guidance from MoneyHelper, whereas the DWP and TPR have indicated that this was not the policy intent behind the regulations.

As the ombudsman acknowledges in the determination, there's huge divergence within the industry on this question– some of our clients follow the letter of the regulations, and refer everybody to MoneyHelper; others who think the risk of a delay complaint from members outweighs the risk of not following the letter of the regulations and so they follow the spirit of what the regulations were intended to mean but don't actually say.

Does it help us? The complaint involved a member requesting a transfer who was required to seek advice from MoneyHelper, and as a result experienced a delay during which his transfer value decreased. The fact that the determination was not upheld and the trustees were not criticised for their strict interpretation of the overseas investments amber flag in the regulations can provide some reassurance to trustees adopting this approach because we know the Ombudsman won't uphold a complaint about doing that.

So, for trustees who are worried about it, perhaps that's the safer option for the time being.

So whilst it helps, proper clarity will only come when the regulations are amended. The DWP is currently reviewing the regulations, and there are various industry calls taking place with the DWP about what the shape of those regulations should look like.

Walsh: We take a pragmatic approach to this, so we don't send everything, because we think that the regulation has possibly been written too widely. I believe that some single-employer trusts do send absolutely everything.

DE&I

Chair: What more can be done to ensure we consider diversity, equity and inclusion (DE&I) in pensions?

Swynnerton: Before DE&I, there's always been a potential conflict in relation to trustee board composition between having the people who are best equipped to do the job, and those who are most representative of the membership. Whilst often they are, sometimes those aren't always the same people. It's a similar tension potentially between imposing DE&I requirements on trustee boards. DE&I, just to be clear, conceptually is great and as such should be welcomed, but it's only great if that isn't at the cost of ensuring the best people for the job are on the board.

For some, DE&I is also an insurmountable challenge, particularly in the non-master trust arena, where a the trustee board of a private company pension scheme, a manufacturing company for example, doesn't have a very diverse workforce to pull from in the first place.

Walsh: We recently launched our trustee accelerator programme *[www.standardlife.co.uk/employer/trustee-accelerator-programme]*. We are trying to help increase the pipeline of diverse trustees going forward by funding a two-year fully supported programme, partnering with the Pensions Management Institute, targeting people from diverse backgrounds, potentially with no pension experience, to become trustees. I'm sponsoring that programme which I am really excited about and I hope that others in the industry follow suit, by either supporting our programme or setting up their own accelerator programme.

Smith: That's a great initiative. I think most businesses now understand the value of DE&I and have policies in place.

Trustee boards need to be inclusive, incorporate DE&I and ensure that, where required, appropriate training/resource is provided to bring individuals up to speed, and their opinion is taken into consideration. So I think it needs to be inclusive, not just on gender but absolutely on everything, for example on age and background as well.

Parekh: We've focused on trustee board diversity so far in our discussion today, but there is a lot of work happening in the industry around the gender pay gap, gender savings gap – all of that is happening more and more. Having the representation at one level helps to feed all of that down and, ultimately, we are moving in a direction where action's being taken, but also the right information is also being produced. You can't turn the dial immediately, but a lot of corporates are now putting plans in place to work towards better DE&I.

Fouracre: I interpret there to be a lot the pensions industry can learn from other industries. The data is irrefutable. If the DE&I policy in place is balanced

and correct, the outcomes are preferred. That's undeniable as a starting point. As a relative measure, the pension industry is potentially behind other industries in making steps forward in this regard.

There is a small amount of nuance afforded to us to make progressive shorter-term change through member trustees and professional trustees. Now, there's a fair counter there in terms of level of expertise, and therefore impact on the discussion.

But I think, at least in the short-term, we can go a way to addressing the problem through the make-up of member trustees on schemes, to ensure that you have the coverage that's representative of the underlying membership of that scheme.

Farrell: There is one thing we spent a lot of time on in the past couple of years, across the industry with our industry body, the Investment Association, and that is looking at how we get school leavers into the industry, because it's actually very difficult when you look especially at the investment industry. If you haven't been through university or the right university, it becomes very hard. So we've spent quite a lot of time trying to address that through the IA. It has been a phenomenal success. Initiatives like that are really important. So is there a way for the pensions industry to think about, as a group, how do we get people straight out of school into the system?

The challenge ahead

With so many changes to prepare for in the year ahead, *Pensions Age* asks: What do you think will be the biggest challenge for the industry in 2024?

The biggest challenge for the pensions industry in 2024 will be the lack of policy certainty.

Pensions have shot up the political priority list since the Chancellor identified them as part of the solution to sluggish economic growth. On the one hand, this could help accelerate policymaking, but we need to make sure this all remains centred in delivering good retirement outcomes for savers – the people whose money it is. We also need to be realistic about how much can be achieved without materially increasing the amounts being saved. Automatic enrolment has worked wonders for participation rates, but it still has a way to go to tackle the adequacy problem.

There will almost certainly be a General Election in 2024, leaving little time for anything to be implemented ahead of that. Some of the many policy initiatives announced can be addressed through tax legislation and regulations, but the more substantive changes would need a pensions bill, which now seems highly unlikely. Instead, 2024 will be a game of second guessing where the consensus will form, what the manifestos will say, and whether this renewed political interest in pensions will result in concrete actions to improve them. Only time will tell.

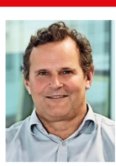
Royal London director of policy and communications, Jamie Jenkins

In 2024, the biggest challenge we will all face is to remain focused on what matters now to pension savers. There is a lot of 'noise' at the moment about new policy initiatives that could bring changes for all of us – things such as tax changes, illiquid investments, market consolidation, new retirement choices, and new duties for trustees. That could take up a lot of airtime at meetings and a lot of brain power if we start over-thinking the potential consequences. But, meanwhile, we've still got to make sure the 'business as usual' work is carried out to a high standard and is well resourced, so that the pensions eco-system keeps functioning well and doesn't get bogged down too much in philosophical debates about the future.

Sackers managing partner, Helen Ball

The pensions risk transfer market has undoubtedly reached an inflection point, with records being regularly broken. The biggest challenge we now face as a wider industry is one of processing capacity. There is so much that every pension scheme wants and needs to do, across investments, data, regulatory reform and preparing for a potential de-risking transaction. As an industry we need to double down on efficiency and have a laser focus on the outcome, to deliver a better future for as many members as possible in 2024 and beyond.

Cardano Advisory head of risk settlement, Frankie Borrell



A key challenge in 2024 will be how asset managers can deal with the increased demand from pensions funds for impact investment, particularly strategies that more tangibly demonstrate environmental impact. This is not a new challenge but the urgency to find solutions will increase during the year as it becomes ever-clearer that, despite good progress, the world remains behind the Paris targets in emissions control. It will also increase given the greater scrutiny that pension funds find themselves under when it comes to ESG-related reporting obligations. A solution that I expect asset managers may look at as a result is natural capital, looking at how land can be repurposed to provide a return to investors while also taking carbon out of the atmosphere.

Octopus Investments CIO, Jonathan Digges

Forecasts for 2024 indicate it will be a year of continued challenges. A year marked by an increase in record-breaking buy-in transactions and ongoing wind-up efforts for projects initiated in 2022 and 2023. Whilst many schemes still navigate their GMP equalisation journeys, it also appears there's a collective hope that 2024 might mark the end of GMP-related projects.

We're still anticipating updates to the General and Funding Codes and a renewed focus on pensions dashboards. Both developments are likely to strain industry resources. A strain seen in terms of experienced, qualified professionals as well as the capacity of insurers and advisers.

It's crucial that the industry maintains, if not elevates, the quality of service provided to members during this process. Standards must not dip as we attempt to achieve such goals. The potential impact on individual members being our main focus if we fail to meet their expectations or our own.

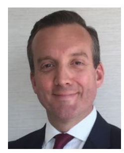
The industry is poised to undergo more changes in the next five years than it has in the past quarter-century. To safeguard member experiences, it is essential for us to be prepared and adaptable.

Cartwright pension consultant, Rob Chandler

Here are three key words for 2024: 'Cyber, cyber and cyber'! It is essential that cyber security is top of trustee agendas in the wake of the cyber-attack on Capita and also in recognition of the increased risk that comes with the rollout of artificial intelligence across the industry.
Here are three important actions for trustees in 2024:

1. Refresh your data privacy notice. A light has been shone on the (in)adequacy of privacy notices, following recent public interventions by the ICO.
2. Carry out a data protection impact assessment (DPIA) as part of your dashboards readiness programme. Do not leave this to the last minute. For many schemes this will be their first DPIA and there will likely be capacity crunches when the DWP issues its connections guidance in spring 2024.
3. Update your cyber incident response plan. Focus on the key risks: What would happen if the pensioner payroll was disrupted by a cyber-attack?

Squire Patton Boggs pensions practice head, Matthew Giles



An uncertain macroeconomic environment, rising geopolitical tensions, higher interest rates, a potential banking crisis, and yet… it looks like it has been right to 'own' equities and bonds given the performance of both in 2023.

However, looking beyond the YTD returns paints a very different picture. The past 12 months have seen six 'down' equity months and six being 'up', with no clear direction from one month to the other amid rising concerns around the risks already outlined.

And so, in 2024, the biggest challenge for clients is how they invest from here, given the risks. A strategic asset allocation should provide a useful starting point, but now more than ever, rapidly changing macroeconomic conditions could significantly impair capital and cause issues for clients when they find their promises (liabilities) changing quickly too.

Fulcrum Asset Management institutional clients and consultants, Chris Gower

In many ways, for 2024, we have 'never had it so good'. For most defined benefit schemes, the focus has shifted towards challenges like consolidation, insurance, or strategically using surpluses – a welcome departure from years spent managing deficits and benefit reductions. Equally, DC pension membership continues to grow, and consolidation makes steady progress, even if the problems of addressing overall adequacy of contribution rates have been kicked down the road.

While there are numerous consultations and new government initiatives in the pipeline, the absence of a pensions bill and the impending general election suggest minimal changes in 2024. We will probably see the General Code and Funding Code land, plus further guidance on decumulation options. While each have particular intricacies, their lengthy gestation time and softening of requirements should result in them being easier to incorporate.

Challenges over 2024 are most likely to be of a practical nature. Dealing with the administrative complexities of implementing the changes to remove the lifetime allowance should not be underestimated, nor should making progress on dashboard preparations and GMP equalisation.

Isio director and head of research and development, Iain McLellan

Pensions history

A new start

On New Year's Day 1909, the first British old-age pension funded out of general taxation became payable. Well over 600,000 people were expected to be eligible. The introduction was not straightforward: Some criticised the non-contributory nature of the payment, while others worried about the cost (expected to be £7.5 million) or that pensions would be made to the 'non-deserving'. The tax-raising 1909 Budget needed to pay for the new pension, among other measures, was vetoed in the House of Lords, and the subsequent constitutional crisis led to legislation that cemented the supremacy of the Commons.

The means-tested weekly payment of five shillings was payable at age 70. Those with incomes below £21 a year received the full payment, with a sliding scale applied to higher annual incomes. Pensioners needed to have lived in the UK for 20 years and could be disqualified if they had made themselves poor to qualify, had been imprisoned, or convicted under the Inebriates Act.

Applicants had to complete a form at the Post Office and many needed help to complete it, either because they didn't know their age – a common response was 'between 70 and 80' – or where they were born. One Londoner, asked whether he had lived in Britain for 20 years, replied 'No. I have lived all my life in Stratford'. Some Post Offices ran out of forms, and crowds only dispersed when assured that more would arrive.

www.pensionsarchivetrust.org.uk/our collections

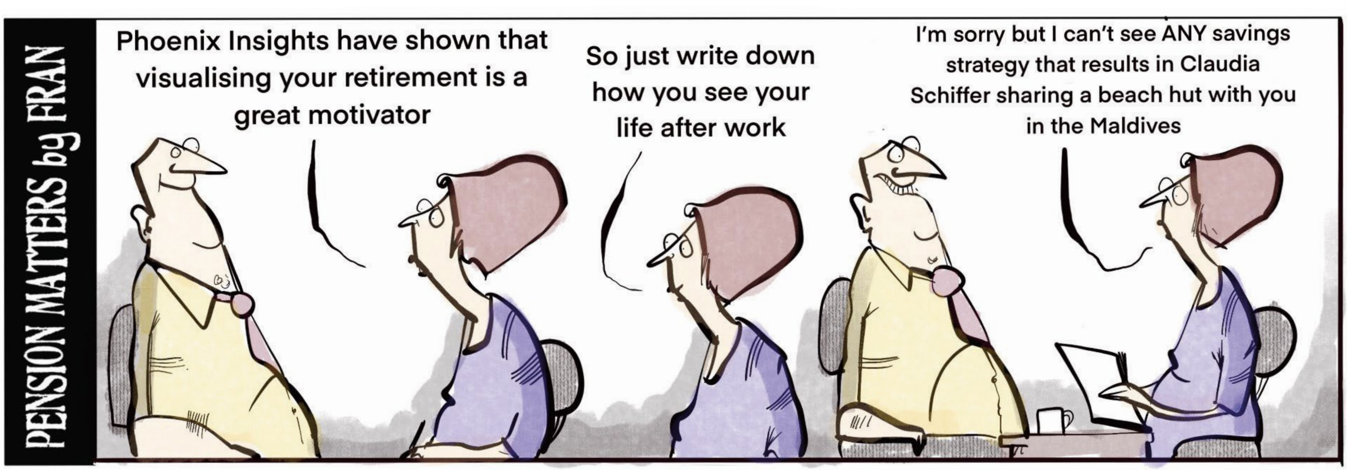
Pensions Archive Trust director, Jane Marshall

The bright side

***Pensions Age* takes a closer look at some of the recent good news stories in the pensions industry...**

A number of key industry figures were named in the **New Year's Honours list,** including Aviva group chief executive officer, Amanda Blanc, who was named a Dame Commander of the Order of the British Empire for services to business, gender equality and net zero, and AJ Bell co-founder and chief executive officer, Andrew James Bell, who was named a Commander of the Order of the British Empire for services to the financial sector.

People's Partnership has urged others to follow its lead in donating used IT equipment to the National Device Bank. The group has already donated 350 laptops so far and is expected to donate more throughout 2024 and beyond. Calling on others to follow suit, the People's Partnership explained that the National Device Bank can offer a responsible way to dispose of IT equipment, offering both social and environmental benefits.



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DC Consultants required — £DOE

UK-wide — TD15674

We are looking for experts in Defined Contribution Pensions with excellent consulting experience. You will assist trustees and sponsors to run their DC pension arrangements. Clients will include corporate sponsors, trustee boards of trust-based schemes and governance committees of contract-based schemes.

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