Cross-border pensions
What challenges do current cross-border pension arrangements pose for savers and how can these be overcome?

Charities
How does the future look for charity DB schemes amid improving funding levels?

Defence
What the debate around investing in defence means for pension funds having to navigate this emotive topic

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July/August 2024

PENSIONS Age

The leading pensions magazine

The general election: *What the new government might mean in the short and longer term for UK pensions*

Housing: *The UK housing crisis could present investment opportunities for pension funds – but what are the risks?*

All eyes Down Under

What lessons can and should the UK learn from Australia's pension model?

Case study: The steps SAUL has taken to shake up voting consistency across its investments

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Editorial Comment

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

As I write this on the day we are sending the magazine to the printers, Emma Reynolds has been confirmed as the Pensions Minister under the new Labour government. This seems to be a theme for us at *Pensions Age* – there have been several occasions over the past few years in which there has been a new Pensions Minister announced just before or just after we go to press. As such, the content in the magazine (bar a couple of pages at the beginning) were written before the announcement.

This is, of course, good news for the industry, having a key appointment confirmed at such a crucial time, but if I could ask the government to give us a few more days before going to press with these key announcements, it would make our jobs less stressful!

"We know that action is needed to ensure pensions work for the long term"

The first 100 days of this new Labour government will be key. Reynolds will have a mammoth task with one key aim: Improving pensions adequacy. It is expected that the Labour government will continue with many of the Conservatives' pension policies proposed prior to their defeat, hopefully providing some stability and continuity to the pensions industry. Labour has also promised to conduct a 'pensions review', which may give us a better idea of what direction the government will take on pensions policy.

These seismic events fit well with this month's theme for *Pensions Age*: The bigger picture. We look into what we know so far about Labour's plans for pension policy on page 30, as well as what the industry is hoping for in the first 100 days of the new government.

When looking at how to shape the UK's pensions landscape, it can be helpful to look overseas to see what works (and what doesn't work) for other countries. Australia is often cited as having a pension model that others can aspire to, but is it all it's cracked up to be? And which aspects of the Australian system could suit the UK's model and what steps can be taken to implement them? We explore this in more detail in our cover story on page 38.

As with the previous government, Labour will likely be looking at harnessing pension investment to spark growth in the UK economy. In this issue, we investigate several areas of investment that could achieve this goal. The UK is currently experiencing a housing crisis and the new government will be looking to address this, with Chancellor, Rachel Reeves already announcing new house building targets. We highlight how the pensions industry can play its part in our feature on property investment on page 68.

While we have seen seismic changes at home, there are also global events the government will need to contend with. We arguably haven't seen geopolitical tensions at such a high level since the Cold War, and Europe has been upping its defence spending in response to war on the continent. We explore the current scrutiny around investing in defence firms and the increasing pressure pension schemes are facing to defend their positions on the debate on page 72.

This may be my last editorial comment as I'm shifting remit slightly away from pensions in the coming months. If that proves to be the case, it's been my absolute pleasure working with and reporting on the sector. I'll still be around but I'll miss working with the industry day-to-day. I'll be watching closely on how the new government tackles the issues we have been working so hard to solve, and hope that it works closely and quickly with the sector to deliver the pensions adequacy everyone deserves.

Jack Gray

COVER FEATURE

Theme: The bigger picture

38

All eyes Down Under

Lessons from Australia's pension model: Chloe Whelan takes a look at the Australian pension system and explores the practical steps for the UK potentially implementing a similar model

Features and columns

News, views & regulars

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Features & columns

Continued from page 5

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Tel: 0208 149 9222
£149 pa within the UK
£197 pa overseas by air

NEW circulation figures

***Pensions Age* now has its new circulation figure from the Audit Bureau of Circulations (ABC); 11,183 July 2022 to June 2023. This includes both requested readers and copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 34,000+ online subscribers (Source: Publishers Statement, Jan 2024).**

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ISSN 1366-8366
www.pensionsage.com

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Dateline - June-July 2024

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

3 June Former company director, Lee Bartholomew, was ordered to pay a total of £15,000 for withholding information legally required in an investigation by **The Pensions Regulator** (TPR). The former company director of 1066 Target Sports was fined £7,500 and ordered to pay costs of £7,500, after previously pleading guilty under section 77(5) of the Pensions Act 2004 to intentionally, and without reasonable excuse, suppress documents he was required to produce under section 72 of the Pensions Act 2004.

4 June As election campaigning ramped up, analysis by the **Institute for Fiscal Studies** suggested that while plans to reintroduce the lifetime allowance (LTA) could have "some merit", it would represent a "missed opportunity" to improve and rationalise the system of pensions taxation.

10 June The pensions industry expressed its relief following reports that **Labour** dropped plans to reintroduce the LTA if elected, as a result of industry concerns around the uncertainty for savers and the complexity involved.

10 June The **Liberal Democrats** published their 2024 manifesto, announcing plans to develop measures to end the gender pensions gap, improve the state pension system, and require pension funds and managers to show their portfolio investments are consistent with the Paris Agreement.

11 June The **Conservative Party** published its 2024 manifesto, providing further detail on its plans to introduce a new 'triple lock plus', as well as its new plans for a pensions tax guarantee, under which the Conservatives will not introduce any new taxes on pensions.

11 June Mercer, a Marsh McLennan business, reached an agreement to acquire long-term savings specialist Cardano, including Now Pensions, for an undisclosed amount *[read more on page 13].*

12 June The **Green Party** became the latest party to publish its 2024 election manifesto, revealing plans to require UK pension funds to remove fossil fuel assets from their investment portfolios by 2030, and to equate the rate of pension tax relief with the basic rate of income tax.

13 June The **Labour Party** also shared its 2024 manifesto, confirming plans to conduct a pensions review if elected, to consider what further steps are needed to improve security in retirement, and increase productive investment in the UK economy.

13 June TPR confirmed that the **Local Government Pension Scheme** (LGPS) will publish its guidance for administering authorities on pensions dashboards connection in late June or early July, at the Pensions and Lifetime Savings Association's Local Authority Conference *[read more on page 10].*

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

17 June Looking to Australia for inspiration, the **Reform Party** published its 2024 manifesto, announcing plans to review the UK pension system to address concerns that the current pension system is "riddled with complexity, huge cost and poor returns leading to less uptake".

19 June Data from the **Office for National Statistics** revealed that inflation fell to 2 per cent in the year to May, the first time it has reached the target set by the Bank of England (BoE) for almost three years.

20 June The **BoE** opted to keep its base rate at 5.25 per cent, the seventh time in a row the central bank has held interest rates.

21 June Following on from the Conservative Party's manifesto, analysis from **LCP** revealed that nearly 2.5 million pensioners would still pay tax on their state pension after the implementation of a 'triple lock plus' policy.

21 June A group of UK pension schemes wrote to the **Financial Conduct Authority** (FCA) to raise concerns over its proposed listing rules, warning that the proposals could be "detrimental" to firm value and lead to worse outcomes for members. The letter argued that while the FCA Board is expected to confirm the revised UK listing rules "shortly", neither the evidence base, nor the views of investors, nor the impact on savers have been taken into account in the latest proposals. In addition to this, the signatories said that whilst they want to see the UK "continue to thrive" as a global financial centre, they do not think that the new listing proposals will lead to the healthy capital markets "we all want".

28 June The number of organisations adopting the **Taskforce on Nature-related Financial Disclosures'** (TNFD) reporting recommendations has increased by 30 per cent since January, the initiative has revealed. The additional 96 organisations brought the total number of companies committed to disclosing their material nature-related issues to investors and other stakeholders based on TNFD recommendations to 416.

1 July Insurtech company, Lumera, entered an agreement to acquire independent provider of data management and technology solutions, **ITM**, as it looks to expand into the UK market *[read more on page 14]*.

2 July Two years on from its launch, data from the **Money and Pensions Service**, analysed by Quilter, revealed that the stronger nudge to pension guidance has had a "disappointingly low" impact.

5 July The Labour Party was confirmed as the new UK government following the general election, with Kier Starmer taking on the position of Prime Minister. MP Liz Kendall was announced as as the new Secretary of State for Work and Pensions at the Department for Work and Pensions (DWP). Elected as the Labour MP for Leicester West in May 2010, Kendall had been Shadow Secretary of State for Work and Pensions since September 2023.

BREAKING NEWS

Emma Reynolds appointed Pensions Minister following Labour general election win

The Labour MP for Wycombe was appointed as Parliamentary Secretary across both the Department for Work and Pensions and the Treasury

Labour MP for Wycombe, Emma Reynolds, has been appointed as Pensions Minister under the new government.

Writing on X (formerly Twitter), Reynolds said she was "delighted" to spend her first day meeting colleagues and officials "in my new role as Pensions Minister".

Reynolds was appointed as Parliamentary Secretary across both the Department for Work and Pensions (DWP) and the Treasury, and has been given the pensions brief.

She was first elected to parliament in 2010 as the MP for Wolverhampton North East. After losing her seat in 2019, Reynolds was appointed as managing director of public affairs, policy and research at TheCityUK, a lobbying firm promoting the financial services industry.

Commenting on her appointment, Reynolds said: "It's a great privilege to be appointed by the new PM as the Parliamentary Secretary in His Majesty's Treasury and DWP.

"I can't wait to get started working with Rachel Reeves and Liz Kendall, both ministerial teams, and departments."

Her appointment across both the Treasury and DWP has sparked hope that there will be more a joined-up approach to pensions policy across the departments.

Cushon director of policy and research, Steve Watson, noted that, under the previous government, a lot of pensions initiatives, such as the Mansion House Compact, were being pushed by the Treasury, with a foot in both the DWP and Treasury.

"But there is a lot on her plate: The pensions landscape review, DC consolidation and decarbonisation," he continued. "And of course this is a government which has pitched itself as one of growth, so reinvigorating capital markets is a key focus and greater investment of pensions into the UK in 'productive finance' initiatives will be a focal topic over the next few years.

"How the new Pensions Minister begins to prioritise and tackle all of these crucial challenges and initiatives will be vital to how the sector evolves."

Meanwhile, Quilter head of retirement policy, Jon Greer, stated that while Reynolds has "little pensions experience to speak of", she is an "experienced parliamentarian", having previously served in parliament for nearly a decade prior to her re-election.

"Furthermore, her most recent experience being at TheCityUK financial services trade association should give her a good starting point from a knowledge perspective and provide potential to grow into the role.

"This appointment does give the view that Labour will treat pensions with the thought and consideration that is required, not least because the role is a joint appointment with the Treasury and DWP. Given the importance and complexity of pensions, it is positive to see the role being recognised for having implications across departments," he said.

Other Labour government appointments announced include MP Liz Kendall being given the role of Secretary of State for Work and Pensions at the DWP. Elected as the Labour MP for Leicester West in May 2010, Kendall had been Shadow Secretary of State for Work and Pensions since September 2023.

Also, former chair of the Work and Pensions Committee, and former Shadow Pensions Minister, Sir Stephen Timms, has been appointed as Minister of State in the DWP.

Written by Jack Gray

PLSA LA 2024: LGPS funding updates, dashboards work, and more

Pensions Age brings you the latest updates from the PLSA's 2024 Local Authority Conference

The past month saw a renewed focus on the Local Government Pension Scheme (LGPS), amid the Pensions and Lifetime Savings Association's (PLSA) Local Authority Conference.

At the conference, industry experts suggested that the funding strategies of LGPS funds will "need to move on" amid the changing investment landscape and current surplus environment.

Hymans Robertson partner and head of LGPS consulting, Catherine McFadyen, said that while the previous funding era was one of high contributions and funding black holes, the landscape had now changed and LGPS funds' funding strategies would need to move on too.

Discussing new strategies for this surplus environment, McFadyen said that most funds and their advisers had been cautious so far, due to the understanding of funding being for the long term.

"We've lived through deficits and with our governance environment it can take time for new ideas to germinate and build consensus," she said. "There's a slight sense of a herd mentality."

Speaking during a separate session at the conference, Government Actuary's Department actuary, Garth Foster, confirmed that there will be no changes to benefit levels in the LGPS as a result of the 2020 valuation carried out by the GAD, with the cost control mechanisms in a "standoff position".

Foster presented statistics that highlighted the 'core mechanism' for the LGPS showing a reduction in costs.

However, this was offset by an increase in costs under the 'economic check' cost control mechanism, meaning there was no requirement to alter benefits.

"We are almost in a 'standoff position' that one mechanism is going down and one is going up," Foster said. "Until we get a movement of one of those in the same direction, then the position will be that benefits won't change."

He also confirmed that the same pressures affecting the LGPS mechanisms were also affecting all the other 20 public service pension schemes in the UK, meaning that there were no benefit changes from any of GAD's 2020 valuations.

However, he clarified that "while some of the numbers do look stark and certainly do cause issues, it is important to realise some of them are being affected by legal remedies".

"In terms of what that means for the LGPS, no benefit changes will be feeding through as a result of the 2020 valuations, but there are big impacts across the public service pension schemes that took effect from April," he stated.

Dashboards guidance expected any day

Also speaking at the conference, The Pensions Regulator (TPR) industry outreach lead for pensions dashboards, Angela Bell, confirmed that the Local Government Pension Scheme (LGPS) is set to publish its guidance for administering authorities on pensions dashboards connection.

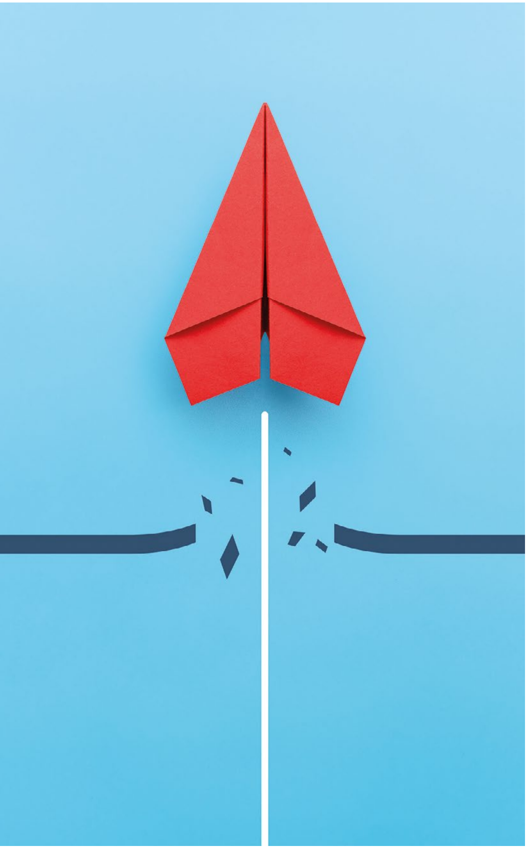
Alongside the dashboards guidance, the LGPS will publish specific guidance on how to look at additional voluntary contributions in terms of dashboards. Bell also confirmed that while TPR was looking to publish its final compliance and enforcement policy in relation to dashboards this month, this will now follow "very closely" after the general election.

In the meantime, Bell urged LGPS funds and administering authorities to decide how they were going to connect to dashboards, and to "develop a practical plan".

"We will also be sending out a series of nudge communications that are designed to help you along your journey to that connect-by date," she said, noting that the first is due to be sent 15 months in advance, which will be July.

TPR is also set to launch a communications campaign, although timings for this are yet to be confirmed.

Written by Jack Gray



BPA market capacity concerns dispelled

Despite uncertainty amid the general election, the past month has seen no slowing down in the bulk-purchase annuity market, with a number of deals completed for both large and small schemes

Despite potential uncertainty amid the general election, activity in the buy-in and buyout market continued over the past month, with a range of large and smaller deals announced.

For instance, the trustee of the TotalEnergies UK Pension Plan completed a £1.2bn buy-in with Pension Insurance Corporation (PIC), covering the DB pension liabilities of over 2,000 pensioners and dependants and 3,500 deferred policyholders.

The deal marked the largest buy-in announced to date this year, building on the scheme's first buy-in with PIC for £1.6bn in 2014.

Meanwhile, the Menzies Pension Fund also completed a £260m buy-in with Just Group, while the NSK Pension Scheme completed a £309m buy-in with M&G, and the Rolls-Royce & Bentley Pension Fund completed a £880m full scheme buy-in with Standard Life.

This momentum is set to continue, with LCP suggesting that a further new entrant to the bulk annuity market could be seen by the end of the year.

This would take the market to 11 insurers, building on the recent additions of M&G, Royal London and Utmost.

But smaller deals have also been seen, including a £21m buy-in between the Leprosy Mission Central Pension Scheme and Legal and General, a £33m buy-in between the European Metal Recycling Limited Pension and Life Assurance Scheme and Aviva, and a £25m buy-in between the Contship Containerlines Limited 1979 Pension Scheme and Legal & General.

And despite concerns over potential capacity constraints in the bulk purchase annuity (BPA) market, research from DLA Piper has found that the majority of consultants have experienced a 100 per cent success rate for small schemes across all sizes progressing from receipt of an initial quote to transaction close.

"The results are clear. Insurers are welcoming new schemes, working hard to create streamlined propositions, and will ensure that no small scheme is left behind," DLA Piper partner and head of pensions, Amrit McLean, said.

Indeed, the research showed that the flow of small scheme transactions undertaken in the market through 2023 remained "steady", with the eight consultants surveyed completing an aggregate of 138 transactions for schemes under £250m in the year.

This is in line with research from LCP, which found that deals under £10m were the driving force behind the record 226 buy-in/buyout deals recorded in 2023.

The research showed that the number of transactions under £100m more than doubled in the past three years, rising from 77 in 2020 to 162 in 2023.

LCP also suggested that the addition of new insurer entrants could also trigger extra competition, with core appetite for buy-ins/outs expected to focus on deals under £100m.

DLA Piper found that the majority (87 per cent) of consultants think that insurers' capacity to provide quotes to small schemes will increase in 2024, with all respondents suggesting that more capacity will be given for schemes ranging between £50-100m.

But smaller schemes may have to work harder for these opportunities, as DLA Piper found that schemes at around £100-250m had the lowest success rates, with three out of the eight consultants suggesting that success rates for schemes in this size range were 67 per cent, 80 per cent and 80 per cent, respectively.

And, given the busy market, DLA Piper stressed the need for schemes to ensure they are "thoroughly prepared", understand affordability and are flexible in dealings to succeed in the market.

"The message to smaller schemes is that they can access highly competitive pricing, but they need to be prepared and to work with a specialist adviser with a strong track record of completing deals," LCP partner, David Stewart, agreed.

Written by Sophie Smith

Providers increase private market exposure in DC funds

Pension providers have been acting on their commitments to increase their investment in private markets, with both L&G and Aegon announcing plans to offer DC savers access to private market investments

Focus on private market investments has continued despite the uncertainty brought on by the general election over the past month.

In particular, Legal & General (L&G) announced the launch of the L&G Private Markets Access Fund, designed to offer its 5.2 million DC members the opportunity to access the benefits of diversified private markets exposure.

The fund, which was hailed as a "significant milestone" for UK pensions, will aim to provide DC investors with access to the long-term growth potential of private markets and greater diversification through exposure to investments that are not typically accessible through public markets.

Designed specifically for DC schemes, the fund is structured as a fund of funds, with an investment in a new private markets Long-Term Asset Fund (LTAF), the Legal & General Private Markets LTAF, sitting alongside exposure to liquid securities, as well as L&G and third-party funds.

This structure was designed specifically to enable the fund to deliver liquidity for daily dealing in normal dealing conditions.

Announcing the launch, L&G noted that, traditionally, DC investors have faced operational, liquidity and governance challenges to investing in private markets through a structure which offers daily pricing and dealing.

Given this, it argued that the launch of the fund is a "critical milestone" in the evolution and democratisation of the private markets asset class, enabling scale of access, while maintaining an appropriate liquidity profile to manage capital flows on a daily basis.

DC schemes will be able to invest in the fund directly or via the L&G Lifetime Advantage Funds, L&G's new range of Target Date Funds.

Launched alongside the private markets fund, the L&G Lifetime Advantage Fund range will seek to improve members' retirement outcomes through a 100 per cent allocation to growth assets, including a "meaningful" allocation to private markets via the L&G Private Markets Fund, in the earlier years of their savings journey.

The group said that it has already received "considerable interest" from clients, including the London Stock Exchange Group, EDF Energy and L&G's own DC pension scheme, which it highlighted as indication of the untapped demand and appetite for private market exposure by DC funds.

Commenting on the launch, L&G group chief executive officer, António Simões, said: "Today's launch is an important step forward in putting UK pension capital to work to drive economic growth while supporting people to build the savings they need for retirement."

This also follows the news that Aegon is updating its largest workplace default fund with new private market investment and enhanced environmental, social and governance (ESG) integration.

The fund updates will take place from the third quarter of 2024 and aim to target improved outcomes for invested members, better risk-adjusted returns and value for money.

Aegon said it will offer access to a wider range of responsible investment opportunities, seeking to enhance diversification and provide access to investment opportunities that have "historically been harder" for workplace savers to access.

The fund will be available to Aegon Retirement Choices and One Retirement investors, as well as some off-platform products.

Aegon will partner with three fund managers to provide a bespoke solution for use within the Universal Balanced Collection.

Despite the change in government, this focus on private markets seems set to continue, as Labour is likely to continue the former government's push to encourage greater pension investment in UK private markets.

Indeed, in its election manifesto, the Labour Party said that the financial services industry has a "major role" to play in mobilising trillions of pounds in private capital.

Written by Sophie Smith and Jack Gray

M&A activity ramps up in search for growth

The past month saw a number of high-profile mergers & acquisitions in the pensions market, including the purchase of ITM by Lumera, and the takeover of Cardano and Now Pensions by Mercer

Insurtech company, Lumera, has entered an agreement to acquire independent provider of data management and technology solutions, ITM, as it looks to expand into the UK market.

Described as a "major step" in Lumera's international growth strategy, and its largest acquisition to date, the deal is expected to help add "significant" presence and capabilities to accelerate growth in the UK policy administration systems (PAS) market.

Speaking to *Pensions Age*, ITM CEO, Mark Lecompte, said that the acquisition was not only the "perfect fit", but also "perfect timing", particularly with the launch of pensions dashboards on the horizon.

He stated: "We felt that the next five years within the UK market is going to be transformational, not just because of dashboards, but because of what dashboards are going to do in terms of making the market that much more transparent. With that, I firmly believe we are going to see even greater demand, so we really needed to have that technology robustness and scalability at our disposal to support our clients."

Indeed, also speaking to *Pensions Age*, Lumera COO, Magnus Gammelgård, pointed out that dashboards have been in the Nordics for close to 20 years, arguing that "dashboards are going to be a game changer for the UK market, and we are super excited about that".

ITM's expertise is also expected to help Lumera extend its reach in the UK market more broadly, as Gammelgård explained: "We did thorough research, as after we entered the UK market in 2022 we realised we needed more people that are active in the UK market and with our target customers."

Having narrowed the search down to ITM based on their customer base, skills and experience, Gammelgård said ITM's pension consulting offering was an additional positive consideration, which the firm can look to bring "not only to the UK markets, but also the Netherlands and broader Nordics market as well".

This is set to be a two-way street, as Lecompte said that one of the key tenets that underpinned the acquisition was the opportunities it could provide in terms of exporting some of ITM's service offerings and expertise into the markets that Lumera is operating in.

Following the transaction, ITM will be a fully integrated Lumera company, with its team of over 160 professionals set to join Lumera. The financial terms of the transaction were not disclosed.

Speaking to *Pensions Age*, however, Lecompte confirmed that whilst ITM will continue to operate "exactly as it does now" following the deal, there will be a rebranding at some point, likely in the next three to six months.

In related news, Mercer, a Marsh McLennan business, has also announced that it reached an agreement to acquire long-term savings specialist Cardano, including Now Pensions, for an undisclosed amount.

As part of the agreement, approximately 550 colleagues from across Cardano in London, Nottingham and Rotterdam will join Mercer, upon completion of the transaction.

The deal is expected to enable Mercer to extend its solutions across fiduciary management, DB and defined DC in the UK, the Netherlands and abroad.

Mercer also said that it will look to expand the range of clients it serves through its UK DC master trust business with the addition of Now Pensions, which partners primarily with startups and small and medium-sized enterprises.

The terms of the transaction, which is expected to close near the end of 2024 subject to regulatory approval, were not disclosed.

In addition to this, Aquiline announced that it has agreed to acquire a majority stake in Isio Group, in a move that will see Exponent, which has supported Isio from before its inception in March 2020, exit the business.

The investment is expected to help support the next phase of Isio's growth, through a combination of targeted mergers and acquisitions (M&A) to build additional service lines and advisory capabilities.

Written by Sophie Smith

Royal Mail Collective Plan to launch 7 October 2024

Six years since plans for the collective defined contribution scheme were first announced, Royal Mail Group has confirmed that it is ready to launch its Collective Plan

The Royal Mail Collective Plan is "ready" and set to launch on 7 October 2024, Royal Mail Group has confirmed.

Initially announced in 2018, the Royal Mail Collective Plan became the UK's first collective defined contribution (CDC) scheme in 2023 after passing The Pensions Regulator's (TPR) assessment process, in what was highlighted as a "milestone" moment.

In an update, Royal Mail confirmed that the Collective Plan is now ready to launch, with every employee with at least a year's service eligible to join.

The joint statement from Royal Mail, Unite Communication Managers Association (CMA) and the Communication Workers Union (CWU) said: "Royal Mail, the CWU and Unite CMA agreed that the Royal Mail Collective Pension Plan (the Collective Plan) is right for our people, and we have worked hard with the government, TPR, and the trustees of the Collective Plan to make it possible.

"We are delighted to be able to share that the Collective Plan is now ready and will launch on 7 October 2024."

Under the Collective Plan, members will receive an automatic income for life, in addition to a cash lump sum, which is expected to help make it easier for people to manage their money in retirement.

Employees will pay 6 per cent of their pensionable pay into the collective pot each payday, while Royal Mail will pay in a further 13.6 per cent.

The scheme will be run by an independent board of trustees, made up of independent professional pension trustees as well as individuals from Royal Mail, the CWU and Unite CMA.

Members impacted by the launch can expect to be notified of the changes, with letters sent out to explain their options and any actions they may want to take.

Written by Sophie Smith

Pensions Equity Group shares guide on gender pension gap

The guide was highlighted as a "welcome addition" by The Pensions Regulator

The Pensions Equity Group published a guide to help employers identify and reduce the gender pension gap, with advice on how to improve the existing disparity between men and women's pensions savings.

Mind the Gap: Reducing the gender pension gap, aims to highlight, and combat, the continuing difference between pensions provisions for men and women.

The guide noted that while women are more likely to participate in pensions than men, factors such as lower average pay and a greater likelihood of working gaps, due to caring responsibilities, mean that women retire with half the pension of a man on average.

In 2021, the gap between annual savings for women and men was £500 a year in the private sector and more than £2,000 in the public sector – resulting in reduced likelihood of getting beyond – or even reaching – the minimum standard of living set out in the Pensions and Lifetime Savings Association Retirement Living Standards.

The guide therefore outlines ways in which employers can address – and potentially reduce – the pensions gap between genders, with four key points: Understanding the firm's own gender pensions gap; going beyond statutory minimums; raising awareness among employees; making meaning benefit and policy changes.

The Pensions Regulator interim director of analysis and advice, Louise Davey, said that the guide was a "welcome addition" to work to build collective knowledge around why pension inequalities occur".

Written by Sandra Haurant

NEWS IN BRIEF

***Pensions Age* summarises some of the latest news in the pensions industry, including the latest product launches, climate commitments and best practice guidance...**

Industry launches take off

The past month brought more than a few product launches, as industry organisations made the most of the quieter summer period to launch their latest initiatives in response to changing market issues:

- Broadstone launched its standalone insurance, regulatory & risk advisory division;
- Independent Governance Group (IGG) launched a new digital pensions platform, IGGiQ, designed to enhance pension scheme management;
- The trustee firm also launched a services model, IGGnite, designed to provide streamlined professional trusteeship and scheme management services for smaller pension schemes;
- K3 Advisory launched a new buy-in to buyout service for small to medium schemes;
- Just Group launched a specialist, regulated, financial advice service for its deferred bulk annuity buyout members to ensure they have access to financial advice at all stages of buyout;
- Scottish Widows launched a Retirement Matrix tool, after its research found a disconnect between what people want from their retirement income and what products they are actually choosing;
- Barnett Waddingham launched Clarity, a technology suite designed to allow users to access their data and obtain more actionable insights within a secure digital environment;
- Nest launched its mobile app, designed to help members access their pension information from their mobile devices.

Climate efforts ramp up

Pension schemes and providers began to share the latest round of climate reports, revealing plans to step up climate-related action at a number of firms:

- Rothesay announced that it has set a new short-term carbon intensity reduction target, highlighting this as a "key milestone" on its pathway to net zero;
- Brunel Pension Partnership revealed that it accelerated its reporting progress ahead of the 2024 reporting round, with its latest *Climate Change Progress* report confirming that it has exceeded the current Task Force on Climate-Related Financial Disclosures (TCFD) requirements;
- Railpen published its *2023 Stewardship Report* as part of its ongoing commitment to the 2020 UK Stewardship Code, confirming that Railpen has escalated its stewardship activities to improve member outcomes;
- The Greater Manchester Pension Fund (GMPF) announced plans to adopt pass-through voting, in what it described as a "significant step" towards enhancing its responsible investment strategy;
- Legal & General Investment Management (LGIM) announced plans to broaden its climate engagement reach by introducing new baseline expectations.

A guiding hand

Several industry organisations have shared guidance on key pension issues, including data, climate, and master trust transitions:

- The Pensions Administration Standards Association (PASA) published new guidance on data presence versus accuracy for pension schemes;
- It also published updated master trust transition guidance, designed for situations involving transitions of savers to and from master trusts;
- The Society of Pension Professionals (SPP) published an environmental, social and governance (ESG) guide for pension trustees, setting out how trustees should engage with asset managers on ESG issues;
- The Pensions and Lifetime Savings Association (PLSA) published an introductory guide to the Local Government Pension Scheme, designed to help new councillors understand the workings of the scheme and their roles and responsibilities within it;
- The Institutional Investors Group on Climate Change (IIGCC) updated the Net Zero Investment Framework (NZIF) to NZIF 2.0, providing an overview for investors implementing net-zero commitments and addressing climate risks.

Diary: July 2024 and beyond

Pensions Age Autumn Conference
19 September 2024
The Waldorf Hilton Hotel, London
The Pensions Age Autumn Conference is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, and will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs, whether in the DB or DC space. Topics will include regulatory updates, investment, technology, administration, communication, de-risking and more.
pensionsage.com/autumnconference

PLSA Annual Conference
15-17 October 2024
ACC, Liverpool
This event will bring together pension professionals for a programme of world class keynotes, roundtable discussions and educational sessions. The conference will see the discussion of every aspect of pensions, from communications and engagement, to investment, regulatory updates. There will be networking sessions allowing attendees to connect with peers, share insights, and discuss collaborative opportunities.
plsa.co.uk/events

Irish Pensions Awards
20 November 2024
The Round Room at the Mansion House, Dublin
The Irish Pensions Awards continue to go from strength to strength, aiming to give well-deserved recognition to those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence and professionalism in everything they do, despite the challenging economic and political landscape. It will be hosted at a new venue, The Round Room, this year.
europeanpensions.net/irishawards

Pensions Age Awards 2025
4 March 2025
Grosvenor House Hotel, London
The 12th Pensions Age Awards aim to recognise and celebrate the excellence of both pension schemes and providers across the UK, especially those that have demonstrated outstanding performance and resilience in challenging economic conditions. These prestigious awards are open to all UK-based pension schemes and provider firms that cater to UK pension schemes. The awards are now open for entries and the deadline for submisisons is 1 November 2024.
pensionsage.com/awards

Visit www.pensionsage.com for more diary listings

Don't forget...

PSIG consultation 'Evolution or Extinction?' closes

31 July 2024

Pension Scams Industry Group's consultation, aimed at determining the future of the organisation, closes.
pensionscamsindustrygroup.co.uk/consultation/

The latest investments and mandates

The **Border to Coast Pensions Partnership** announced that it is searching for an external asset manager to support its first equity index proposition, the Global Multi-Factor Equity Index Fund, which is expected to launch in early 2025.

The **South Yorkshire Pensions Authority** invested £50m into the Gresham House Forest Fund VI LP.

The **Royal Mail Statutory Pension Scheme** will continue to be administered by Capita plc, following the renewal of its contract with the cabinet office for six years from 2026.

The Financial Conduct Authority (FCA) granted regulatory approval for **Arcmont Asset Management and Carne Global Fund Managers (UK)** to launch a Long-Term Asset Fund (LTAF) focused on private debt.

TPT Investment Management launched two new pooled alternative investment funds for UK pension schemes, in conjunction with Carne Global Fund Managers (UK).

Railpen acquired a 50 per cent shareholding in renewable energy and sustainable infrastructure developer, AGR Power, in what has been highlighted as a "significant milestone" for both the pension manager and AGR.

Phoenix Group launched a bespoke 'Climate Aware' index series in collaboration with FTSE Russell. The series is designed to enable Phoenix to introduce benchmarks that aim to increase the resilience of customers' portfolios to climate change-related transition risks.

Appointments, moves and mandates

Sophia Singleton

Sophia Singleton has been elected as the new Society of Pension Professionals (SPP) president, succeeding Barnett Waddingham partner, Steve Hitchiner.
XPS partner and head of defined contribution (DC) consulting, Singleton advises trustees and corporates across all areas of their DC benefits, with a particular focus on benefit design, investments, member engagement, data analytics and scheme governance.
Her appointment aims to build on recent SPP work, as well as help increase the SPP's profile and influence while aiming to establish the SPP as a champion of equality, diversity and inclusion within the industry.

Barbara Fewkes

Dalriada Trustees has appointed Barbara Fewkes as a professional trustee.
Fewkes previously worked as a partner and scheme actuary at Barnett Waddingham and has more than 20 years of experience as a scheme actuary and pension professional. She is a fellow of the Institute and Faculty of Actuaries and a member of the Law Society of Scotland's Pensions Sub-Committee. She has advised trustees on current issues, risk management, scheme governance, and scheme funding, as well as supporting trustees through buy-in and buyout deals and the winding-up process. Fewkes has also advised sponsoring employers on several pension-related matters.

Smart has appointed Gordon Wilson as its new chair of the board, succeeding Ruston Smith.
Wilson has held leadership positions and driven growth at various organisations in the technology and pensions business over his 30-year career. He was previously Advanced CEO for over eight years, recently stepping down to start his non-executive career.
Wilson is also a member of the board of TechUK, chairs three other tech businesses: Zenitech, Imagesound, and The Polaris Group, and led the management team at Aquila Heywood.
Smith, who Wilson replaced, has completed two terms as an independent non-executive director and chair of Smart. However, Smith will remain as a senior adviser to the Europe, Middle East, and Africa business, despite stepping down from the board.

Andrien Meyers

London CIV has named London Borough of Sutton and Royal Borough of Kingston upon Thames head of pensions investments, Andrien Meyers, as its chief proposition officer.
Meyers' role forms a "core part" of London CIV's next strategy phase to launch a choice of products and services beyond pooling that will further strengthen the London Local Government Pension Scheme (LGPS) community's continued ability to work together and deliver a sustainable LGPS in the coming years and decades. In the past, Meyers has served as a senior policy adviser to the Minister for Local Government via the LGPS Scheme Advisory Board.

The Access Pool has appointed Stafford Capital Partners and J.P. Morgan Asset Management (JPMAM) as timber managers, following a review carried out by Apex Investment Advisory.
The total mandate size across both components will be around £300m, with the potential to grow in future. Two of the Access authorities currently invest in timber, with the new investment coming from the authorities who previously did not have an allocation. Stafford Capital Partners invests in core timberland through the Stafford International Timberland, which focuses on operational timberland estates and primarily accesses investments through off-market secondary transactions. Meanwhile, JPMAM, through its timberland investor and forestry management company Campbell Global, provides access to a real assets strategy that offers diversified exposure to core timberland assets around the world, whilst aiming for a negative carbon footprint. Access' global timberland impact allocation will go to the Stafford Carbon Offset Opportunity Fund, which establishes new commercial timberland estates, generating a return that includes a supply of high-quality carbon offsets for clients.
Commenting on the appointment, Access Joint Committee chairman, Mark Kemp-Gee, said: "We have been exploring ways to include natural capital investments in our portfolio as we continue to diversify our private markets allocation, while also moving closer to net-zero targets.
"Timberland ticks all these boxes, and we are delighted to have chosen two market-leading investment partners in this field for the benefit of our partner funds and members."

The Financial Services Compensation Scheme (FSCS) has awarded PwC the contract for its core claims service following a competitive procurement process.

The new contract is a "key part" of the FSCS's new hybrid operating system, whereby the scheme will increase the proportion of claims processed in house. Its current claims handling contracts will end on 31 March 2025.

Between now and that date, the FSCS said it would be working closely with PwC and its current claims partners to ensure a "seamless transition" for customers using the claims service. It is expected that PwC will begin handling FSCS claims this autumn as part of a phased transition plan. The announcement of PwC as the scheme's core claims service partner marks the second 'milestone' of this transition, following the opening of a new customer contact centre at the FSCS's London office in April. FSCS chief customer officer, Sarah Marin, explained that the scheme's core claims service was the largest part of its operation, and is where some of the FSCS's most complex claims for pensions and investments are handled.

FSCS interim CEO, Martyn Beauchamp, described PwC's appointment as a "major milestone" in its transition to a new operating model.

"We've been through a rigorous procurement process to ensure that the partner we've chosen is the right fit for FSCS," he stated. "We're confident the team at PwC have the capability and expertise to help us run a high-performing compensation scheme that is effective for our customers and good value for the levy payers who fund our service."

Jenny Davie

Diversity in Pensions (DIP) has appointed Jenny Davie as its new chair.

Davie is The Pensions Regulator (TPR) head of regulatory transactions and frontline services. DIP was set up in 2019 to promote diversity in senior decision-making roles within the pensions industry.

Commenting on her appointment, Davie said: "DIP will play a key role in delivering a pensions market that reflects the savers in it and I'm delighted to be part of that. My role at DIP complements TPR's ambition that pension scheme governing bodies and employers use its guidance to improve the equality, diversity and inclusion of scheme boards."

Rob Orr

The Superannuation Arrangements of the University of London (SAUL) Trustee Company has appointed Rob Orr as its next CEO, effective from 1 October 2024, when Sue Applegarth retires.

Orr joined SAUL in 2010 and has more than 20 years of experience in pensions. He currently works as head of technical and communications, is a member of the Pensions and Lifetime Savings Association's Policy Board, chair of its Defined Benefit Committee, and fellow of the Pensions Management Institute.

SAUL chair, Louise Lindsay, said: "His knowledge and experience of the issues and governance requirements for a scheme like SAUL set him apart."

The Kent Pension Fund has reappointed Barnett Waddingham's public sector team to deliver actuarial, benefits and governance consultancy services to the fund for the next six years.

Barnett Waddingham was selected following a competitive selection and tendering process. This reappointment cemented a 14-year partnership that started in 2009 between Barnett Waddingham and the Kent Pension Fund, which is operated by Kent County Council.

Kent Pension Fund head, Nick Buckland, said: "We are delighted to be continuing to work with Barnett Waddingham having built up a strong working relationship with the team over the years.

"Barnett Waddingham's appointment comes at the end of an extensive procurement process."

Rekha Owen

Law Debenture has appointed Rekha Owen as a professional trustee.

Owen joined from the Financial Conduct Authority, where she led the supervision and oversight of one of the largest asset management firms in the UK. Prior to this, she worked for two decades in the investment world with previous roles at Mercer and KPMG.

She also led Mercer's alternative investments business in Canada. Owen has a chartered financial analyst accreditation from the CFA Institute and an investment management certificate from the Institute of Investment Management and Research. Owen will join Law Debenture at its Manchester office.

View from the PLSA: Taking the lead on pension adequacy and engagement

Following the general election, there is new hope that the necessary reforms to increase minimum auto-enrolment (AE) contributions will be enacted, but this remains far from guaranteed.

In the absence of forthcoming policy intervention, we must ask ourselves, as employers, whether we are doing enough to address the adequacy problem on our own.

Many employers have already grasped the adequacy nettle in offering enhanced contribution levels.

The PLSA's Pension Quality Mark (PQM) champions these organisations, recognising excellence in employer provision and higher total contributions.

To meet the PQM standards, employers must offer all employees a 12 per cent pension contribution (with at least 6 per cent coming from the employer). Employers offering 15 per cent contributions can also qualify for a PQM Plus accreditation.

The best and most responsible employers recognise that financially secure employees are happy employees. The PQM highlights those schemes that are really pushing to boost contributions.

In terms of saver outcomes, the case for AE reform is universally accepted. But, with a challenging economy and a squeeze on corporate and household finances, some question whether now is the right time to implement a timetable for change. All of us with an interest in helping people achieve a better income in retirement must work to demonstrate that it is.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA director of policy and advocacy, Nigel Peaple

View from the PMI: Are pensions boring? Really?

Do you remember the TV advert in which a man at a house party asks a woman what she does for a living? "I work in pensions," she replies, and his face drops.

As an industry, one of our biggest obstacles when communicating with the public is the language we use. It can be instantly off-putting, as the woman at the house party discovered.

Why do people think pensions are boring?

Part of the problem is that the prospect of drawing a pension can seem too distant to feel real.

Talking about income or savings would make more sense to many people. Some might be eager to tell us how much they want to earn in future. Others might want to discuss how best to put money to one side for a big holiday or their children's university education.

How can we encourage people to pay attention to their pensions, as the Pensions and Lifetime Savings Association urges them to do?

We could start by clarifying what a pension is. It's a tax-efficient savings plan. Pension savers get tax relief on contributions and most of their investment returns. And pension freedoms now give people an enormous amount of choice when drawing their retirement savings. So maybe we could rebrand pensions as tax-efficient saving plans for retirement.

It's something to think about in the run-up to the pensions dashboards.

PMI

PMI president, Robert Wakefield

VIEW FROM SPP: Overpayments – a long road to recovery?

The recent Court of Appeal decision in *CMG v CGI* confirmed that The Pensions Ombudsman (TPO) is not a 'competent court' for the purposes of section 91(6) of the Pensions Act 1995.

This means that a County Court order is required before trustees can enforce a determination by TPO to recover a disputed overpayment from a scheme member. This is likely to mean delays and an increased administrative burden and costs, making any recoupment process potentially disproportionate to the sums to be recovered.

Since the judgment, TPO has published a determination in Mr E, which relates to an overpayment of £90,934 built up over 24 years. The trustees aimed to recoup the overpayment from Mr E's future pension payments. However, TPO restricted recoupment to overpayments made only after August 2019 (totalling £6,554). The determination is a good lesson in all of the defences to claims for recovery of overpayments, even those not raised by the member. It also serves as a warning for trustees who do not act promptly when discovering an overpayment.

The Mr E determination is likely to represent TPO's approach to defences in the future. The combined effect of the CMG decision and Mr E could make trustees reconsider their approach to recovering overpayments: Perhaps with an increase to de minimis levels before seeking recoupment (where permitted) and adoption of a more detailed approach to considering potential defences.

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

SPP member, Laura Brook

A week in the life of: Scottish Widows workplace savings director, Graeme Bold

I've worked in financial services for over 25 years and joined Scottish Widows in 2019 as workplace pensions director to lead strategy and propositions. Our business now has £98 billion in assets under management. We've got 15,000 active schemes with more than 4.4 million members saving for a secure life beyond work.

Monday

I start the day early looking at my busy diary, before catching up with my team to plan the week ahead over a coffee. Across the week I'm in Edinburgh and London, with a few client and supplier meetings.

I then join my team who are running roadshows with our colleagues across the UK, where we discuss strategy and plans, making sure we're all confident we can continue to deliver the best for our customers. The UK is underprepared for retirement with 35 per cent of people not on track for even a minimum lifestyle in retirement; our workplace business is key to helping our customers secure a better financial future beyond work and move the dial on the 35 per cent.

Tuesday

I'm hosting clients who are visiting us to see first-hand the work we are doing in our digital, investments, and administration teams.

When the pensions, compensation, and benefits leads from a client came to Edinburgh, one session stood out. It brought to life some of the behind the scenes work we do for vulnerable customers.

Clients aren't just focused on the overall performance of our service; they care about what we do in the moments that matter for their members. We played a recording of two telephone conversations. In the first, the difference in the conversation was stark after we were able to speak in a customer's first language. In the second, which was quite emotional, we heard the difference a referral to a charity support partner had made to the life of a customer. It's moments like these, where you can see the direct impact our hardworking team is making – it makes a busy schedule worthwhile!

Wednesday

I'm flying to our London office where I'm due to talk about our digital innovation with industry experts at a virtual The Investing and Saving Alliance event.

Fog delays my London City flight, and I'm diverted to Stansted (where it's glorious sunshine!). Luckily, my colleague Robert Cochran is on hand, and steps in to share our story of how members are managing their pensions on our app, and how our partnership with Moneyhub for open finance has taken off. In just a few months, close to 9,000 pension members have linked up almost £1 billion in assets in our app. Many are using it as their own pension dashboard to see all their pensions.

Thursday

I spent time with our business development and client management teams to review our current scheme performance, engagement activities, and new business planning making sure that we are providing our clients and members with brilliant service.

The rest of my time is spent catching up on emails and planning the next week.

Friday

I love spending time with our teams and joined a session with colleagues across business & technology to review our plans for the next quarter and make sure we are focused on the right things – we're really excited about what Scottish Widows is bringing to the market in the next six months. Our current focus is on new digital journeys and insights for both employers and members, and how we are applying AI to create amazing customer experiences, it's going to be a real game changer.

I always try to create some time on a Friday afternoon to reflect on the week, how our teams are performing, and get set for the week ahead before the weekend with the family. Me, my wife, my son, and our dog are heading to Loch Tay in Perthshire for some relaxation.

View from the AMNT: Politics or policy – Education, Education, Education

During the election campaign we heard many slogans and mantras from the various parties, each trying to convince us that voting for them was the right course of action. Some of the previous campaigns have included such memorable slogans as 'Labour isn't working', 'Changing Britain for good' and 'Education, Education, Education'.

The latter, though having certain political echoes, is one of the key themes usually addressed by all parties at election time.

Recently the FCA has said it will, once again, tackle the difference between advice and guidance/information in the pension field. Differences that are mired in issues of liability, cost and expertise. Sorting out all these variables is not easy but perhaps we are starting from the wrong place as, by the time we are involved in providing guidance and advice, individuals have already accumulated a pension pot and are in the throes of making decisions on investment issues that are complex and potentially life affecting. A better starting point would be education. Learning from an early age about personal finance and continuing that learning throughout school, university and work. This would require a coordinated approach from educationalists, employers and regulators but better a rigorous approach built up over time than a piecemeal approach that requires constant tinkering. The best approach is Education, Education, Education.

AMNT Association of Member Nominated Trustees

AMNT member, Stephen Fallowell

VIEW FROM THE ABI: Manifesting change

One thing everyone can agree on is that the pensions policy landscape is complicated. And the complexity is hindering people's ability to engage with it.

In our manifesto, we argue that to increase the nation's financial resilience and to expand pensions engagement, the government needs a long-term strategy built on consensus, with saver outcomes at the centre of policy decisions. Doing so will also mean a significantly larger pool of capital that can be invested in assets that can generate growth and help to deliver on our climate targets.

This strategy should include plans to solve the problem of inadequate retirement savings. The successes of auto-enrolment should be expanded on, and we support the implementation of the 2017 recommendations. The Advice/Guidance Boundary Review should continue, with a goal to ensure customers can get better support when making financial decisions. Pension decumulation should remain a key focus of that review, as it will be for DWP and TPR policymakers implementing the duty on trustees to provide decumulation products and services to their membership.

Successfully delivering the value for money framework can drive better outcomes for savers in DC defaults, but the government must be cautious to avoid unintended consequences. Pensions dashboards will play a major role in reconnecting members with their savings and the final rules should enable customers to take meaningful actions within post-view services to maximise the potential of this initiative.

This list barely scratches the surface of change required, but no one said changing pensions would be easy.

ABI

ABI long-term savings policy assistant, Christopher Paskiewicz

VIEW FROM THE PPI: Are the benefits of CDC going to be fairly shared?

The first single-employer collective defined contribution (CDC) pension scheme is authorised and ready to launch in 2024 for the Royal Mail. Next steps are likely to include expansion into the multi-employer market as a competitor to individual defined contribution schemes; to provide a pension scheme that delivers an income in retirement, and offers potentially higher value for contributions.

Immediately there may be unfairness in access for employees; CDC schemes will only be available at an employer's discretion. The inequality of the defined benefit or contribution dichotomy is likely to be played out across a third field.

Even amongst savers with access to schemes, there will be those who stand to benefit to a greater extent than other members. It is important to not only consider the expected benefit, but also the variability of outcomes, particularly in the context of the member's risk appetite and capacity for loss.

Time horizons, the accuracy of underwriting, and valuing benefits will all have a bearing on outcomes. Within a CDC scheme, members may profit from the relative misfortune of the other scheme members. Some members will be lucky, others unlucky, and a number may be able to make their own luck. With the underwriting of that luck being passed to other members, paternalistic employers will need to be comfortable about those with whom they enter into a scheme.

PENSIONS POLICY INSTITUTE PPI

PPI head of modelling, Tim Pike

A new approach to the defences to recoupment of overpayments

Matthew Swynnerton and Megan Sumpster consider a recent Pensions Ombudsman (PO) determination concerning the recoupment of overpaid pension benefits from future pension payments

The overpayment that is the subject of the determination arose as a result of the *Burgess v Bic* decision in 2019. The key issue was whether increases in respect of pensionable service before April 1997 had been validly granted under scheme rules. The High Court held in 2018 that the pre-1997 increases were validly granted but that decision was reversed at the Court of Appeal in 2019 (Burgess CA).

Facts

Mr E retired in 1995 and his pension came into payment. In 2013, the trustees wrote to scheme pensioners advising them there was some uncertainty over the validity of the pension increases and that future payments of pre-1997 increases would be suspended (2013 announcement). The suspension remained in force until the Burgess CA decision, which concluded that increases had been improperly paid. However, between 2013 and 2019, overpayments continued to build up relating to past increases (as the pension being paid continued to include pension that resulted from increases applied prior to the suspension). In March 2020, the trustees notified Mr E that they would be reducing the amount of his pension to the correct level from July 2020 and recouping the overpaid pension of £90,934 (2020 announcement).

PO's decision

The usual starting point is that it is the trustees' duty to seek to recover the overpayments. However, it may be inequitable for trustees to do so if there is a defence available. The PO accepted that change of position and estoppel are not usually available as standalone defences to a claim to recover overpayments through equitable recoupment. However, here the PO adopted a novel approach, noting that change of position and estoppel are based on principles of equity and he would take them into account when considering whether it would be equitable to permit recoupment.

Change of position as a defence to equitable recoupment

There are three key tests to demonstrate a change of position defence: (i) good faith; (ii) detriment (the overpayment must have been spent and the expenditure cannot be reversed); and (iii) causation.

The PO was of the view that Mr E met these tests and, therefore, it would be inequitable to recoup the majority of the overpayments. The PO came to this conclusion even after the 2013 announcement and the suspension of future payments of pre-1997 increases, the reason being that the 2013 announcement did not make it clear that there may have been overpayments and that they may be continuing to accrue. Once the 2020 announcement was made, which was clear on these issues, a change of position defence could no longer apply.

Estoppel by representation as a defence to equitable recoupment

For an estoppel by representation defence to be met, there must be: (i) a clear representation made by the defendant upon which it is foreseeable that the complainant will act; (ii) an act by the complainant taken in reliance on the representation; and (iii) detriment if the defendant is not held to the representation. The PO was satisfied that Mr E met these tests. However, he made a distinction, post-2013 announcement, between estoppel by representation and change of defence. In his analysis of change of position, the PO was satisfied that the defence would apply post 2013 announcement based on the poor drafting of the 2013 announcement. However, the test for estoppel by representation requires a clear representation regarding the pension to which Mr E was entitled. Once the 2013 announcement had been made, which explained that there was uncertainty over the validity of the pre-1997 increases, it could not be said that this representation remained clear. Therefore, the PO held that the defence of estoppel by representation was available only up to the date of the 2013 announcement.

Laches

The PO noted that the trustees had failed to act promptly after identifying the potential overpayments. Consequently, the right of recoupment would be barred by the equitable defence of laches for the period of the delay.

Conclusion

The PO concluded that it would be inequitable to allow recoupment in respect of the period up to the 2020 announcement. From that point on, the trustees would be able recoup overpayments. The PO ordered that the trustees may recoup just £6,554 of the total overpayments of £90,934.

Written by DLA Piper partner, Matthew Swynnerton, and knowledge lawyer, Megan Sumpster

In association with DLA PIPER

VIEW FROM PPF: Looking to a more sustainable future

All eyes were firmly set on the future of our country last month, as political parties published their manifestos.

The future is something we thought a lot about last year. In June, we marked the one-year anniversary of our sustainability strategy and celebrated achieving our key goals, which included completing 500 days of volunteering, ensuring that 80 per cent of our watchlist companies are making disclosures on emissions (we reached 90 per cent), and continuing to source 100 per cent of our electricity through renewable tariffs.

We've added new KPIs for this financial year, which include outlining our path to alignment for transition using the guidance from the HM Treasury Transition Plan Taskforce for Asset Owners.

We also committed to continue building partnerships and volunteering with industry and local organisations, helping raise the profile of working in pensions, particularly to those in groups currently underrepresented. Our colleagues chose a local charity to support, Lives Not Knives, and, so far, we have raised more than £5,000. It works to prevent knife crime, serious youth violence and school exclusions by engaging, educating and empowering disadvantaged young people, and supporting them to enjoy their lives and improve their prospects. It reminds me that, in some ways, the future is in our control, not just in No.10, and we're excited to show how we can make a real difference.

Pension Protection Fund

PPF chief people officer, Katherine Easter

VIEW FROM PASA: What does admin actually want from trustees?

PASA recently held its second roundtable exploring ways in which trustees and administrators can work together to improve communication and enhance saver outcomes.

Admin sits at the frontline of our industry, protecting pension scheme members from scams and managing risk. Numerous factors, including operational workarounds, have been adopted to accommodate complexity because we have neglected data cleansing, managed our talent pool poorly and failed to invest in admin platforms. This has resulted in an industry-wide technical and talent debt.

Many trustees lack hands-on pensions admin experience and find it challenging to deal with administrative issues when they surface. They may have a limited understanding of quality benchmarks and options, leaning heavily on suboptimal SLAs as a measure of success. Some improvements suggested to overcome these challenges were regular site visits meeting operational teams, education around the complexities of pension admin and developing forward looking strategies.

DB pensions complexity remains post buyout. Add dashboards and TPR's focus on saver outcomes to the mix, and there's a pressing need for change. Investment in skills, processes, data and systems are also relevant for DC admin.

TPR has suggested administrators crystallise our 'ask' to trustees. PASA will work with thought leaders across the industry to articulate what's specifically needed and evolve this into a plan. This can transform how trustees and administrators work together for the benefit of all parties, and most importantly, pension savers.

PASA assess | aspire | achieve

PASA board director, Girish Menezes

VIEW FROM THE ACA: The way forward

We issued a manifesto of policy proposals in May 2024 ahead of the election announcement that we wanted to see pursued by the new government elected on 5 July.

Our eight-point manifesto calls for the new government to:

1. Commit to completing current reforms where there has been a broad cross-party consensus

2. Progress DB pension reforms that support growth and wider policy initiatives, but with appropriate safeguards in place to protect member outcomes

3. A fresh boost to auto-enrolment (AE), including increasing minimum AE contribution rates and further widening coverage

4. Ahead of AE step-ups, introduce flexible 'sidecar' savings to encourage a much-needed increase in voluntary savings above AE limits

5. Introduce a default CDC provider for individual decumulation

6. Avoid knee-jerk changes to the pensions tax regime

7. State pension sustainability with replacement of the 'triple lock'

8. A better social care regime to address the costs of care

Above all, the new government needs to demonstrate an integrated approach to savings, pensions and elderly care. It needs to offer affordable ways that the state and individuals can build their savings and pensions and address the costs of care, if necessary, in a phased plan over several years.

ACA ASSOCIATION OF CONSULTING ACTUARIES

ACA chair, Stewart Hastie

Graham Matthews, CEO Infrastructure, PATRIZIA

Why infrastructure is the top asset class for investors

New investment opportunities are emerging in infrastructure, explains PATRIZIA, a leading partner for global investment in real assets

With climate-risk mitigation, digital connectivity and the future of cities rising to the top of the agenda for economies and societies, the need to invest in new and revitalised infrastructure is becoming ever more urgent.

"The four global megatrends of decarbonisation, digitalisation, urbanisation and demographic change make the long-term picture for infrastructure highly attractive for investors," says **Graham Matthews, CEO Infrastructure at PATRIZIA**, a leading partner for investment in real assets with a global network of 28 offices.

Infrastructure topped the asset to-buy list in the latest Mercer Investments' *Large Asset Owner Barometer*, with 70 per cent of those surveyed planning to either maintain or increase their allocation to infrastructure in 2024.

"As an asset class, infrastructure is attractive for investors because of the long-term cashflows, and the very high degree of visibility and predictability over those cashflows," says Matthews, who is based in the London offices of PATRIZIA's global network.

"Over the past few years, we've seen a perfect example of how infrastructure provides downside protection. We've been in an environment of higher inflation, higher interest rates, lower economic activity, and in that environment, infrastructure has proven to be the most attractive asset class for investors."

Opportunities in energy transition

Around the world, cash-strapped governments are increasingly relying on private capital to finance infrastructure projects.

Taking energy transition and decarbonisation as an example, the UK's National Infrastructure Commission calculates that private sector investment in infrastructure needs to increase from an average of £30-40 billion a year over the last decade to £40-50 billion a year in the 2030s and 2040s to arrive at a resilient, low-carbon economy.

Across the Channel, the European Union must invest €2.4 trillion by 2050 to meet its carbon neutrality goals, with €800 billion required by 2030, according to the European Round Table for Industry, which represents Europe's leading industrial and tech companies.

"It's impossible for governments to be able to fund *[the energy transition and decarbonisation],"* says Matthews. "There isn't the budgetary flexibility to be able to do that. And that's where private investors come in."

Mid-market opportunities

With a track record stretching over three decades and a total €9.7 billion of investments, PATRIZIA Infrastructure offers investors access to the full spectrum of equity investment, listed infrastructure and debt. The mid-market is particularly attractive as an infrastructure investment for institutional and private investors, says PATRIZIA. This is because more deals are available than in the large-cap market and greater scope exists for improvements in efficiency.

PATRIZIA's recent investments

With 47 currently active infrastructure investments globally, PATRIZIA's portfolio companies in the UK include Connexin, a mid-market, Hull-based digital services and smart technologies provider with B Corp™ Certification.

Across Europe and Asia Pacific, new infrastructure investments made by PATRIZIA since October include:

- An equity investment in YES Group, including a commitment to fund a solar photovoltaic generation and battery energy storage programme across regional Australia.
- The financing of the rollout of 400 ultrafast electric vehicle charging stations in Germany.
- An 85 per cent stake in Italian smart streetlighting operator Atlantico and a stake in Greenthesis, Italy's leading independent waste management group.

With 2050 set as a crucial target for halting historic rises in global temperatures, and as digital technology expands exponentially, infrastructure is an asset class that is here to stay.

Contact the PATRIZIA Infrastructure team in London today to find out how they can help add value to your portfolio: infrastructure@patrizia.ag

Soapbox: Financial literacy is essential for pot for life's success

The pot for life proposal announced in the then Chancellor's Autumn Statement last year immediately caught my attention when I joined *Pensions Age.* It struck me as a brilliant concept that addresses the issue of multiple pension pots that individuals accumulate over their working lives whilst offering the flexibility to select where to save a pension throughout their career.

As someone just starting my career, this idea resonated far more with me than the prospect of future me juggling numerous pension pots, struggling to keep track of their locations and balances by the time retirement rolls around.

According to the Department for Work and Pensions, there are an estimated 20 million deferred pension pots worth less than £10,000, amounting to £30 billion in assets. Personally, I prefer to keep all my hard-earned money rather than risk losing some of it just because I don't know where it is saved.

Under the pot for life model, savers can choose one place where their pension contributions are saved throughout their careers. This flexibility helps them to select investments that align with their risk tolerance, financial goals, and ethical considerations.

I believe this voluntary concept is particularly beneficial for those, like me, who are just starting their workng lives. It will also reduce administrative costs, simplify retirement planning, potentially lower fees associated with managing multiple accounts, and allow savings to grow more effectively over time.

However, despite all the benefits, there are still a myriad of concerns. These include complacency among savers, employer engagement, regulatory and implementation issues, and what I believe is the biggest issue, financial literacy.

After writing a recent feature about the low levels of of financial literacy in the UK, as part of our year-long special focus on this, it seems premature to give savers the power to choose without educating them first.

A recent survey from TPT Retirement Solutions found that only 35 per cent of pension savers are confident in making basic retirement decisions, such as choosing how to access their pension when they reach retirement age.

Given this, I have been considering the drawbacks of granting people the freedom to choose their pension provider without first providing them with adequate education on the subject. Despite these challenges, I believe many savers manage their pensions effectively and would benefit from this concept.

However, communication between employers and employees would be crucial for those considering this pathway. Employers must support employees in making informed decisions about their pension arrangements.

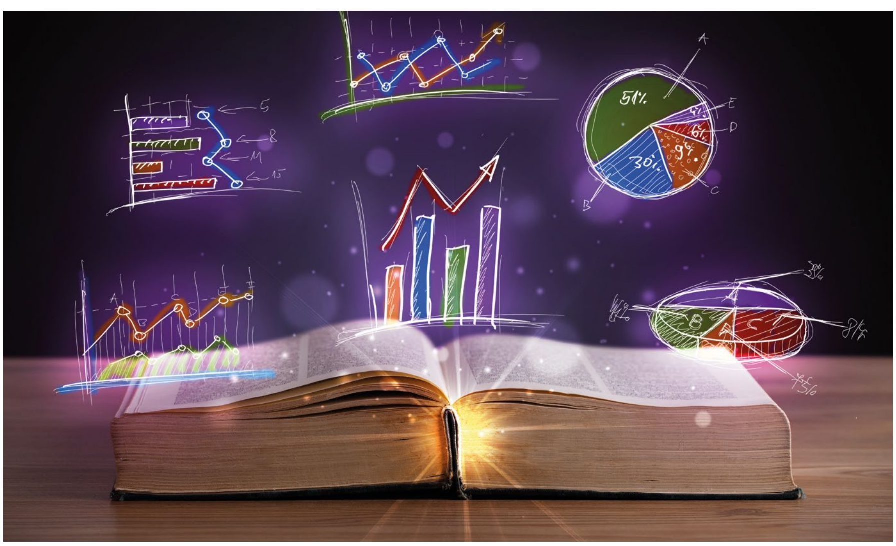
While I appreciate the convenience and appeal of the pot for life proposal, I also recognise the risk of complacency it poses. Once individuals select a provider to invest their pension with, what incentive do they have to monitor its performance? This underscores the need for ongoing engagement and education to encourage active participation in pension management.

Furthermore, implementing this system will also require regulatory changes and it will be essential for pension providers, employers, and government agencies to work together.

In conclusion, while I believe the pot for life proposal holds promise, I think its success hinges on addressing the underlying issue of financial literacy, encouraging employer engagement, and addressing regulatory and implementation issues.

Without adequate education and support, giving individuals the freedom to choose their pension provider risks worsening existing problems of neglect and oversight.

By combining initiatives like the pot for life with educational efforts, I believe the government and pensions industry can empower individuals to take charge of their financial futures responsibly and confidently.



Written by Paige Perrin

From pagination to pensions

Pensions Age sits down with Zedra Governance client director, Alastair Meeks, to talk pensions, politics and his hidden skills with a paginator

What's your employment history (including jobs outside of pensions)?
I started at Herbert Smith (as they then were) as a trainee solicitor, moving on to Pinsent Masons (as they ultimately became) as a solicitor, then partner and head of group, and finally joined Zedra Governance in 2023.

Outside the law and pensions, my only other work was as unpaid labour for my father in his printing press, which was a lot of fun. I'm a dab hand with a paginator as a result.

What's your favourite memory of working in the pensions sector?
In the early 2000s, I worked on multiple schemes with insolvent employers, which were funded far below buyout levels. Many deferred pensioners faced losing pretty well all of their entitlements.

I was involved in a small group of professionals lobbying MPs to provide support for such schemes, an entirely new and eye-opening activity for all.

The foundation of the Financial Assistance Scheme, as it developed, ensured these members got the support they needed. It was one of the very best results for a scheme of my professional career, and probably the most important.

If you did not work in pensions, what sector do you think you would be in instead?
Let's do this by a process of elimination. I'm not handy or co-ordinated, so I wouldn't work in a trade or be a professional sportsman. I don't have a steady hand so I couldn't be a doctor or an architect. I don't have the dress sense to work in the media. My IT skills are legendarily poor so my next job won't be in coding and I do know it.

I do, however, have quite a good head for figures and cool judgement. So perhaps I could be a professional gambler.

What was your dream job as a child?
I had plans to run the marathon in the Olympics. (I have never run any distance further than 800 metres.)

What do you like to do in your spare time?
I write, a lot. I also spend a fair amount of my spare time in my holiday place in rural Hungary (I can sometimes be found working there too).

Do you have any hidden skills or talents?
I have a side hustle gambling on politics. I have the twin advantages of not being emotionally invested in any one party and being willing to recognise quickly when I've made a mistake. This has led to me being interviewed for newspapers and on TV, as well as regularly writing for one of the major political blogs.

I also help a Hungarian friend spruce up her English writing for products that she sells in her shop. One of my co-credits is for a Hungarian cookery book.

Is there any particular music/band that you enjoy?
Lots. Leonard Cohen, Pink Floyd, Prince, The Orb, Lorde, Johnny Cash and Faithless, for starters. A worrying amount of country music and 90s dance music.

Is there a particular sport/ team that you follow?
Norwich City. I suffer.

Who would be your dream dinner party guests?
- Heston Blumenthal to do the cooking (I'm a rubbish cook).
- Kate Bush, who seems to be the most well-balanced music star ever.
- Thomas Pynchon, who should be able to tell shaggy dog stories like no one else.
- Germaine Greer, because you couldn't predict in advance what she was going to say.
- Tim Berners-Lee, for the unique chance to meet someone who changed all our lives more profoundly than perhaps anyone else alive.

Is there an inspirational quote/ saying you particularly like?
Tom Lehrer had an acquaintance, Hen3ry, who said: "Life is like a sewer: what you get out of it depends on what you put into it." As Tom Lehrer himself said: "It's always seemed to me that this is precisely the sort of dynamic, positive thinking that we so desperately need in these trying times of crisis and universal broo-ha-ha."

Written by Sophie Smith

Purposeful Run On for DB schemes

Laura Blows discusses Purposeful Run On for DB schemes with Isio director, Matt Brown, in *Pensions Age's* video interview

Purposeful Run On, or PRO, is quite a new term, so please could you explain just what it is?

PRO is an exciting, new, long-term destination for DB schemes At its heart, it recognises that, having built up very strong funding positions over time, there might be a better approach to traditional endgames, with upsides for both members and sponsors. The concept is that you invest past full funding on a buyout basis and distribute the surplus, sharing it gradually between members and sponsors as it emerges.

How exactly does PRO work, in a practical sense?

What we would do is set a buffer, above full funding on a buyout basis and test the funding level annually against that buffer. Say the buffer was 3 per cent and we do an annual funding test, and that shows a funding level of 105 per cent on a buyout proxy basis. We would then distribute the surplus down to the buffer level, so in this scenario, the 2 per cent to distribute. We would share that in some agreed proportion between the sponsor and members.

For the member share, under current legislation, the most natural way to do distribute their surplus would be as a discretionary pension increase, where members get 1 per cent above their standard increase in that particular year. If the government consultation comes through, this could potentially be achieved as a lump sum of equivalent value. Meanwhile, the sponsor gets its 1 per cent of buyout liabilities as a refund.

You mentioned PRO is a framework that invests past full buyout funding, but normally when schemes are funded at this level they would typically move to insurance. What has changed in the market now to make them possibly look to a PRO instead?

For lots of schemes, insurance will be the best option. However, what has changed is that funding levels have improved sharply, leading to a mindset shift across the industry. If you think that two years ago, most DB schemes were worse funded, and in many cases significantly so, than they are today and that buyout looked a long way away, and perhaps the employer was still paying deficit repair contributions, buyout probably felt like quite a sensible long-term objective. Whereas schemes are actually finding themselves fully funded on a buyout basis, or close to it, much sooner, perhaps when they are larger than they thought they were going to be, and more immature.

The immaturity point is important, because it is cheaper to insure pensioners than it is to insure deferred members. So, there is a natural benefit to waiting if you have a large, non-pensioner population.

We are also seeing schemes that thought they were a long way from buyout and are invested in illiquid assets, so if they want to go to the insurance market in the short term, they would have to realise those assets, sometimes with unattractive-looking haircuts. There might also be practical tasks that were going to be completed at the point of insurance, like data diligence, that schemes just haven't got to yet.

So, with that backdrop, if you have got a strong enough covenant to support it, then perhaps running on for a while looks more attractive versus an insurance transaction than it would have done previously.

Traditionally the mindset around DB pensions has been to only really look at the downside – so from a sponsor's perspective, the risk of paying contributions into schemes, and from the member's perspective, the risk of all members not receiving their full benefits. Meanwhile, what we are starting to see now is a more balanced discussion, that there are upsides as well, for both members and sponsor.

Ok, so what are the upsides of PRO for DB schemes? Are there also any challenges to consider?

We did some analysis, which said that if 40 per cent of schemes by asset size run on for a decade after they first became fully funded on a buyout basis, they would release around £100 billion of surplus to share between sponsors and members – that's a big number.

In terms of the benefits of this, in the sponsor's case, it would be a refund, and from a member's perspective, it would be discretionary pension increases.

Also, if the consultation comes through, one of the proposals within it was to be able to pay lump sums without it being as tax inefficient as it is today.

Interestingly, we are running a survey at the moment of about 80 professional trustees, which revealed a number of additional benefits to running on. For instance, you may offer things like a Pension Increase Exchange or Bridging Pension Option, which an insurer may be reluctant to administer. There may be retirement support you are providing to members, such as financial advice, or that you can have control over who your administrator is.

In terms of challenges, there are three to consider. The first is that PRO is new, so there is not a lot of precedent. Our survey found that balanced guidance from the regulator would remove one of the key behavioural barriers to running on – and not just running on in a 'grinding on' way, but actually running on with purpose.

The second point is that, particularly amongst sponsors, there is a nervousness around 'black swan' events. The modelling might show that there is a very high probability of releasing surplus, but there is always that fear at the back of people's minds.

Finally, there is the 'rules lottery'. Depending on what was drafted many years ago will depend on whether, under current regulation, you are able to release surplus on an ongoing basis. The consultation, if it comes in, will override that and create a level playing field.

I would like to find out more about the investment side of how PRO works. I imagine it requires quite a change to a scheme's strategy.

It is definitely a different mindset, as schemes that had been thinking about moving to insurance in the near term would have focused on protecting short-term downside positions. We have done some modelling and our analysis shows that the sweet spot for targeting returns is somewhere between gilts+1.5-2 per cent per annum, in order to create meaningful surplus for both parties, while also protecting against the downside risk. This is important because we want a very low probability of moving into a technical provisions deficit. If you move into a buyout deficit from time to time that's probably more manageable, as long as the covenant is strong enough. We did think that might be a challenge for trustees, and that came through in our survey. We had trustees saying to have more of a gilts+ 1-1.5 per cent per annum range, that is not surprising given the direction of travel in recent years. So, it always feels slightly more comfortable to decrease investment risk than it does to increase it back up again. But if you do have that mindset shift to look long term, and consider the genuine upside, it will be interesting to see how market practice emerges.

You have mentioned about the government consultation. I would be interested to hear your views on it and what impact you think it may have on the future of PRO?

If everything comes through as proposed in that consultation, then it would be brilliant that all schemes would have a level playing field, irrespective of their rules, to release surplus on an ongoing basis. Also, being able to make lump-sum payments in a tax-efficient way is attractive.

The consultation also says that there may be a lower threshold for being able to release surplus. At the moment, you have to be over-funded on a buyout basis, after the surplus has been paid out. Instead, we could possibly have 105 per cent of low dependency, for example. But practically, where schemes actually go with this, I expect it to be a buyout-plus buffer, as our survey found a clear message from trustees that they would want that extra buffer before releasing surplus. It will probably be a couple of years realistically before some of this is enacted but I think it is important for schemes to remember that in many cases they can actually release surplus now without legislative change – just a change in mindset.

This is an edited summary. To watch this video interview in full, please visit pensionsage.com

First 100 days of a Labour government: The pensions industry's wish list

Following the news that Labour has won the 2024 UK general election, *Pensions Age* takes a look at what we know so far about the party's plans for pensions

The UK is waiting to see what the new government does with its first 100 days in power, after the general election saw a landslide result for the Labour Party.

Although the exact detail on much of Labour's pension policy is yet to be shared, the 2024 manifesto provided some insight into the party's plans, including its pledge to conduct a pensions review to consider what further steps are needed to improve security in retirement, and increase productive investment in the UK economy.

But industry experts have suggested that, despite the change in government, there could be some continuity in pensions policy, particularly in relation to the push for more investment in UK productive assets, and consolidation.

"With a Pensions Minister to be appointed and a King's Speech *[to come, at the time of writing]*, policy is likely to move quickly but we broadly expect continuity in the pensions market," Broadstone head of policy, David Brooks, said.

LCP partner, David Fairs, agreed, suggesting that a "new colour of government doesn't mean a radically different path for pensions policy".

"We will see a lot of continuity around some of the big themes, such as collective DC, dashboards and auto-enrolment (AE) reform, and we expect to see the adaptation of the PPF to establish a public sector consolidator. Supporting growth by encouraging pension schemes to invest in the UK economy is likely to be high on the agenda."

Indeed, whilst initially a focus for the former Conservative government, Hargreaves Lansdown head of retirement analysis, Helen Morrissey, pointed out that Rachel Reeves has also championed plans to encourage pension investment in UK businesses, "so we can expect movement on this in the near future".

In its manifesto, Labour said that it would act to increase investment from pension funds in UK markets, by adopting reforms to ensure that workplace schemes take advantage of consolidation and scale, and to deliver better returns for UK savers and greater productive investment for UK PLC.

"We will also adopt reforms to workplace pensions to deliver better outcomes for UK savers and pensioners," it stated. "Our pensions review will consider what further steps are needed to improve security in retirement, as well as to increase productive investment in the UK economy."

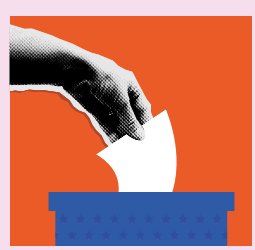
The role of pensions in climate change efforts was also highlighted in the Labour manifesto, as the party argued that the financial services industry has a "major role" to play in mobilising trillions of pounds in private capital to address the "greatest long-term challenge of our age".

Given this, it said that it will look to mandate UK-regulated financial institutions, including asset managers, pension funds and insurers, and FTSE 100 companies to develop and implement transition plans that align with the 1.5°C goal of the Paris Agreement.

Labour also said that it will look to end the injustice of the Mineworkers' Pension Scheme, confirming its intent to review the "unfair" surplus arrangements and transfer the Investment Reserve Fund back to members.

One area of relief for many was the news that Labour seemingly has no plans to reinstate the lifetime allowance, having been omitted from the party's 2024 manifesto, following reports that the party had dropped plans to reintroduce the tax as a result of industry concerns around the uncertainty for savers and the complexity involved.

However, Isio director, Iain McLellan, cautioned that "this falls short of an outright commitment to leave pensions tax alone, and pensions might be seen as a convenient target for 'stealth' taxes when fiscal circumstances are tight".



Dealing with the day one challenges

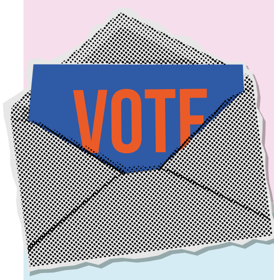
Certainty is perhaps the first thing that many in the industry are hoping for, as Aegon pensions director, Steven Cameron, acknowledged that Labour is coming to power with many of the previous government's pension plans still under development, suggesting that "to allow progress, we need clarity on which will continue, change or be cancelled".

People's Partnership chief executive, Patrick Heath-Lay, also noted that the DWP's new ministerial team will face a number of 'day one' challenges. "The pensions dashboards programme is making progress, but ministers must address key project documents that still require approval, and this must happen quickly if larger schemes are to connect to the dashboards' infrastructure in April," he said.

Hargreaves Lansdown head of personal finance, Sarah Coles, also stressed the need for the government to bring work on the advice/guidance boundary to a conclusion, so people can get relevant support with their finances.

The long-awaited DB Funding Code is another area that many in the pensions industry would like to see progress, after the general election threw the timing of the code into question.

However, Fairs warned that, if the government pursues a different approach to what is already expected, there could be a significant delay before the code is laid.



A healthy dose of scepticism

Labour's pensions review has been a key focus for the pensions industry following the party's win at the polls, with Eversheds Sutherland head of pensions, Jeremy Goodwin, highlighting the review as an "important opportunity to take stock of where we are and to develop a long-term vision for the UK pension system".

This was echoed by Heath-Lay, who said that he "hopes that Labour's pensions review will help revitalise the consensus that drove forward the success of automatic enrolment and create a roadmap for the future".

"It's crucial that government and the pensions sector can work constructively to enable greater pension fund investment in priority sectors, while ensuring the interests of pensions savers are at the heart of decisions," he added.

However, Brightwell CEO, Morten Nilsson, argued that, for the proposed review to be meaningful, it needs to be comprehensive and look at the system as a whole – both pensions policy and taxation and investment.

Experts also questioned the expected scope of Labour's promised pensions reviews more broadly, raising queries as to what will and will not be included.

But McLellan said Labour's "sizeable majority" means their promised pensions review has the potential to be "more radical and grasp some of the thornier pensions issues".

"The government may feel it has clear licence to pursue the most ambitious form of its vision for UK pension schemes and their members," he continued.

Auto-enrolment – over the line at last?

Cameron, however, said that the new government's first priority should be the planned enhancements to workplace pensions auto-enrolment, which have already received cross-party support and would boost pension pots for "millions" of employees.

This was echoed by Morrissey, who said that while the auto-enrolment extension bill got Royal Assent last year, as yet, we've seen no timetable for its implementation.

"These changes have the ability to really boost pension savings by enabling people to start saving at 18, with contributions coming from the first pound of earnings," she continued.

"The timing of these changes is all important, as if they had been introduced during the cost-of-living crisis we could have seen people's already stretched budgets placed under increasing pressure. However, as the pressure starts to ease, now could be a good time to put a timetable in place."

Many organisations previously expressed disappointment over the omission of the AE reforms in Labour's election campaigning, after there was no mention of further reform in the party's manifesto.

However, there are hopes that AE could be an area on the party's agenda, as former Labour Pensions Minister and Work and Pensions Committee chair, Stephen Timms, who was also re-elected as MP of East Ham, recently said that increasing minimum auto-enrolment contributions to 12 per cent must be a priority over the next decade.

Pushing on with pot for life?

PensionBee director of public affairs, Becky O'Connor, argued that although not explicitly highlighted in Labour's manifesto, the new government should address the 'pot-for-life' solution to tackle the pressing issue of lost pension pots in the UK.

"With over £50 billion at risk of being forgotten in old pensions, immediate action is essential for better retirement outcomes for consumers," she said.

TILLIT CEO and founder, Felicia Hjertman, argued that "if the Labour government has the public's interests at heart, they'd introduce 'pot for life' and let employees take back control of their security in retirement".

However, Cameron suggested putting initiatives such as small pots consolidators and the pot for life model on the back burner for now, stating that "once the priority measures are in place, these may simply not be needed".

Written by Sophie Smith

Pensions Age Northern Conference: A turning point

As the UK enters a new political era, this year's Pensions Age Northern Conference speakers reflected on what the future is looking like for pensions policy, endgame planning, pensions dashboards, biodiversity, investment planning, pension scams and more

Just eight days before the general election, the Pensions Age Northern Conference returned to Leeds to address what's in store for UK pension schemes from both a DB and DC perspective, with speakers and delegates from pension schemes, trustee firms, associations and providers gathering at the centrally-located Park Plaza hotel.

European Pensions editor, and *Pensions Age* assistant editor, Natalie Tuck, chaired the event, which covered a wide range of key topics to include the future of pension policy; buy-ins and buyouts; DB endgame alternatives; ESG; dashboards; Sharia law; scams; trusteeship; private markets and more.

The first keynote speaker of the day, Pensions and Lifetime Savings Association (PLSA) deputy director of policy, Joe Dabrowski, used his session to set out a roadmap of what the PLSA believes the new government should do for pensions in its first 100 days of office. The recommendations covered five key areas including: DC decumulation and helping savers navigate choices at retirement; better DC, ensuring savers have a more adequate income in retirement; the future of DB, and supporting well-run DB schemes; bridging the pensions and growth gap; and supporting the Local Government Pension Scheme.

Commenting on the Labour party's promise to undertake a review of the pensions landscape, Dabrowski said: "The pensions review that is in the Labour manifesto is interesting because it is not particularly clear what it is going to cover, or how long it is going to be, but for us it is really important that review covers the things that really matter." For example, he added, "the state pension review was kicked into the next government last year, so somebody is going to have to pick that up at the top of their inbox.

"Consolidation and pensions growth are likely to be the other things that would be top runners to get into that piece of work."

On ESG, Dabrowski acknowledged that Labour has "talked a much bigger game about ESG and the green transition", arguing that this is also likely to filter though to most of its government policy areas.

Buyouts were the focus of the next session, with Standard Life senior business development manager, Jack Hill, and business development manager, Alex Oakley, offering delegates an overview of the bulk purchase annuity (BPA) market, to include the opportunities and challenges of today. They also addressed what is on the horizon in terms of projected demand and regulatory changes.

Commenting on the evolution of the space, Hill said: "The BPA sector has evolved a lot in recent times and is a very different environment to just two years ago. Demand is growing ever-more rapidly than before and, thanks to the greater improved funding positions of the UK pension schemes, we expect this to continue into the foreseeable future."

He also reflected on how the arrival of the first new entrants in over five years might impact supply.

"Whilst these new entrants and options are undoubtedly good news for pension schemes given the increased choice trustees now have, there remain potential challenges on the horizon when it comes to supply."

Oakley went on to look at some of the other challenges and trends around capacity, reinsurance, illiquids, asset sourcing; and capital, and highlighted the increasing prevalence of mega/jumbo schemes coming to buyout.

"Last year, we saw the return of the multi-billion-pound transaction – this is a trend we expect to continue with some of the UK's largest DB pension schemes now considering insured solutions. This can create interesting dynamics, often with several insurers chasing that same large transaction. A couple will lose out, and if the insurer is well prepared and resourced, with its capital and asset strategy in place, it can look to what else is in the market at that time and may be able to offer competitive pricing to another scheme. Consequently, pension schemes with nimble governance structures in place are able to take advantage of these pricing opportunities."

LCP partner and head of endgame innovation, Jonathan Griffith, next took to the lectern to consider how DB pension schemes can ensure they make the right decisions on the endgame journey for their circumstances and used case studies to get his messages across.

In a session that addressed how to best consider the options available and what is right for your scheme, he looked at common pitfalls to avoid when setting a strategy; and why the endgame journey is more important than the destination.

"There are professional requirements for actuaries in the room to make sure you properly consider all the range of endgame options that are available at the time you do a transaction, and I have heard from a lawyer that it may even be negligent if you don't properly consider these options at the time you do it – the emphasis there being 'properly consider' – make sure that whatever action you take, be it buy-in, be it run-on, you are doing it for the right reasons and reflecting your current objectives."

He also explained why more schemes might now be looking to target run-on over a period, "the obvious one being the financial side of things in that they expect to grow the surplus," but whilst there is lots of focus on the financial upsides, there are, he argued, many other reasons to factor in too, "from maintaining control, managing systemic risks, and the ability to invest for good".

As a key takeaway, he told delegates: "Review your position – make sure your position is accurate and your objectives are up-to-date. Decisions taken many years ago were very much in a different climate and likely in the current climate are not relevant. Markets have changed, mindsets have moved on and there is a huge risk in relation to reputation, from media and to members of following through on decisions that were taken a long time ago."

Sustainable investing was the next topic of focus, as Federated Hermes head of impact and sustainable investing Ingrid Kukuljan, presented on the topic of biodiversity loss.

Kukuljan explained what biodiversity loss means for the economy and companies, and the role of regulators. Further, she examined why it is essential for corporates to understand their impacts and dependencies on biodiversity and ecosystems, and the imperative need for investors to start allocating capital to companies that help to preserve and replenish natural capital.

She explained: "Nature is critical to human life, and we depend on it for everything – our air, food, medicine, livelihood. The problem is, we have taken nature and its permanence for granted and we have been destroying it at a pace

not seen in the history of humanity."

She warned, "the predictions are that half of the world's population will not have access to fresh water and, in terms of energy needs, the transition towards renewables is not fast enough".

"What's the way forward?" She added: "It is simple: We need to re-design the way that we live. We need to re-design our food systems and we have to move towards a more circular pattern of consumption." She also highlighted the relevance here of donut economics, "one that calls for a move away from this continuous GDP growth towards a growth that is sustainable, where humans can live in harmony with nature and with the limited resources we have been given".

Considering the fragile relationship between nature and finance, she concluded: "We must recognise that the financial sector has played a part in the degradation of our planet - but, for the very same reason, we are in a position where we can really drive positive change. If you think about your portfolios, your asset allocation, you have to make sure that your investment managers are doing proper due diligence on the impact and dependencies of their portfolios on biodiversity because, if you don't, you might get stuck with stranded assets or with companies that will be paying huge penalties."

The next keynote speaker of the day was Pensions Dashboards Programme principal, Chris Curry, who provided an update on the latest progress from the

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programme and what's to come for the rest of 2024 and beyond, including the connection timetable set out in guidance, recently updated dashboards standards and user testing plans.

Curry also reminded the audience of why pensions dashboards are needed: "The Pensions Policy Institute estimates that 2.8 million pots are not currently matched to their owner, with a total value of £26.6 billion, so you can see there is a real need for people to have a way to access information about their pension in a way that they can understand, to help them see all the income that they might get in one place including the state pension, which will be really important, and hopefully reduce that number of people who are undersaving, so there is a lot that pensions dashboards can do."

Curry updated delegates on the connection guidance and staging timetables, how user testing has been working, as well as the importance of industry collaboration: "We are plugged in to most, if not all, of the bigger organisations with an interest in pensions dashboards and a number of different forums to make sure that we are always not surprising people, making sure that people are aware of where we are and what is happening, so you know what you need to do."

In terms of what pension schemes should be doing, he concluded: "First of all, find out what your connection date is; know how you are going to connect to the ecosystem; make sure your data is ready, accurate and accessible."

The topic of dashboards remained on the agenda in the next session, with ITM sales and marketing director Mark Adamson, and chief innovation officer, Maurice Titley, presenting case studies showcasing pension schemes that are ready for dashboards. They also explored the critical steps schemes have taken, including ISP implementation, enhancement of matching capabilities, and resolving the benefit processes for dashboards, and offered practical insights on ensuring schemes confidently meet government requirements before the fast-approaching deadlines.

Adamson began by emphasising that "there is an awful lot to get done by any scheme that needs to comply with the requirements of dashboards". The Pensions Administration Standards Association, he explained, has said that six quarters are needed from kick-off point to getting through to connection. "That's 18 months – so some of those six quarters will have begun already for some schemes. If they are not up to speed, they need to get up to speed – no two journeys are the same, but the same challenge is already presented and that is resource – either your resources or the resources of your suppliers."

As part of the presentation, the delegates were lucky to also hear first hand from Bupa head of pensions, Scott Blurton, about the work the scheme has done with ITM and Pension Fusion to help get connection ready.

Blurton explained: "At the start, we had a think about what we wanted to achieve from dashboards. First and foremost, we wanted to comply, but we were also seeing this as a service for members, to improve education for members, to improve their outcomes.

"Also, when we were thinking about compliance, we were thinking about maintaining our reputation; and also thinking who could give us a good service but keep demands on administration and IT low, both in terms of the onboarding process and demands post the onboarding point, as that is also going to be very important. What was the best way we could minimise that work/streamline that work?"

Titley then presented a second case study around its work with XPS Administration, explaining how, for XPS, "a positive saver experience was absolutely key – when it comes to matching, they wanted their members to find the pensions that they had in the schemes that they administer when they use dashboards".

To conclude, Adamson looked at what makes a good ISP solution; what should a scheme's TPA be doing by now, and what schemes themselves should be doing by now. He concluded: "Don't get caught out, the first schemes connect in less than 10 months!"

During the networking lunch, delegates caught up with the exhibitors who also included Pendragon and Isio.

Isio is a UK pensions, benefits and investment firm with 1,100 people, with an office just across the road from the conference venue at 34 Boar Lane.

Isio's pensions, benefits and investment team members attended the conference and enjoyed catching up with the industry.

The firm works with a third of the FTSE 100 with over 400 boards of trustees, across all sectors, with a vision to deliver greater levels of confidence in financial decision-making for companies, trustees and individuals.

After lunch, DLA Piper partner

and head of the London pensions team, Matthew Swynnerton, offered delegates a legal update on topics that should be on all pension schemes' radars, including transfers and pension scams; the implications of the *Virgin Media v NTL* case; the Funding Code; pensions issues for gig economy employers; Sharia law in occupational pensions; and an overview of what's on the horizon.

Speaking specifically on Sharia law and why is it relevant to pension schemes, he explained: "What some employers are starting to see is pressure from unions to ensure these types of funds are available for Muslim workers, but it is quite complicated in a pensions context. For DB schemes, is it almost impossible to ensure compliance with Sharia Law relating to investments, because of the scheme funding requirements that require interest bearing assets to back the liabilities; and for DC schemes, although there are Sharia-compliant funds available in the market that have been approved by Islamic scholars, not all schemes, including some very well known master trusts, offer them, and event for those that do, there are differences of opinion between Islamic scholars as to whether they are truly Sharia compliant or not."

Next up, Independent Governance Group trustee directors, Catherine Edmondson and Nicole Mullock, shone the spotlight on the challenges and strategies applicable to trustees managing large versus small pension schemes today and into the future.

Mullock emphasised, for example, how decumulation is fundamental for the DC industry. "We know master trusts have got a decumulation offering built into their offerings, and we expect to see this come down the line for all trust-based DC schemes in the coming years. And, as the DC market continues to grow, we really need to find better ways to support our members, we need products that meet members' needs, and products that allow them to have the confidence to make the right choices about how to take their income – not too much, not too little."

Edmondson later talked about the firm's launch of a new sole trustee proposition, Ignite, "where we are just looking at the smaller schemes, looking to streamline what we are doing using select small panels of advisers, and seeing how we can help smaller schemes address some of the challenges they're facing".

On the topic of diversity, Edmondson commented: "This is something that is on agendas now a lot more than it was maybe a year ago, is definitely a focus for the regulator, and I think it is quite hard as it is quite new for a lot of trustees. We are talking about it but really we are, as an industry, just getting to grips with what it means."

When asked about what skills and experience schemes should be looking for when appointing an independent trustee, Mullock explained: "There can be a tendency to want a trustee that can do everything or has a skill in every area – my steer on this would be to really focus on the two to three key objectives that you have coming down the line in the next three to five years, and focus on getting someone who has the skillsets that really match the direction of travel for you, rather than wanting someone who is very broad in their experience."

The final keynote speaker of the day was The Investment Association senior policy adviser, pensions and institutional market, Imran Razvi, who focused on private markets in DC and the role of the Long-Term Asset Fund (LTAF) in DC portfolios.

"We have a general view that private markets are a good thing for DC schemes to have access to; that's not the same as saying you should invest in them – that is clearly a decision for an individual scheme to make; but what we have focused on is access, and making sure the right structures are there for schemes to be able to access private markets."

Reflecting on why there has been more interest in private markets in the DC space in recent years, he commented: "This is largely because of regulation; fiscally constrained governments in the UK and around the world tend to see pension schemes as huge sources of capital that they can encourage to invest in order to fund certain things that government wants to happen, such as upgrading infrastructure, and decarbonising the economy, and hopefully some of that is good for pension schemes as well."

He also addressed key questions such as what private markets can offer DC investors; how the LTAF has developed; how LTAFs compare to other illiquid/semi-liquid funds; the vehicles that are out there; and finally, the barriers that remain.

Many thanks to all our speakers, sponsors and delegates, without whom the event would not be possible.

Written by Francesca Fabrizi

Goldman Sachs Asset Management

Henry Hughes, Head of UK Pensions Solutions, Fixed Income Portfolio Management, Goldman Sachs Asset Management

Francesca Fabrizi, Editor in Chief, Pensions Age

A time for fixed income

Francesca Fabrizi discusses fixed income trends and opportunities with Goldman Sachs Asset Management Head of UK Pensions Solutions, Fixed Income Portfolio Management, Henry Hughes, in our *Pensions Age* video interview

We have seen significant macro, geopolitical and market volatility. What's your assessment of the current backdrop for fixed income investors?
We think it's a really attractive time for fixed income. After a decade of very low yields, we now find ourselves in a place where yields are close to their highest since the financial crisis. That presents an attractive opportunity for fixed income investors from a total return point of view, as well as in terms of income. We also think that, from a risk management point of view, it's attractive, given that government bond yields have risen to the extent that they have, and they can act as a natural cushion in the event that you get disruption to markets.

In terms of a forward-looking perspective, inflation is starting to come down, which is a really good thing for the economy – we have seen that in the US and the UK. We also think that growth is holding up. So, the macro picture is supportive. We think that is paving the way for cuts to central bank rates and, right now, we think it is close to peak tightness in financial conditions. So, on a forward-looking basis, that should be a very attractive entry point for fixed income.

How are clients responding to the market environment in terms of strategic or tactical asset allocation and investment strategy?
The short answer is we're seeing positive flows into fixed income in the aggregate. If we think about what pension schemes are looking to do with their investment portfolios, they want to build an investment allocation today that will pay out current and future liability cashflows. They have a target return that they need to meet in order to achieve that and, given the repricing in fixed income, they're able to achieve that target return while taking less risk.

For example, the Sterling Corporate Bond Index today yields 5.5 per cent. For an investor to achieve that pre-pandemic, they needed to invest in single-B high yield risk.

So, we're seeing more flows into high quality fixed income. We see that in terms of our existing clients, and we also see that in survey data. Earlier this year, we ran a European pensions survey whereby 90 per cent of respondents said that they expect to maintain or increase their investment grade corporate credit allocations. That flow into high quality fixed income, is a trend that we are seeing and expect to continue.

Many schemes are looking ahead to endgame planning, thinking about running on or buying out. What trends are you seeing from this perspective?
As well as being very attractive on the investment side, it's also a good time on the liability side. With the run-up in yields that we've seen, particularly in the back half of 2022, we have seen, on average, pension scheme funding levels increase from a position of deficit – around about 95 per cent in 2022 – to a position of a healthy surplus at 125 per cent today, on average. What that means is that pension schemes can really expedite their end game planning and can be thinking about what that means on a forward-looking basis for investment strategy.

We see several different clients who are looking to buy out and we see several who are thinking about running on and managing their scheme on a self-sufficiency basis. What's important is building an investment strategy that builds in options for the future and taking steps today to benefit from the market environment, while affording flexibility into the future.

What that means specifically is increasing hedge ratios, increasing cashflow matching or increasing allocation into matching fixed income, the objective being to lock in the yields that we have today to immunise those future liabilities while still building an investment portfolio that may be attractive to an insurance company or can be managed on a self-sufficiency basis.

If investors are de-risking out of risky assets into fixed income, does that create the risk of a bubble in credit?
We have certainly heard that argument and seen some of the data behind it. Taking a step back, I would say that, in aggregate, credit looks attractive from a macro point of view and also in terms of credit fundamentals. It's certainly true to say that spreads are at the more expensive end of their historical range but, on a forward-looking basis, we're still expecting to generate positive returns from investing in corporate credit today.

If we think about the trend in pensions and the potential increase in corporate credit then, yes, that potential pick-up in demand could create a squeeze, given the size of the overall investment universe.

Here's why I think it's important to build as broad an investment universe as possible. If we think about pension schemes who are focused probably on the 20 to 30 years part of the curve in terms of their bond allocations, and we think about what is the size of the sterling credit universe in that cohort, it's fairly small. It's got only about 100 issuers in that segment of the market. So, if you had a big allocation into that cohort, then that could create some capacity issues.

When we think about the investment universe more broadly, including dollar denominated credit where the market size is about 30 times, then that creates a lot more opportunity, not just for return generation but also for diversification. We think that's such an important input to portfolio construction – that having a broader investment universe in terms of currency of exposure, but also including other parts of the credit universe, is so important to avoid that type of risk that you reference.

Are there other parts of fixed income where you are seeing opportunities?
Absolutely. Away from investment grade credit where we see attractive opportunities, particularly on the matching part of the portfolio, we also see attractive credit opportunities in securitised credit, particularly at the top of the capital structure – so high quality CMBS, high quality CLOs look attractive from a carry and from a spread point of view, so we're seeing a lot of clients expressing interest in that cohort of the market and we see attractive opportunities to generate returns.

Then also down in quality, so looking at high yield and leveraged loans, again in the double-B and single-B part of that credit cohort, fundamentals look good, valuations look reasonable and there are definitely opportunities to generate returns there, too.

I'd also add private credit, particularly the development of open-ended private credit funds, which give more flexibility to investors in terms of timing of investment and divestment. Again, an attractive asset class and very useful for pension schemes to be able to invest and increase their overall returns from fixed income.

This is an edited summary. To watch this video interview in full, please visit pensionsage.com

In association with Goldman Sachs Asset Management

All eyes Down Under: Lessons from Australia's pension model

Summary
- The UK is considering adopting a 'pot for life' pension model to allow savers to keep a single pension pot throughout their careers, inspired by Australia's superannuation system.
- Experts acknowledge the benefits of the pot for life model for personal pension ownership and informed decision-making.
- However, the change would require significant infrastructure, regulatory and educational changes.
- Australian superannuation funds are increasingly investing in the UK, facilitated by the UK-Australia trade agreement and the scale of Australia's pension industry.

Chloe Whelan takes a look at the Australian pension system and explores the practical steps for the UK potentially implementing a similar model

Following the government's proposal of a 'pot for life' or 'lifetime provider' pension model, the pension industry's gaze has turned to Australia, considering how the UK might adapt its own system to reflect Australian practices.

Then Chancellor, Jeremy Hunt, confirmed in his 2024 Spring Budget that the government would "at the earliest opportunity ... continue to explore how savers could be allowed to take their pension pots with them when they change jobs".

The government's interest aligns with significant public approval. Over half

(54 per cent) of Brits view the pot for life proposals as a positive change, while just 15 per cent view it negatively, according to Barnett Waddingham.

However, the feasibility and desirability of implementing a pot for life model in the UK remains contentious. To gauge industry sentiment, *Pensions Age* spoke with several experts – by and large, they say the concept had merit but acknowledged it would be no easy feat.

The Australian pension system, explained

Australia's pension system, refined over more than 30 years, offers valuable insights for the UK's defined contribution (DC) framework.

At the heart of Australia's model is the superannuation guarantee, whereby employers must contribute a percentage of an employee's earnings into a superannuation fund. In this way, the system resembles UK auto-enrolment (AE) – although the concept arrived in the UK a full two decades later.

However, unlike the UK system, Australian employees have the freedom to choose their superannuation provider and can switch providers if they wish. The model heavily emphasises pension consolidation; while Australians can have multiple superannuation pots, they are encouraged to consolidate with a single provider for easier management and lower fees. Consolidation is managed by the Australian Taxation Office (ATO), lessening the administrative burden on individuals, who simply have to fill out a form online.

"What's really driven Australia's success over 30 years is the existence of large, sector-wide super funds"

This pot for life model, also known as the lifetime provider model, allows individuals to keep a single retirement savings account throughout their careers. The Lang Cat director of public affairs, Tom McPhail, says it contrasts favourably with the 'pot follows member' approach, whereby an individual's pension savings are transferred to their new employer's scheme with each job change.

"Pot for life gives the individual ownership of their pension pot. It becomes my personal pension pot that I take with me every time I move, giving me greater agency over my retirement savings," McPhail says.

"It also allows individuals to develop long-term relationships with their pot and their provider, which I believe results in people making better-informed decisions about their savings."

Crucially, Australians cannot opt out of superannuation. The system is mandatory for almost all working adults, including full-time and part-time workers and temporary residents, all of whom are entitled to super contributions from their employers.

Why the UK is looking to Australia

The UK pension industry is increasingly turning to Australia for inspiration, due in large part to the pot for life model.

McPhail describes the UK's interest in pot for life as a symptom of AE, which has led to an explosion of small pension pots. The UK is home to over 12 million pension pots worth less than £1,000 which are no longer being paid into, according to the Department for Work and Pensions.

These pots are difficult for savers, in that they're easier to lose and can rack up considerable fees. They're also difficult for the industry, which is tasked with managing low-profit pots with a projected administration cost of around a third of a billion pounds per annum by 2030.

"AE has become a victim of its own success. We saw this problem ahead of us 10 years ago and failed to do anything about it," McPhail says.

"Firstly, we need mass consolidation to remove those small pots from the market. Then we need a lifetime provider model to stop them from continuing to spawn."

People's Partnership chief commercial officer, David Meliveo, notes that a lifetime provider model could result in consolidation at both the pot and scheme level, complementing the regulatory push for fewer, bigger pension schemes.

He says: "There is a clear drive from the government for consolidation. Fewer providers mean better value for money and better infrastructure, and it's easier for regulators to manage."

IFM director of public affairs, Gregg McClymont, agrees, adding that "bigger is better" when it comes to pension investing.

"Economies of scale allow pension providers to invest in a range of asset classes to achieve risk diversification and more stable returns," he says.

"It helps providers avoid putting all their eggs in one basket, which increases savers' returns in the long term."

Implementing the Australian model in the UK

While adopting Australia's pot for life model may be a compelling goal, it would require a broader overhaul of the UK's pension ecosystem. As McClymont puts it: "Get first to a system of a smaller number of big funds with effective default arrangements for savers. Then you can consider innovations like a single pot for life."

Understanding the full Australian context is crucial. The country's pension successes did not stem from a single innovation but rather from a series of systemic changes beginning in 1992, when the superannuation guarantee was introduced. The pot for life model wasn't introduced until 2021 and is thus a much more recent piece of the puzzle.

"What's really driven Australia's success over 30 years is the existence of large, sector-wide super funds that channel their profits back to savers rather than company shareholders," McClymont says.

"Those mega-funds provide scale and value for money, meaning the default retirement option for Australian savers has substantial diversification across unlisted asset classes."

Standard Life retirement savings director, Michael Ambery, highlights other critical factors in Australia's success: Pension adequacy and comparability between providers.

Australian employers must pay a super contribution of at least 11.5 per cent, compared to the 3 per cent required

Australian pension companies investing in the UK

While the UK looks to Australia for inspiration in pension reform, Australian superannuation funds are increasingly eyeing the UK for investment opportunities.

In March, Australia's largest superannuation fund AustralianSuper announced plans to invest £8 billion in the UK, bringing its total investment in the country to over £18 billion by the end of the decade.

Similarly, Aware Super has committed A$10 billion (£5.27 billion) to investments in the UK and Europe. The fund, which opened its first international office in London last year, has already invested A$17 billion (£8.96 billion) in the region. This included Aware Super's entry into the UK residential property market, with a 22 per cent stake in Get Living, a leading UK developer and operator of build-to-rent neighbourhoods.

The increased interest from Australian funds in UK assets has been attributed in part to the UK-Australia trade agreement, which came into effect in May last year and helps improve access to UK markets for Australian investors.

But several industry experts say the interest was also a result of Australia's booming pension industry. Australia's superannuation assets were worth A$3.9 trillion (£2.05 trillion) at the end of the March 2024, compared to the approximate £741 billion held in UK private DC and public defined benefit and hybrid (DBH) schemes – a particularly impressive feat considering Australia's much smaller population.

McClymont says: "Australia's superannuation system is growing so fast that domestic markets simply aren't big enough to absorb the levels of investment that are needed. It's a natural development to see these funds investing more offshore."

Ambery agrees, adding that the UK was a natural investment choice given the close ties between the two countries.

"Our shared history, language and cultures means Australian companies can consider investment in the UK almost immediately and those investment conversations can accelerate very quickly," he says.

by UK AE. Additionally, Australian providers' fees and investment track records can be compared via just a few clicks on a government website.

Ambery says: "First, we need to look at pension adequacy to close the retirement savings gap.

"Then, we need to develop value for money metrics so that the average person has a fair shot at understanding which provider suits their needs."

The practical steps

Practically speaking, the transition to a lifetime provider model also requires significant adjustments to the UK's pension infrastructure, regulation and consumer education.

Payments infrastructure

A critical component would be the establishment of a robust payments infrastructure to simplify the process for both employers and pension funds. This would help streamline pension transfers between funds, as well as contributions from employers and their employees' many varied providers.

McPhail suggests practical steps, such as modifying payroll processes or introducing a clearinghouse system.

He says: "Employers currently make a single payment to one provider for all employees. A lifetime provider model would require employers to manage multiple payments and data files, unless a clearinghouse or enhanced payroll system were implemented to handle those complexities."

Regulation

When a saver only has one pension fund, the performance of that fund becomes all the more critical. As such, UK pension regulators would also need to be empowered to act more aggressively to secure the best outcomes for members.

In Australia, for instance, regulators are empowered to forcibly close underperforming schemes to new business, as well as to write to their customers to inform them of the scheme's poor performance.

"That more aggressive role helps prompt greater levels of engagement from savers," Ambery says.

"Poor performance is flagged and it's a very clear sign that savers can get a better deal, which may influence them to move their retirement savings."

Consumer education

Finally, as the pot for life model centres around saver choice, members must be empowered to make educated decisions about their retirement savings.

Meliveo emphasises: "Consumers need to understand the difference between providers and what value for money means. Small differences in charges can significantly affect retirement outcomes, but many consumers are unaware of those details."

While efforts must be made to educate consumers about their savings, Meliveo also attributes Australia's pension success to the compulsory nature of its superannuation system.

"As soon as things start to become more difficult for individuals, you run the risk that they become apathetic and opt out," he says.

"A crucial part of Australia's system is that there is no opt-out option."

In an ideal world, this compulsory nature promotes higher levels of engagement among savers. However, as outlined above, even the least engaged savers must be guaranteed a higher level of pension performance.

Evidently, the complexities of implementing a pot for life system are significant, and as Meliveo notes, UK pension policy is notoriously slow to change. "This is a process that may take years," he says. "In Australia, it took decades."

However, the UK has a blueprint to follow.

"I'm not dismissing the disruption and complexity caused by introducing this change into an existing system, but we also know from Australia's experience that it is doable," McPhail says.

"It's just a question of getting over those hurdles for the benefit of savers."

Written by Chloe Whelan, a freelance journalist

Summary
• International pension arrangements, such as IPPs and ISPs, are becoming more popular but are not tax efficient.
• Steps have been made to improve cross-border portability flexibility, such as the IORP II Directive in Europe, but adoption has been slow.
• Generally speaking, these international pension arrangements are more complex and costly to run.
• QROP transfers are available as an option for UK expats, but these are very limited in their application and a niche choice.

Have pension, will travel

With cross-border pensions becoming increasingly popular with globe-trotting savers, what challenges do these arrangements pose?

Earlier this year, it was revealed that cross-border pension arrangements are on the rise. According to research from WTW, the number of international pension plans (IPPs) and international savings plans (ISPs) being offered in countries in challenging circumstances rose from 54 in 2019 to 126 in 2024. One of the main drivers is a change in recruitment patterns around the world.

Alexander Beard Group founder and executive chair, Paul Beard, says more people are recognising the benefits of taking their careers abroad, which is then reflected in their retirement savings.

"Through our International Retirement Plan, we also have a substantial client base of members in the international schools and NGOs sectors, because they often work two to three years in one country and move to another," says Beard. "The opportunity to build up a fund to help with their retirement is very attractive and more organisations in this space are waking up to this fact because it is becoming a more competitive environment for recruitment."

The WTW research also highlighted that economic and geopolitical challenges were behind this, with high inflation and increasingly frequent sovereign defaults pushing employers to evaluate retirement provisions. Irwin Mitchell pensions partner, Penny Cogher, sees this as a natural option given the cross-border diversification these schemes afford and the ability to hedge currency risk.

"Employers are responding by providing more secure IPPs and ISPs," adds Cogher. "Plus, IPP and ISP providers are increasingly offering environmental, social and governance investment options – over half (58 per cent) of IPPs and ISPs now include ESG funds. There's also a growing need for Shariah-compliant investment options."

Navigating the regulatory map

International pension arrangements can be challenging due to the inevitable doubling up of regulations, which can have real cost implications. There have been steps taken to harmonise this, with Europe's IORP II Directive and Pan-European Personal Pension (PEPP) product. The former has been designed to facilitate cross border activity around workplace pensions, while the latter is a third-pillar product created for mobile workers to take their savings between various member states.

"The IORP Directive and PEPP play vital roles in facilitating cross-border pensions and enhancing retirement savings mobility within Europe," says RPC partner, Rachel Healey. *"[However],* … Problems like double taxation, varying tax treatment of pension benefits and complex withholding of tax requirements across EU countries continue to impact the effectiveness of cross-border pensions."

Despite these intentions, IORP engagement remains low across Europe. WTW development and emerging markets leader, Michael Brough, sees why and adds: "The IPP and ISP options are much simpler, are a developed product and do not have the same limitations, but these do not attract tax advantages, which is often the biggest detractor identified.

"They do fill a pensions gap or provide greater security though, driven by a lack of a local product or by the fact the local product carries a high risk of failure."

Tax considerations

A key challenge cross-border retirement arrangements can face is tax. IPPs and ISPs are unlikely to be "tax approved" according to Blick Rothenberg pensions advisory partner, Tomm Adams, who says additional taxations may figure into financial planning considerations as a result. "Taxation is sticky and depends on the jurisdiction," says Adams. "Employers really need to look at where their members are living, working and paying tax. They may need to calculate a withholding tax on contributions and benefits accordingly.

"For mobile employees who are retiring and drawing benefits in a country that they haven't made those contributions in, they have potentially quite a complex situation where they need to be seeking advice."

This is one of the reasons UK savers will target QROPS *[see boxout]* due to the potential flexibility it can afford in terms of taxation, according to Healey.

"Double taxation on income is a real risk for individuals with international pension arrangements, as their pension benefits could be subject to taxation in both the country where the pension scheme is established and the country where they reside or receive benefits," says Healey. "This could result in a significant reduction in the net amount of pension income available to the individual."

This can pose a serious consideration for savers moving abroad. RSM UK private client tax partner, Rachel de Souza, says it's important to know how a destination country may tax retirement benefits. She explains that in many cases, these benefits will only usually be taxed by the country in which the saver resides in – but this is by no means the only risk.

"The IORP Directive and PEPP play vital roles in facilitating cross-border pensions and enhancing retirement savings mobility within Europe"

"The host country may apply an automatic withholding tax when benefits are taken," says de Souza, echoing Adams' concerns. "This means that the member needs to understand what they need to do to reclaim tax from the host country.

"Often, a certificate of tax residence from the country of residence will need to be supplied to the host country's tax authority. My top tip is to understand how and when a tax resident certificate will be issued and use that knowledge to determine when you should request your first distribution."

This highlights the need for tax planning beforehand, to ensure common pitfalls are avoided. For example, Beard highlights a common issue many Brits are not aware of: "Many countries in the world do not recognise the 25 per cent tax-free lump sum and will seek to tax that if the policyholder is resident in their country at the time the funds are paid."

Other complexities

There are other issues savers must be aware of with cross-border pensions. An arrangement may be secured whereupon benefits can travel internationally without double taxation risks, but these can still be exposed to high transaction costs. Cartwright director of investment consulting, Sam Roberts, says these often blight cross-border pensions.

"Most of these costs are hidden because they use the bank's foreign exchange rate, which could have embedded costs of 3 per cent to 10 per cent plus, depending on which currencies are involved," says Roberts. "There can also be significant delays in the cross-border payments reaching their destination, or sometimes never reaching their destination."

Such barriers can make it challenging for employers to get on board. Although the IORP II Directive was designed to improve cross-border pension transfers and arrangements in general, their slow adoption highlights their high costs. Independent consultant, Thierry Verkest, specialises in European pension solutions and points out the time and resources required to establish cross-border schemes *[IORPs]* are considerable.

"It's not necessarily the highest item on the pension agenda for these companies," admits Verkest. "If you do not have size, you can hardly make it cost effective. You need to be able to transfer assets from existing systems. Transferring assets with IORP II has been complicated due to individual consent."

Written by Jon Yarker, a freelance journalist

The QROPS option

There is a regulatory route open to some savers who wish to transfer their pension with them when making an international move, though this is niche in its application. UK pensions can be transferred into overseas schemes recognised by HMRC as qualifying recognised overseas pension schemes or QROPS (originally known as ROPS until legislation changed in 2015). Such a transfer bring tax benefits and aid retirement planning, but there is a limited amount of countries that have approved local pension plans available.

"A key consideration in pension planning itself is whether there is a ROPS registered pension in that country, because if there isn't it is no longer possible to take advantage of a different location to have your ROPS policy, you must now have it in the country in which you are living otherwise it does not meet HMRC rules," says Beard.

Crucially, even if all requirements are met for a transfer – and a saver is able to find an appropriate scheme in their destination country – HMRC can still refuse to recognise a scheme as QROPS.

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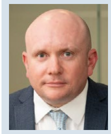
LGPS roundtable

CHAIR

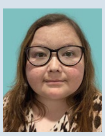
Robert Branagh, CEO, London Pensions Fund Authority (LPFA)
Robert is the CEO of the LPFA, an £8 billion fund within the LGPS. He is also a trustee of the Creative Pensions Trust mastertrust and a governor of the Pensions Policy Institute. He sits on the board of the Local Pensions Partnership Limited, and is also a NED on the board of the Pensions Ombudsman. He has also held senior leadership positions for several large pension schemes, including the NHS, Civil Service, Royal Mail Statutory scheme, and the Railways Pension Scheme. He was also NED at the Ministry of Defence between 2015 and 2024.

PANEL

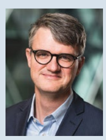
Cllr John Beesley, BCP Councillor, LGPS
John is a BCP councillor and previously chairman of the audit & governance committee. He was leader of Bournemouth council for seven years and deputy leader for the previous five years. He was also responsible for the resources portfolio and the council budget for 12 years. He has been involved in the LGPS for over 20 years and is a former chairman of the Dorset County Pension Fund. He chaired the body which set up the Brunel Pension Pool and is Dorset's representative on the Brunel Oversight Board. He is also a member of the LGA Scheme Advisory Board.



Paddy Dowdall, Assistant Director for Local Investments, Greater Manchester Pension Fund
Paddy is assistant director at Greater Manchester Pension Fund with responsibility for property, local investments and GLIL. The GLIL partnership is the first of its type in the LGPS and has mandate to invest over £4 billion into direct infrastructure in the UK. Northern Pool has led the way in the LGPS investing in housing and property development in its local area with the twin aims of achieving commercial returns for the fund whilst having a positive impact on the local economy.

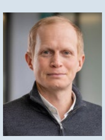


Maria Espadinha, Policy Lead, PLSA
Maria is policy lead at the Pensions and Lifetime Savings Association policy and advocacy team, with a focus on the LGPS, after joining the trade association in 2023 as senior policy adviser. Previously, Maria had a career in journalism spanning almost two decades in London and Lisbon. She was editor of *Pensions Expert*, and previously a senior reporter for *Financial Adviser* and *FTAdviser*, covering workplace pensions, receiving the Personal Finance Society Trade Press Personal Finance Journalist award in 2018-19.



Keith Guthrie, Head of Sustainability UK, Cardano and NOW: Pensions
Keith Guthrie is the head of sustainability for Cardano UK and for NOW: Pensions, a member of their sustainability policy committee and a partner in the firm. He focuses on the development and integration of sustainability into Cardano's investment offerings for UK clients and for NOW: Pensions, working closely with the in-house teams, clients and trustees. Prior to moving to the sustainability group in 2023, Keith spent 15 years co-leading Cardano's investment teams.

Neil Mason, Assistant Director – LGPS Senior Officer, Surrey Pension Team
Neil leads the nearly £6 billion Surrey Pension Fund, with over 120,000 members and 360+ employers. Surrey is one of the 11 LGPS partner funds that make up the Border to Coast asset pool. The Surrey Fund has been acknowledged for its outstanding approach to risk management, governance, responsible investing and admin. Neil is a member of the PLSA policy board, chair of its local government committee and independent chair of the local pension board for the London Borough of Hounslow.



Nicholas Moss, Head of Nature Based Solutions, Nuveen Natural Capital
Nick is the head of nature based solutions for Nuveen Natural Capital. He is responsible for developing the nature based solutions investment strategy across farmland, timberland and ecological restoration. Nick brings over 15 years' experience in leading investment and technical advisory services across forestry, agriculture and climate finance. Most recently, Nick has been managing director at Cardano Development, managing strategies investing in projects that support forest conservation and sustainable agriculture.

David Rae, Managing Director, Head of Strategic Client Solutions, Russell Investments
David is managing director, head of EMEA strategy and advice and oversees the development of bespoke solutions for the firm's institutional clients across EMEA. He has over 20 years' experience working with institutional clients, including pension funds, insurance companies and sovereign wealth funds. He has held a number of roles at Russell Investments. Between 2006 and 2012 he led the derivative overlay, LDI and implementation business for EMEA, and prior to that worked as a consultant.

John Nestor, Client Director, Capital Cranfield
John, who joined Capital Cranfield in 2016, has more than 14 years' experience as a professional trustee. He is an experienced chairman who also works as trustee board member and leads a sole trustee appointment. As a trustee, John has worked widely across DB and DC benefit structures including chairing a DC master trust. He also sits on an independent governance committee and is the senior NED of an LGPS Pooling Asset Management Company. John is well versed in all aspects of the trustee role, and has taken schemes through to buyout and wind up.

LGPS roundtable

LGPS: Now and into the future

Our panel of experts reflects on the current hot topics at play in the Local Government Pension Scheme (LGPS) today, from strategic asset allocation, sustainable investing, pooling and consolidation, and more

Chair: How are you feeling about the current Local Government Pension Scheme (LGPS) investment landscape? Is it a time of opportunity or trepidation?

Keith Guthrie: I've been an investor for 25 years, currently head of sustainability, and I am very excited about the opportunity set within sustainability at the moment and what it can offer the LGPS funds, and also the impact that I can make now that I've moved over more to the sustainability side of investment.

Paddy Dowdall: You should always look at any situation as a time of opportunity. There are clearly opportunities now that we need to make the most of. Of course, challenges will come and go, and we can't predict what they will be in the future, but we can take advantage of what's there now.

David Rae: I echo that positive view – the LGPS has, given the circumstances, a great opportunity here when you compare it with what some of the other investors around the UK, around the region, are trying to do, and given some of the shifts in demographics that have changed investment approaches.

Also, when you step back and look at the macroeconomic environment, there are some things to be bright about there as well. So, a time of opportunity.

Maria Espadinha: The LGPS is important for us at the PLSA, and the main thing for us is to make sure that the LGPS can address the challenges it's been facing, as a united front, and that everything that happens changes things for the better and not for the worse.

Cllr John Beesley: A big topic of discussion today is going to be around pooling and the future of pooling. Therein lie all sorts of opportunities and quite a lot of hidden dangers.

We need to make sure we do what's right for our scheme members, rather than what the government thinks is right for them. That fiduciary duty is front and centre of everything that I and my colleagues do.

If I were to think about a scale of trepidation through to opportunity, I'm somewhere in the middle, because I think we in our roles are influential. Those of us who are trying to lead by example need to convince government ministers and officials that the LGPS is better and more advanced than they think it is.

John Nestor: My view is very straight forward, understand the scheme's funding requirements and work out which asset classes are providing an appropriate risk/return opportunity.

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LGPS roundtable

Neil Mason: I agree with those colleagues who are more on the optimistic side. There is a unique opportunity here for the LGPS to make a real positive contribution to our local communities, not just in the way we invest but the way we look at benefits – the benefits system is also just not fit for purpose for an ageing population – provided we are brave and are not afraid to make difficult decisions.

Nicholas Moss: I work for an asset manager investing in farmland and timberland assets globally, and I am very interested in understanding where the people around the table see the opportunities for natural capital in their portfolios, and sustainability in general, within the LGPS framework.

Strategic asset allocation

Chair: Moving on then to asset allocation and investment strategy, where can funds add real value through strategy?

Rae: A huge amount of effort goes into thinking about strategy and thinking broadly about asset allocation, and there are usually two lenses that people look at this through: How do I generate more returns, and how do I better manage risk?

But I think there is a third: How do we think about the other things that the assets can do? People have different perspectives on that but, ultimately, as fiduciaries for other people's assets, we need to think carefully about that.

The returns bit is generally quite easy because it's linear, and you can either get more return or you can get less.

The risk bit is interesting for LGPS at the moment. Historically, a lot of theoretical work has been done to show how diversification helps reduce tracking error and volatility, and these statistical measures, but often it's just about making sure that you're preserving capital and thinking about risk in a slightly different dimension.

Then the final area is one where the LGPS is at the forefront, and that's to do with thinking about other things that you want to do with that capital and how you factor that into the strategic asset allocation. Not just the asset classes but going beneath that into, for example, how much of a focus on local investments there should be; and how does that trade off versus the risks, but also the return opportunities.

It's a multifaceted problem. There continues to be evolution and development there and, back to that point of opportunity, that's where the LGPS – given the demographics – is well placed to think more, and harder, and deeper around solving those problems.

Chair: How are we all feeling about being currently well funded? Is that going to change strategic asset allocation next time around?

Mason: Depending on how you view the actuarial method, what our funding does is give us options. Provided that the trustees have intentionality in their investment beliefs and their investment strategy, we could perhaps go down a route that has been suggested of reducing contributions. After all, employers are our major stakeholders, along with our members. Their contribution rate moves. Our members don't.

Or it is perhaps an opportunity to look at our investment asset allocation with a bit more freedom. So, potentially looking at assets that might have great tracking error because we have space in which to operate.

Nestor: Is that a move to being maybe more ambitious with the investment budget, or more constrained?

Mason: It could mean being more ambitious with the risk budget. But the key thing is that this needs to come from a strategic standpoint. At the moment, some funds are very good with that, so it's very clear what the investment beliefs are of the trustees, and they go and implement that set of beliefs.

Nestor: I'm not sure there's a big debate about maturity in the LGPS. However, there should be.

Chair: Yes, there should be. A lot of us are cashflow negative and have got ageing populations.

Nestor: Yes, but the new dimension is that the LGPS is in surplus – that's why I asked about whether the ambition is of stretching the investment budget or shrinking it.

Should we be looking at what is required to be paid out in pensions and lump-sums in the next five to 10 years, and where is that cash going to come from? If the worst happens, and there's a liquidity crunch, how are pensions paid? For me, with a corporate defined benefit (DB) hat on, these are the things that I've been worrying about for four or five years and have been exaggerated post the Liz Truss/Kwasi Kwarteng Budget.

I'm not aware of any pensions that have not been paid, but I know of certain places where there was a cashflow crisis. So, in a world of nothing being new, this is a more mature market, and one of cashflow negativity, so how do these two specific issues marry up with greater investment ambition, which could then possibly lead to more illiquidity? Not necessarily, but possibly.

How can we address these demands on the scheme, notwithstanding the fact that employers don't necessarily want to keep paying 20 per cent-plus contributions?

Beesley: A few observations from my perspective. First, not all schemes are fully funded. In fact, some are struggling to get anywhere near being fully funded. So, we should not lose sight of that. It isn't a one-size-fits-all situation.

Secondly, as pressure increases on local authority budgets, regardless of where you are in the country or what you've achieved in the past, there will be political pressure to try and reduce contributions.

I think we need to be careful going forward – this isn't some brave new world where all the dynamics have changed. The disciplines shouldn't change at all. We need to be quite cautious about making any changes of direction, because they will be very difficult to reverse if we do. That's why, when the government puts pressure on, particularly in terms of asset allocation, we need to be extremely mindful that return is everything, and performance is the underlying discipline of everything that we do.

I can see situations arising where there is less and less free cash around to do anything within local authorities and indeed in government, where pressure, for the wrong reasons, will be brought to bear, and sometimes, particularly at the local authority level, for very short-term gain and often to be able to deliver political priorities over a term of just a few years. That can't be right. So, we need to be there as defenders of that.

Thirdly, I would like to pick up on the point about locality. There are some very good initiatives coming forward, I can think of one around housing in Cornwall, for example. As long as those trustees are satisfied in terms of the long-term returns on that, then good luck to them. But it should never be about fitting a political priority locally, because housing is always going to be as an asset class very high in capital and quite often difficult to get out of, particularly if there's a social side to the housing.

Dowdall: At the Greater Manchester Pension Fund, at the core of what we're trying to do is to limit the level, but very importantly and almost jointly, the volatility of the employer contributions. Everything is aimed towards that, so that will govern what we do in terms of strategy.

Moving on to the local point, Greater Manchester took a decision many years ago to allocate 5 per cent to be invested locally. That's not seen as being detrimental to the overall fund target.

There's the Griffin QC opinion, which still holds, that you can take these decisions as long as it's not detrimental. So, what we do is we take discount rate and then put a buffer on top of that. That's what the investments have got to achieve at a portfolio level and so far, they have. Then individual investments are not acts of charity. This is one instance where you can have your cake and eat it. That's our experience.

Again, from a risk control perspective, it is 5 per cent of the portfolio and it's across a mixture of instruments, debt, and equity. Some of it is quite low, quite secure returns. There are liquidity issues and other normal issues that you face with investments, but we think that you can find opportunities.

Regarding pooling and political conflicts of interest, we've always had an officer-led making of the individual investments and just political setting of the objectives at a very high level. We've done that within a fund, but I guess pooling can help in that because, while there are caveats, pooling can create that separation as well and remove that conflict of interest.

Mason: Do you think that you could have delivered that local 5 per cent allocation if you were part of one of the other pools?

Dowdall: We have three funds, so you can have governance, and when you have three you can do things as a joint venture. You're not captured by collective investment schemes. So, that's what creates that option to do it. You don't have that cost overhang. Then we've also got three funds that are very similar in terms of the size, the areas that they represent politically. But the main thing that created the opportunity to do the local investments is the area that we're in. It's the size of the fund and the size of the conurbation and the opportunity set. Manchester has a growing population and is the economic champion of its area.

So, it's the opportunity set of the area that creates these opportunities – it can't be done everywhere.

Rae: Also, that asymmetry of information that you may have as a local investor is key. One of the things that works for investment is if you've got more information than other people competing for those assets or are making investment decisions. You have some of that asymmetry of information to look at those investment opportunities and assess them differently, which may not exist to other suppliers of capital or global organisations that are looking to make investments.

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LGPS roundtable

Guthrie: Picking up on a point made earlier about asset allocation, we're in a vastly different situation to a couple of years ago from an interest rate perspective – interest rates are much higher than they were and yields available on many of these assets are much more attractive versus equities, which are still at all-time highs (being driven by a few stocks). The surplus therefore we see at the moment could turn on a dime.

It's not interest rates necessarily that might turn on a dime, it might be the equity exposure, but my point is that the basic principles of diversification still probably apply quite strongly here, and maybe the ambition is not in taking more risk in the traditional sense of going for equity, but in looking for diversifying assets that might be somewhat cashflow generative. We're in a much more inflationary world. Can you therefore create those kinds of linkages to try and diversify some of the potential risks going forward from a macro perspective?

Beesley: I would like to emphasise the opportunity that pooling does give. Those asset classes available within a pool are driven by the various investors within the pool itself. If I look at Brunel, for example, there are 10 funds in there. If one of us wants to go in a particular direction for our own fund, it's up to us to make a case within Brunel and almost every time that opportunity will then be presented. It may even be one that other people want to buy into.

Whilst we're transitioned within Brunel, probably average about 85 per cent now, there is still opportunity because obviously more transitioning will take place to get to 100 per cent. So, the only constraints that we will have to put up with are those that we impose on ourselves.

Sustainability

Chair: Moving on to the hot topic of sustainability/ESG, how can we do sustainability well in an LGPS context?

Espadinha: I think the government is missing a trick here when it says it wants investment in private markets or in local investments, in that it doesn't until now have a clear green/ESG strategy along those objectives. That's one of the big goals for pension schemes, and the LGPS is no exception. So, maybe it's about marrying those two things – for example, social housing has a social impact and can also be considered as a local investment. So, there are plenty of opportunities to marry all of those things together. Maybe having an approach like that could make it easier for schemes to think about it as well.

I'm not saying that the LGPS hasn't been aware of this. If we look at the pension sector, the LGPS has been doing some of the investments that the government is now asking for and has been doing so for years and years. They've been doing a lot on the green strategies, there are so many examples, but it's just a case of marrying those from a political perspective.

Guthrie: There's a big piece here around enabling schemes to just get on with the job. One of the things that we often hear is the regulatory burden of all the reporting that people are having to do, and the time that they need to put into that takes away from the day-to-day decision making.

Then you think of things like climate change – everyone was very focused on that, but now people are talking about biodiversity, about own environmental issues, social issues. If people keep on coming up with more and more new things to report on and to include, there needs to be some way of simplifying all of that and saying, 'okay, actually allow yourselves to focus on the decisions that will make a difference to the performance and to the impact that you will have on communities'.

Chair: How does this all compare to the private sector side? Is our burden at LGPS a bit less in terms of ESG reporting etc than the private sector?

Nestor: Well, there are circa 5,000 corporate pension schemes in the UK. Yes, a lot of them are very small, but for those over 100 people, the regulatory burden, the governance burden to complete implementation statements, comments about climate change, comments about how DC default funds are invested, etc, is huge.

That has very much taken the private sector away from implementing and towards just reporting on what they need to do, to be compliant.

In the private sector, especially in DB schemes, there has been a huge shift in terms of the investment debate – for most schemes, the investment challenge is done, investment ambition is greatly reduced. The next stage is to transfer the risk to an insurance solution. How do those pension schemes contribute to this debate, when their risk appetite has diminished to gilts plus 1 per cent? If this is the scheme's investment target, there are fewer places to invest in terms of diversity of assets, contributing to natural welfare, sustainability or climate change. You can do it, but are you really making a difference?

When I listened to the Mansion

House speech, I felt the proposals for the private DB sector were five years behind the asset allocation shifts that had already been taken.

Accounting for sustainability has taken this debate to the bulk annuity providers (insurance risk transfer) to try and engage with them to invest for sustainability. They are likely to have longer investment time horizons, albeit within the PRA guidelines, rather than the TPR which DB pension schemes conform to.

From the private DB perspective, the regulatory and governance burden is increasing significantly; unless a scheme is of multi-billion-pound scale, it is unlikely to 'run on' than go to the insurance market.

For most small private DB schemes, they are likely to be looking for an insurance risk transfer solution. Investment in 'can we make a difference' is limited, given the short time horizon available.

Chair: So, by way of context, in the auto-enrolment or master-trust space, it is the opposite, they are doing a lot more that the 5,000 DB schemes can't do.

Obviously, in our space in LGPS, we are also doing an awful lot more around not just the reporting piece, but actually moving the dial.

Espadinha: Just going back to that reporting point, it is true that LGPS doesn't have to officially do TCFD reporting yet but there is a movement to see what the industry does and then probably government will regulate it.

Beesley: One of the points I would throw on the table is that the LGPS is relatively fragmented. So, although pooling has to some degree lessened that, we are still fragmented. We don't really look carefully at any kind of comparables with other people and what they're doing elsewhere, either in individual funds or indeed in pools. Therefore, it is very difficult to pull out all the positives and say, 'we are leading this, and we are doing some great work', because there is no true mechanism for doing that. We know what we're doing. Everybody else knows what they're doing, but we don't know collectively what we're doing. That leaves us open to criticism and ambition by government, in particularly by government, to harness those assets and the direction in which they're going. That's a difficult thing to get one's head around.

Chair: Yet there are excellent examples of things that individual funds are doing. There is lots of local investment, infrastructure investment and so on – lots of positive things. But, as you say, they feel quite fragmented. No one ever says, 'the LGPS is doing really good work here'.

Dowdall: Also, from my perspective, the LGPS has some differences to other investors. Being a very rare open DB scheme, it can take a long-term perspective on certain parts of its portfolio and, therefore, it's a natural source of capital for some of these things. However, I can't get beyond the governance needed to manage externalities properly – the subsidies and taxes to manage the externalities.

If you look at renewable energy as an example, there's been a huge wave of investment in renewable energy largely driven by the subsidy scheme that made it viable, but when they tinkered with that subsidy regime, it just ground to a halt for a period.

In the same way, when they messed around with the LHA allowance, investment in affordable housing just stopped. So, it's both the level of the support and the long-term visibility of it that can really drive investments.

Then looking at these other things, such as biodiversity and water, again it goes to the externalities. If the polluters, for example, are charged properly for the externalities that they create, and then there are incentives to do the other things, those can happen. We've got investment in funds that do biodiversity, do rewilding. It's nicely linked to our local development.

I don't think we can change the market. We can play a part in the market, but it ultimately just goes back to Economics 101.

Moss: I think what the government has done in this space seems to have brought quite a bit of excitement to the sector (people may be aware of the biodiversity market net gain that's recently come out), in that it does provide a little bit of that synergy that you talk about – so, bringing some government regulation to it, some level of externalities back into the market, and then some private sector capital that can flow into it.

What's key, because it's a new market, is how well regulated it will be, how well reported it will be, and whether there really will be private appetite to go into that market as well. Those schemes can be great. They've worked in other countries. Certainly, in the US there's a big market for this type of thing. Whether or not it works in the UK I'd be keen to see.

Chair: Is the market ready for TNFD?

LGPS roundtable

Nestor: With all schemes, a great deal of effort is put into the reporting, so schemes are doing more than just complying. The effort to date is in this activity, and not necessarily in the wider investment work.

I'd like to see that change. There are many competing demands on the trustees. Can they do everything? TCFD is just one aspect. At the same time, the previous government laid down new legislation in the new General Code. There is a lot of work currently in setting out new policies for trustees, ranging from cyber policy, renumeration policy etc. So, for the trustees of private DB schemes, there are 20 to 30 new things on the horizon.

Chair: Where do you see the opportunity within natural capital?

Moss: Nuveen Natural Capital has been investing for a long time in farmland and timberland which, within a portfolio, can be a great differentiator. Natural capital provides opportunities for diversification. They tend to benefit from capital appreciation from land and income from either crops or leasing rents.

Assets also tend to be inflationary hedges, with low volatility with good, reasonable returns over the long term.

And increasingly, as this debate around climate and nature becomes more prominent, there's an increasing focus on how these types of assets can contribute.

Natural Capital offers investors the opportunity to be able to able to invest in assets which can directly address challenges of climate and biodiversity, but also ensure that investors can do so in an asset that has low volatility and returns. Whilst natural capital may not have private equity type returns, it can provide good returns as well as diversification and impact within a portfolio.

Investors often have concerns over the risk of natural capital type assets. We have several funds in the market, both on farmland and timberland. We have tended to manage risks within these through diversification across geographies, crops/species.

Chair: Is it your job to educate us, or just provide product? We have the pools, we have officers, and we have some access to information, but what's your role here?

Guthrie: There's a real education role here on the providers but also an opportunity to collaborate. One of the biggest questions in a lot of these sustainability issues is: How do we all tackle the issue? It's a systemic issue that's going to affect the entire market, not just the single assets involved. Unless we're all in some way effective in the collaborations to actually make a change to the world, we're not going to achieve that. So, a big part of where I come from here is: How can we be most effective in making the change?

We're not going to do that at Cardano on our own – we're going to do that because we have like-minded investors all over the show.

Also, we talk about the private side, but on the public side, there's a lot of risk embedded in a lot of public companies, and the only way to change that is to engage with those businesses. So, how are we doing those engagements effectively?

A lot of the LGPS schemes and the pools have their own teams that will be doing some of that engagement. But are they working closely enough with their underlying asset managers to make sure that they're aligned with their beliefs, and aligned on what they should be doing in engaging those companies and how they're talking to them?

Also, how do we as an industry become much more effective at collectively engaging to drive change?

Finally, we mentioned reporting earlier, but reporting is not going to create change. It's just disclosure. Some firms say all they want is disclosure, but we want much more from firms than that, otherwise we're not going to create the change for our members that we need.

Mason: I would challenge that slightly. This will be our fourth year of doing TCFD as a fund. What it has done is get that issue onto the agenda of our trustees and the understanding of it in the realm of our fiduciary duties.

So, I do think it has had some direct impact on the way in which our trustees shape their investment beliefs.

Beesley: On natural capital, my experience of people within the LGPS has generally been that ESG issues are focused more on existing investment and making sure that those companies in which they are invested behave properly than it is on trying to open up new areas of investment.

So, there is a need for opportunities such as natural capital to be much better promoted. Because, until they are, and until you can understand and be clear in your own mind what the return is going to be in the long term and that there is a proper secondary market, then it is always going to be a poor relation at a time when we need it to actually be leading the field.

Now, that's a very big ask. Who's going to do it? Because there are so many players out there. But it is necessary if it is going to deliver.

Moss: ESG has kind of been a lens which has been required in order to both find opportunities but also to mitigate risks within existing portfolios across multiple asset classes. That sometimes gets clouded with ideas like climate renewables or natural capital, because natural capital, much like renewables and others, are asset classes.

Is your comment then that it needs to be better promoted as a return-based asset class as opposed to potentially a reporting or regulatory requirement?

Beesley: Well, while the opportunities come through either from one's own officers or indeed from the pools, the decision making within asset allocation is such that whilst you might be led by an independent advisor much of the time, ultimately it is for those trustees to make that decision and I think there isn't the degree of focus that there should be – it's seen as a useful add-on, but in most cases I don't think it's a lot more than that. Until or unless there is a cohesive approach to it whereby it is then front and centre of what you're going to be doing, what you're going to change, then I don't think it'll ever be more than a useful add-on. It has to become one, doesn't it? It has to become far more important.

Pooling and consolidation

Chair: LGPS fund mergers are a current hot topic of discussion and pool consolidation hasn't gone away; what do we believe the next three to five years could look like here?

Mason: Well, 86 LGPS funds isn't the right number, and if you were designing the LGPS scheme from scratch now, you wouldn't have 86.

But what's key for me is that any consolidation needs to come from an evidence base and it needs to acknowledge the unique position that funds are in, in their community – they do have that insight, they do have that specialism and they can deliver real value.

There is also that link between the people who are actually paying for this, which ultimately is the council taxpayers, that mustn't be forgotten.

I don't know what the future looks like or what it should look like, but the key driver for me is about protecting the sovereignty of regions and having that scale while also providing more effective governance and efficiency.

Nestor: Is it about scale of asset size or is it about scale of community/the underlying population? You could look at it either way. While West Yorkshire, Manchester, Liverpool for example, have scalable asset bases to make it work for their pool size, some of the London boroughs perhaps are not in the same scale or have that size of population.

Mason: To turn this on its head a little bit, if you sort the governance out, I honestly think everything else goes away because, to have effective governance in the LGPS, you need effective scale, you need effective results, you need effective rewards, and you need effective reporting. Some funds just won't be able to produce that locally and they will have to look to partner. So, it will happen if you focus on governance. I don't think you need any compulsion apart from implementation of the findings of the SAB good governance review.

Dowdall: Our pool is three out of the top five. From a governance perspective, what we believe is key is the link between those who are ultimately accountable to their communities and the council

taxpayers. That link needs to be strong. Then scale comes into it as well.

From a scale perspective, investments-wise the listed markets were already there. I don't think you're going to get much more to go.

In private markets, you probably need it to be the whole of the LGPS in my opinion to make a real move to the next level. Even the pools, as they are now, are not getting top tier investment fees.

On administration, we're probably already there. Any economies of scale reach a certain point where they just stop increasing and I suspect for Northern LGPS funds that point is pretty close.

Espadinha: I agree that consolidation should not be mandated. What we need are the right conditions that if funds want to merge, they can. We have examples of funds that really wanted to do it but then they couldn't. So, those kinds of challenges need to be addressed. Nobody should be mandated to merge if it's not in the best interests of the fund and their members.

Mason: We also have to be careful in that the governance model needs to be right, but also the operational model needs to be right.

Beesley: Government has never mandated pooling, and perhaps we don't want them to. Therefore, we need to

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LGPS roundtable

make sure that we don't put them in a position where they have to.

There are lots of constituent funds that have gone into this enthusiastically, sometimes against their better judgement initially; they have put a great deal of resource into it, taken some risk, and have persuaded people to go along with what they're doing. I'd like to think that those are the ones who are more successful within the LGPS family.

Then there are others who have gone into it with no enthusiasm whatsoever, have played at it in the hope it will go away.

Then there are probably others who will just sit and watch and do what they're forced to do when they're forced to do it.

So, what we don't want to see happen is for those who are the leaders in making it happen, which I think are probably the majority, are then penalised for the lacklustre enthusiasm or performance of those who are not. That is a very difficult issue to resolve, because we've got no power to influence, but we don't want government to do it for us.

For me, that could lead, if we're not careful to overreach by government. The government might at some stage in the future be bold enough to mandate all of this, and then we'll be on their agenda rather than our own. So, there is a big bundle of warnings within all of this.

But, for those who have been enthusiastic about it, it has proven to be, on balance – even if it's still relatively early days – successful.

Nestor: On the point about the number of current funds being too many, there is a current agenda that perhaps eight pools is too many. How could that be taken forward? Merseyside, Manchester, and West Yorkshire are quite unique – and there's nothing wrong with being unique. But some of the other pools have similarities. Perhaps they could merge more easily? But then you lose the local connection that we're driving for.

There are lots of questions in this area and, over the next five years, there may be changes to the pool structure. This might be willing mergers rather than ones prescribed by central government. I do believe there needs to be a mechanism that pooled members can call out those who are just perhaps playing at being members of a pool.

Beesley: The other point to make is that we should never lose sight of the primary purpose, which is about long-term sustainable performance. Obviously, the beginning of pooling was quite a major distraction for everybody. To then throw up in the air all those cards again would be another distraction away from our core purpose. I just worry that we could get sucked into something for which we will have to pay a price. So, we need to be careful about how we proceed, and we need to be mentally agile enough to see what works and to try and make those changes that are not going to be totally disruptive at the same time.

Chair: But in any system – so, if eight pools were 100 per cent – some of that 100 per cent will be underperforming. Some of that will be high flying. Some of that will just tick a box. Some of that will go into natural capital, or other interesting areas like real assets. You're going to have diversity of performance, behaviours and competencies as a system.

Pooling is a relatively immature market – it's been going for six or seven years now, but there are huge differences. If you look at them from a corporate lens, the pools as businesses are at different points of maturity.

I would also suggest that pools are at an interesting reflection point and, going forward, how are we going to make sure that the eight perform or are viable and so on? They must be ripe for review.

Rae: It's interesting how many different business models you've got within those eight pools – there are at least five or six different approaches being taken.

I am not sure you can look at them yet and say one is significantly better than the other; and I think, if a review like that gets mandated in some fashion, it won't lead to the improvement that you might get if you allow for the evolution of those different models.

So, I come back again to that optimism, that actually the next seven years will provide more evidence and more opportunity for evolution rather than some mandated review of the system, which would be counterproductive to those long-term sustainable returns.

Nestor: How farfetched is it that central government decides to take over responsibility for the liabilities of the LGPS, if local authorities pass the assets to HMRC – the Treasury could invest it how it believes it should be invested into UK plc? It feels like this could never happen, but how will a future government be funded?

Private sector DB schemes are no longer acquiring gilts. There is a £200 billion supply side issue and there is very limited demand from private sector DB scheme to mop this up as in the past.

Some of these things may seem outlandish, however over the next five years, with a new government looking for money, these things cannot be ruled out.

Beesley: This was one of the dangers that a lot of people saw when the government were promoting pooling at the very start. There is a pot there of £350 billion and it doesn't take a very clever politician to think there are some opportunities there.

There is therefore a danger that, for short-term reasons, a government with a large majority, with many of those members being new to national politics, will be sucked into supporting something without having any experience of what some of the risks might be. You can see how that thinking might go. £350 billion would go an awful long way, wouldn't it, to resolving not just current issues but future ambitions?

Looking ahead

Chair: What are your thoughts on the future? How might the new government affect the landscape?

Guthrie: Liz Truss to a certain extent has ensured that a future government cannot tinker too much without upsetting the markets. Therefore, how governments tread on experimental changes with these things is going to be somewhat constrained by what happened two years ago. So, maybe that's a positive.

Dowdell: How might a new government impact the market? The answer is that I don't know. I suspect nobody knows, markets are unpredictable.

Rae: Looking at things through an investment lens, I do think we're sitting at a point where there are some really interesting investment opportunities. The world has shifted a lot from where we were a couple of years ago. Interest rates are higher, we've got investment opportunities that exist around that, notwithstanding the fact that equity valuations might be quite high. Areas like private credit, infrastructure and certainly some of the opportunity set that we've talked about today, whether it's natural capital or renewable energy, provide investment opportunities.

I think that presents an opportunity for LGPS to get closer to some of those private deals, either through secondary funds, secondary transactions, or co-investment opportunities. That's exciting to think about how that can be mapped to what we're trying to achieve, or what the LGPS is trying to achieve broadly, in terms of providing benefits over the long term.

Espadinha: At the PLSA, we are putting together what we call Vision 2035. A big part of that will focus on the LGPS and what the LGPS will look like in 10 years' time, so that we can inform a new government and make sure that, whatever changes happen, happen for the best.

Also, before going to any drastic measures, the government should just create the right opportunities for the pension funds to invest. That would go further than trying to reinvent the wheel.

Beesley: When you ask what the future of the LGPS is, it may not be entirely in our hands, but we need to try and shape things as far as we can be influential.

Nestor: I think scale is important from an investment opportunity sense, on fees and costs, and other expenses. Some of the invoices I sign off are eye-wateringly high, and small private sector DB schemes are suffering. So, for me it's about value for money. Whether you are an LGPS member, a DC member, or part of a DB scheme, let's drive some of the not-adding value costs out of the industry.

Moss: What's heartening for me is that, given what we've discussed today, people in the room are very much aware of the need to lead on some of these debates around, for example, sustainability and natural capital. We have a job to do on our side of the equation in terms of education, making sure it's not just about disclosure but explaining that we're bringing real investment opportunities to the market and demonstrating that we can deliver on some of those things that marry both sustainability and returns.

Mason: I would like to reiterate the point that, if we improve governance at the LGPS, everything else should fall into place.

I'd also like to add that there is an excellent community of officers and others in the LGPS space who are well placed to deliver that.

Chair: LGPS is at an interesting point in its lifecycle and it's a fantastic time to be looking after 6.6 million members and thousands of employers, and we're doing lots of things really well. There are people around the table who are doing some really interesting stuff, so perhaps we need to shout about that more.

Please note, all views shared are from each participant and may not align with other participants.

Summary
• Like other DB schemes, charities' schemes have seen funding improvements in recent years.
• However, charities' schemes may be more susceptible to rising interest rates and regulatory changes.
• They are facing challenges due to affordability constraints and dependency on donations.
• Many still have strong surpluses and endgame is on their horizon.

Charitable differences

Paige Perrin surveys the charity DB scheme funding landscape amid sustainability and endgame challenges

Charity DB pension schemes have seen funding levels rise to 104 per cent on an FRS102 basis and 83 per cent on an insurance buyout basis between 30 April 2022 to 31 July 2023, according to research from Spence & Partners.

The research highlights significant improvements in the funding position of DB schemes, in the charity sector, over the past couple of years.

Barnett Waddingham partner, Steve Hitchiner, credits a "significant increase in long-term interest rate expectations over 2022 and 2023" for this improvement.

Hitchiner explains: "At the beginning of 2022, the 15-year gilt yield was around 1 per cent per annum. Towards the end of May 2024, the same gilt yield was approaching 5 per cent per annum."

This significant rise in gilt yields has had substantial financial implications, particularly for charities.

Further research conducted by Spence & Partners this year highlights this impact, revealing that buyout deficits averaged 21 per cent of unrestricted charity reserves. In contrast, for FTSE 350 companies, pension deficits represented less than 1 per cent of market capitalisation.

This comparison underscores the vulnerability of charities to rising interest rates and the severe challenges they face in managing their pension obligations relative to their corporate counterparts.

So, what is currently happening in the charity DB pension space, and how similar is this to the broader DB pension world?

Regulation

Charity DB schemes adhere to regulations set by The Pensions Regulator (TPR), like corporate DB schemes, and are subject to upcoming changes such as the new DB Funding Code, pension dashboards, and considerations regarding longevity. However, these regulations have some unique challenges for charity schemes.

Specifically, Hymans Robertson senior actuarial consultant, Heather Allingham, highlights that, regarding the new funding code, "charities will be keen to ensure they understand these new requirements with a particular focus on how to assess their sponsoring charity's covenant".

"Charity pension scheme trustees have to ensure that they have a good understanding of employer covenant and affordability," she adds.

Spence & Partners head of charity and not-for-profit practice, Alistair Russell-Smith, says: "The new DB funding regime will not have a significant impact on most corporates because their schemes are already funded to the required levels but charities with poorly funded, mature schemes will see an increase in deficit contributions if the scheme is to be fully funded on a low dependency basis by the time of significant maturity."

Hitchner echoes this, but suggests for those "without good risk management plans, the funding regime may require more substantial changes, potentially leading to an increase in cash contributions for the charity".

"The funding regime can be tricky to apply to a charity, as many of the metrics for defining the support provided by the sponsoring employer have been designed with corporate entities in mind," he adds.

Hitchiner also urges charities to "check that their administrators are on track to meet the requirements" in complying with new governance requirements set out in the General Code and "ensure that they can connect with the pensions dashboards".

In addition, BDO pension advisory team associate director, Ruth Bromley, explains that recent changes grant TPR new enforcement powers and emphasise a long-term funding objective, potentially increasing the prudence of funding assumptions and contributions.

"These evolving regulations may significantly impact charity pension schemes, necessitating careful management and professional advice to maintain compliance and manage a potential pensions shock," she says.

LCP partner, Edward Symes, notes: "In addition to the formal regulations, many charities have particular policies for environmental, sustainability and governance, which can restrict their pension scheme's investment strategy or supply chain."

Challenges

Alongside the evolving regulations, Russell-Smith says: "On average, charity schemes are more poorly funded than corporate pension schemes, and the scheme size is larger, relative to the sponsoring employer.

"This is likely driven by affordability constraints in the sector necessitating a lower level of deficit contributions, and schemes staying open to accrual for longer than in the corporate sector."

A significant challenge facing charity schemes is how donor and fundraising efforts affect their sustainability.

"Unlike businesses with more stable revenue from sales, charities often depend on donations, legacies and grants, which can fluctuate greatly in terms of timing and amounts, and therefore can present difficulties in long-term planning for pensions funding," Bromley remarks.

However, Russell-Smith explains: "Donor contributions and fundraising are only an issue for the pension scheme if employer contributions are still required, and in an increasing number of situations, this is no longer the case."

Spence & Partners research found that 26 per cent of charities have already stopped paying deficit contributions and Russell-Smith expects this proportion to increase as more triennial valuations get signed off, reflecting higher interest rates and the improved funding positions of the past two years.

However, he warns that care is required, as fundraising levels can be affected if large proportions are diverted to the pension scheme rather than to charitable causes.

Furthermore, Bromley emphasises the importance of charity law and that the "need to maintain donor trust" and "protect their reputation" further complicates the funding of pension schemes.

"Donors generally expect their contributions to go directly towards the charitable cause, not to cover pension shortfalls," she says. "Balancing these factors is crucial for charities to meet pension obligations."

To address this, Bromley argues "trustees and charities need to collaborate on strategies that support both the scheme and the charity's financial health. This may include restructuring pension benefits, securing additional funding, or creating sensitive deficit recovery plans".

"Charities are rightly concerned that if these costs are too high, it may put off donors leading to a vicious cycle resulting in a further reduction in charitable donations. That is not good for the charity or the support it can offer the pension scheme," Symes says.

"On average charity schemes are more poorly funded than corporate pension schemes, and the scheme size is larger, relative to the sponsoring employer"

However, he warns it needs to be balanced with the regulatory requirements for charities to fund their pension schemes adequately, "getting this trade-off right is the unique funding challenge for charities".

"Ensuring a clear understanding of affordability for the charity when considering the recovery plan is key and utilising a covenant adviser with the right skillset is helpful," Allingham says.

Bromley also notes that longevity "can increase the total cost of pensions benefits as people live longer, which can result in higher deficits when factored into actuarial assumptions, this in turn may increase demands on the charity's cash".

Sustaining charity DB schemes

However, Hitchiner argues: "Overall, the position for DB schemes looks healthy, with many reporting significant surpluses. For many, the strategic focus is now on securing the liabilities, typically through an insurance company buyout, although we are seeing alternative solutions coming to the market."

He says that it will be "interesting" to see how the market for alternative transactions develops and says that "prior to the general election the government were consulting on the possibility of a public consolidator for DB schemes where an insurance company buyout is not viable. This has the potential to significantly change the DB pensions landscape".

In terms of steps being taken to ensure the long-term sustainability of charity schemes, Allingham explains that, due to the "improvement in funding levels in charity pension schemes over the past few years, alongside a reduction in allocation to growth assets, many charity pensions schemes will be starting to plan for buyout over coming years".

"I expect risk transfer will remain the preferred endgame for charities because they remain scarred from years of DB costs and risk, and so their priority is to get the scheme off balance sheet rather than run it on to access surplus," Russell-Smith adds.

Bromley adds that charities may consider a consolidator that offers cost savings and potentially better risk management, "albeit with some loss of control and initial expenses, and possibly an upfront cash contribution".

She concludes: "Over the next decade, charity pension schemes are expected to face continued regulation, requiring charities to be adaptable and informed to continue to balance charity beneficiary needs with pension obligations."

Written by Paige Perrin

So, you're ready to complete wind-up. Sure you haven't forgotten anything?

PAT chair, Jeff Highfield, highlights the work done by the trust in preserving the history of the pensions industry

Your scheme is fast approaching the end of its journey to wind up. You know how your members' benefits are going to be secured – bulk annuities, transfer to the Pension Protection Fund perhaps, or some other consolidator. You know how you're going to deal with any surplus. You're working closely with your advisers and have tight control of their likely final fees. You know what you're going to do with member data once the new provider takes over, and comply fully with data protection regulations. You have the deed to wind up the scheme drafted and you even know how you're going to wind up the corporate trustee company at Companies House.

Then your office manager comes in and says, "oh, by the way, what are we going to do with the dozens of archive boxes in the basement?" Or your IT manager comes in and says, "what are we going to do with the terabytes of scheme data, legal documents, minutes of meetings, general member communications, reports and accounts, actuarial valuations and reports?"

What are your options? Well, there's the shredder of course, painfully slow if you do it yourself, but you can pay for a secure disposal service. And data can be wiped, and hard disks securely destroyed. Or the incinerator? That sounds like more fun. Or perhaps, being cautious, you'll pay for some form of offsite storage, in the unlikely event you need to retrieve something. We at the Pensions Archive Trust (PAT) would like to suggest another option, to consider donating the material to PAT. So first, let us tell you a bit about us.

PAT is a small charity with a big mission, to preserve the documentary and material history of the occupational pensions movement in the UK. The occupational pensions movement has a rich and varied history, and it's hard to deny the impact it's had on UK society. The provision of pensions from workplace saving has immeasurably improved the financial security and prosperity in old age of millions of people. The existence of occupational pensions, and their interaction with state provision, has had an enormous impact on government policies for old-age pensions and other benefits, as well as the objectives and design of the tax system. Pension scheme investment has long supported the financing of government borrowing, and since George Ross Goobey pioneered equity investment by pension schemes in the 1940s and 50s, has provided vast amounts of capital into stock markets, in the UK and overseas. Pension schemes, along with other institutional investors, have invested in real estate, infrastructure and emerging technologies. Pension schemes have been at the forefront of improvements in the systems of governance of corporate investments, and advances in reporting the environmental and social impact of their investments. We could go on, but we at PAT believe that these impacts on UK society justify our mission to conserve the source documents of pension schemes, pension bodies and associations, and prominent personalities in the pensions field, as evidence of the advancement of workplace pensions.

And we're not claiming the history of UK pensions is without blemish, but its scandals, mistakes and disputes are informative and similarly worth preserving to inform current decision making (and yes, we do hold some Maxwell archives). But our overriding objective is to preserve the materials relating to the management and delivery of occupational pensions in the UK.

The first person to recognise the historical value of pensions archives, and the risk of losing such an important informational resource, was former BP pensions manager, Alan Herbert, in the early 2000s. Working with other leading industry figures, he founded the trust in 2005. The first documents began arriving in April 2007 and the trust gained formal charitable status in March 2008. Since then, PAT has continued to acquire more documentation from a range of small, medium and large schemes who have chosen to deposit archives with us, along with relevant material from several professional pensions bodies, including lawyers, actuaries and accountants.

But who benefits from the archives (both physical and digital) that we hold? Of course, we believe we have a duty to preserve these archives for the benefit of future historians, economists and sociologists, who will want to research the impact of the occupational pensions movement from their specialist perspectives. After all, improved future pension policy depends on having plentiful and reliable historical data to analyse. But it's just as important that our archives are open to current pensions professionals, researching for example, how scheme design developed in reaction to changing government policies and regulations, how investment strategies evolved in response to the growth and liberalisation of investment markets, how scheme members became involved in scheme governance, for example in the use of surpluses.

And why are we asking you to think about depositing your archives with us? To be frank, we need your help in our quest to preserve the history of occupational pensions. We already have many scheme archives, for example the huge archive of a major industry-wide scheme, the Former Registered Dockworkers; a fascinating archive from the Tilling/National Bus scheme detailing disputes over the use of surpluses; and our Kingfisher collection has extensive examples of member communications material; but our work is ongoing and we need more, much more, to tell the story comprehensively.

What do we do with the archives? We work in partnership with the London Metropolitan Archives (LMA), the City of London's own archival organisation, which is the second largest archive in the UK behind the National Archive in Kew. This partnership ensures the materials we take are organised, catalogued, conserved and stored to the highest professional archival standards. And the same standards apply to digital archives too, whether the material has been digitised during its lifetime, or was born digital, PAT and the LMA can receive it. The LMA were very keen to partner with PAT to preserve pension archives, recognising amongst other things the financial impact of pension schemes as institutional investors on the City of London. It does mean the archive is located in London, near Farringdon, but it is of course open to visitors from all over the country; and as we raise more funds and can afford to digitise more physical material, we improve access to researchers wherever they are.

None of this comes free, of course, and PAT relies on charitable donations from a number of loyal funders, such as the PLSA, the PMI, the ACA, PRAG, OPDU, BP Pension Trustees and Barnett Waddingham, as well as a number of individual donors. These donations help support our expenditure on the archivist services provided by the LMA.

So, if you're reading this and share our enthusiasm for preserving pensions history, and even if you don't currently have material you could deposit with us, do please think about making a donation to support our work.

And if you're reading this and worrying about what to do with the basement full of archive boxes, or your terabytes of data, you might be moved to conclude that the budget you'd set aside for secure destruction or long-term storage would be put to better use by making a donation to PAT; and that depositing the material with PAT would serve the pension movement's interests far better, and preserve the significant informational and societal value contained in your archives for current researchers and future historians. We know it's not always that simple, and there may be issues of data protection (when the benefits of individual members are being discussed, for example) and commercial confidentiality (employer solvency, mergers and acquisitions, say). However, PAT is experienced in overcoming these issues, and have successfully brought deposits into our collection. So come and talk to us, we'll find a solution.

Contact PAT at info@pensionsarchive.org.uk or via https://pensionsarchive.org.uk/

Written by PAT chair, Jeff Highfield

the pensions archive

Nigel Peaple

Going part-time

Jack Gray sits down with Nigel Peaple to reflect on his time as PLSA director of policy and advocacy, and discuss what the future holds for him as he moves into a new part-time role

In May, the Pensions and Lifetime Savings Association (PLSA) announced that its director of policy and advocacy, Nigel Peaple, is stepping away from his current role to work on a part-time basis as the PLSA's first chief policy counsel. His role as executive director of policy and advocacy, which includes being a member of the PLSA Board, will finish at the end of August, and he will take up a new part-time role and undertake an advocacy role on the PLSA's key priority projects in this "pivotal year" of a general election.

After eight years at the PLSA, with the past six as director of policy and advocacy, you've announced you are stepping down from the role to work part-time as the PLSA's first chief policy counsel. What are some of your highlights of the past eight years?

I know it is a cliché, but the highlight of my time at PLSA has been working with the PLSA's membership, particularly the people on our Policy Board. People in pensions are very smart and they care greatly that everyone in the UK has a good retirement income. It's a pleasure and privilege to work for this sector.

A key policy highlight for me has been helping get the subject of pensions adequacy firmly on the public agenda. Our 2016 *Pensions Adequacy Report,* which looked at the issue from a generational and DB versus DC perspective, helped move the public debate from 'all is well' to 'something must be done'. It has also been great to see how the pensions industry, the media, think thanks and savers have warmed to the Retirement Living Standards, which we set up in response to a project with PLSA members on how to improve pension provision.

Other 'highlights' included helping persuade the government not to abandon exempt, exempt, taxed (EET) pensions tax relief in favour of taxed, exempt, exempt, taxed (TEE), championing investment on environmental, social and governance (ESG) issues where they align with the fiduciary duty and helping persuade the government to allow greater flexibility in relation to DB funding.

Needless to say, where the PLSA has had positive outcomes in some of these areas, it was down to the work of the PLSA team, and its members, as much as due to the efforts of any one individual.

What were some of your biggest challenges over the past eight years?

I think the biggest challenge has been the unwillingness of the government to increase and broaden automatic enrolment contributions. This, of course, is understandable given the cost-of-living crisis triggered by Covid-19 and the war in Ukraine, but I fear it is also linked by concerns in the Treasury about the cost of tax relief.

There was also the challenge of trying to explain to the government and the media why pensions were so affected by the LDI crisis in 2022 and what could be done to avoid things getting worse.

More recently, there has been the challenge of explaining why pension funds do not invest more in UK growth assets and proposing how such investment could be increased while still leaving pension trustees and managers to invest freely in the interest of scheme members. In so far as we met some of these challenges, again it was due to the hard work and expertise of PLSA members and of the whole policy and advocacy team.

What will you miss most about the role and working full time at the PLSA?

Having the role of director of policy & advocacy at the PLSA involves being at the centre of government and industry debate on the future of retirement provision. It requires substantial contact with ministers, politicians and senior civil servants which, as a life-long politics junkie, I really enjoy. Despite all the years I have been involved in policy and advocacy work, and political science studies at the LSE, I still find I am learning new things about the way our government system operates.

If I was leaving PLSA entirely, I

would need to add that I would miss PLSA members and colleagues. But as I shall continue to work closely with each of them, all should be well!

How has the PLSA changed since you took up the role of director of policy and advocacy?

I am just coming up to an eight-year 'tour of duty' at the PLSA, but I also worked here for about five years in the second half of the noughties. Looking back over this 20-year period, the PLSA has changed substantially. As the industry has moved from DB to DC master trusts, and the Local Government Pension Scheme (LGPS) has taken on an increasingly important role in pension provision, the PLSA has sought to tailor its offering to meet the needs of specific membership groups.

Over this period, the PLSA has also grown in size and our services, as with so many of our members, have become more digital. It should also be noted that the PLSA has been managed with increasing professionalism over this period, something that was a real advantage during Covid-19, and that will stand it in good stead as it faces the challenges of the changing pensions landscape.

Do you have any advice you would you give to your successor?

I would suggest they work very closely with PLSA members, have a good look at the work done over the past five or even 10 years, and seek to make the best use of the talented policy, research, media, and advocacy team they have at their disposal.

"I know it is a cliché, but the highlight of my time at PLSA has been working with the PLSA's membership"

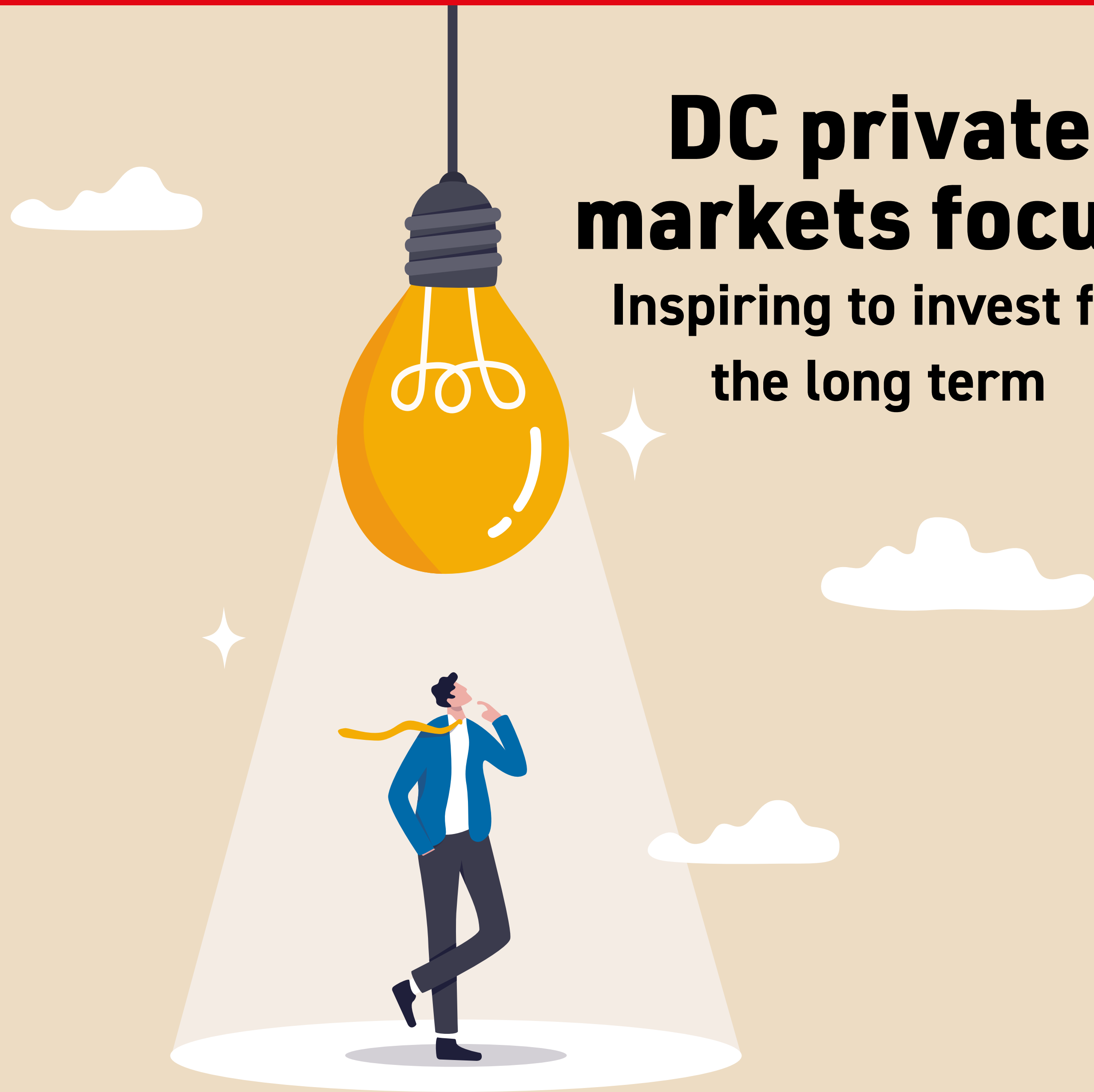
I would probably quote one PLSA Board member in saying that a trade body such as the PLSA should seek to be about one step ahead of its membership. It needs to help lead the industry but if it goes too far ahead it will lose their support. On the other hand, if it simply reflects their views without challenge, there is a risk that it will not add real value.

What does your new role entail?

In the first three months, a large part of my role will be providing advice to the CEO, Policy Board chair and new director of policy and advocacy on the PLSA's policy work. However, alongside this internally facing role will be one that is outward facing, which is expected to grow over time. The idea is that I will get more involved with the wider policy and research community focusing on pension-related issues.

My current role requires a lot of quality time to be spent with the PLSA Board and senior management team, plus all the responsibilities of overseeing all our policy work and managing the team. I will be stepping back from these tasks which means I should have much more time, even when only working part-time, to focus on deepening my engagement with strategic policy and research in our sector, and forging links with the key influencers and decision-makers.

Written by Jack Gray



DC private markets focus:

Inspiring to invest for the long term

LGIM head of DC, Rita Butler-Jones

For professional clients only. Not to be distributed to retail clients. Capital at risk.

Infrastructure for good? It's time to get real with your pension

Inspiring DC savers to take more interest in their pensions is crucial

Could offering exciting real-world investment opportunities simultaneously help to improve engagement, global infrastructure and financial outcomes?

More than five million[1] DC (defined contribution) pension savers rely on Legal & General to act in their best interests when it comes to helping them secure their financial futures. It's a huge privilege and an even greater responsibility – which is why we're always examining how we can unlock opportunities to maximise returns for our members.

Yet to make a real difference to financial futures, we need to do more than just deliver long-term returns. We need to inspire our DC members to invest more in their futures in the first place.

And to do that, we need to offer a range of investment opportunities that truly captures the imagination through their potential to deliver exciting real-world change. We believe infrastructure investing could be the answer.

What is infrastructure investing?

At its core level, infrastructure is a physical network of interrelated systems and facilities that support the day-to-day functioning of a modern society. For instance, infrastructure can include everything from bridges to broadband connectivity, water pipes to waste disposal facilities and roads to railways.

In addition to its crucial role in ensuring the smooth running of everyday operations, infrastructure is also key in enabling the societal shifts necessary amid an evolving world. Chief among these is the infrastructure transformation required to adapt to and mitigate the effects of climate change.

By investing in private market investments such as infrastructure via their pension, we believe DC savers can not only target potentially attractive long-term returns from the opportunities that the climate transition can present, they can also play an important role in helping to make the transformation possible.

Inspiring a generation of investors

In this vein, we're focusing on researching infrastructure centric opportunities in important real-world themes such as clean energy and digital telecoms, the future of transportation, and fresh water.

For clean energy, investors could see their capital help finance both onshore and offshore wind farms, solar projects or energy storage solutions. Fresh water investments could include exciting new technologies such as smart water systems to drive efficiency gains or desalination plants to improve availability, while digital telecoms and transportation could help support faster broadband networks and intelligent road systems.

When DC savers think of their pensions, we know from our research that it's not only a secure financial future they're targeting – they also want ESG action. That's why we're focused on the solutions that we believe can inspire members to engage with their pensions in the knowledge that they are investing for both their retirement and the greater good.

Momentum is building for change

At L&G, we recognised the potential for adding long-term infrastructure investments to DC members' portfolios and began investigating their inclusion in our investment strategies some time ago.

Momentum does now appear to be growing across the industry: in February last year, an expert panel comprising pensions and venture capital specialists was formed to examine how retirement funds might be directed into British start-up projects.

This followed the signing of the UK government's Mansion House Compact, where 10 leading UK pension providers, including Legal & General, committed themselves to allocating 5 per cent of assets in their default pension funds to unlisted equities by 2030.

Real world people

By offering access to tangible investment themes such as clean energy, transportation, telecoms and water, we aim to inspire DC members' interest in their pension funds and help them to appreciate the impact that their fund's investments have on issues that affect their daily lives.

As well as helping to bring investments to life for DC members, and offer the potential for long-term returns, we believe that infrastructure opportunities that seek to deliver tangible and exciting real-world benefits could also help to boost engagement and encourage positive attitudes towards savings and financial wellbeing more broadly.

So, DC savers, if you want to keep your financial dreams on track and invest in a way that could make a positive difference to the world you see around you, it could be time to get real with your pension.

Written by Rita Butler-Jones, Head of DC, L&G

[1] **LGIM figures at August 2023. See page 17, Legal & General Group PLC Interim Management Report 2023 Stock Exchange Release: https://group.legalandgeneral.com/media/bg3c0tzs/hy23-press-release_analyst-pack.pdf.**

Meeting the call to action

DC schemes are being urged to invest in private markets, but how can they achieve this is and what are the challenges? Lynn Strongin Dodds investigates

Summary
- UK DC schemes are being encouraged to invest in private markets to help bolster and grow the economy.
- Private market investments can also be aligned with sustainable goals such as energy transition.
- LTAFs are expected to gain traction for single or multi-strategy approaches.
- Despite LTAFs and new solutions, investors need to understand these assets are illiquid, complex and more expensive.

Private assets have not been a feature of DC schemes but that is changing due to regulatory pressures, shifting investment tastes and more accommodating structures. However, there still needs to be greater understanding of how these markets operate and the challenges.

Intentions will have to be made clear this October when all trust-based DC schemes will be obliged to state their policy on illiquid assets within the statement of investment principles, including whether there are plans to increase allocations to illiquid assets. There is also a push by the government's Mansion House Compact to allocate 5 per cent of the default fund assets to unlisted equities over the next six years, according to Mercer UK wealth leader, Tessa Page, adding that the consultant along with some of the other UK's largest DC providers has made the commitment.

Page notes that former Chancellor, Jeremy Hunt, said that if all UK DC schemes pursue these opportunities and invest, there could be up to £50 billion funnelled into these markets by 2030. "However, the pace of investment to date has been a trickle rather than a flood – with both operational and strategic factors driving this," she adds.

Gauging interest

The interest is certainly there if the latest study by the Defined Contribution Investment Forum (DCIF) is anything to go by. The report found that 42 per cent already invest in illiquid asset classes. Around 28 per cent were actively planning to do so with only 9 per cent not having any intentions over the next three to five years. As for asset classes, private equity, private debt and infrastructure were the most popular.

The overall demand is reflected in McKinsey *Global Private Markets Review 2024*, which showed that private markets' assets under management totalled $13.1 trillion as of 30 June 2023, a growth of nearly 20 per cent per annum since 2018.

The main drivers cited in the DCIF report were better risk adjusted returns, greater variety and a much wider opportunity set. "Investing in private assets gives schemes diversified exposures to different asset classes at different points of the economic cycle," says Capital Cranfield professional trustee, Paul Watson. "DC schemes also do not give up financial returns by investing in these private assets, which in absolute terms might expect to provide between 8 and 10 per cent net."

Investors are also spoilt for choice in that increasingly corporates are shunning the exchange limelight. Figures from the World Economic Forum revealed that in this year alone, $120 billion has been wiped off global public equities due to delistings, the third consecutive year of decline.

"The trend started over 20 years ago with US stock exchanges now having roughly a third fewer companies than in 2000," says WTW senior director DC investments, Anne Swift. "The benefit of investing in private companies is that investors can tap into their growth story because much of this happens before they list. These investments also chime with the demand for more sustainable investments because many of these companies are based around generating a positive impact for the planet and society."

Legal & General Investment Management head of DC, Rita Butler-

Jones, agrees, noting that private market investments provide scope to really engage members with their pension funds, as they could potentially see the impacts that their funds are having on real-world issues that matter to them in their everyday lives.

"For instance, private market investments have the potential to demonstrate how pension funds can support projects in areas such as affordable housing, the development of clean energy sources, and building infrastructure such as road and bridge construction," she adds. "They could also help to harness the innovative brainpower of our universities by supporting academic programmes that are seeking to find solutions to societal conundrums, or through backing science and technology schemes."

LTAF impact

Given the complexity and cost, accessing these markets has typically been the preserve of the larger schemes and master trusts with deep pockets and resources. The DCIF study notes that the latter are interested in co-investment over the long term "because of the freedom it gives them to access different asset classes, the lower costs and flexibility".

However, it expects that Long-Term Asset Funds (LTAF) may usurp this approach, with 61 per cent of respondents preferring LTAFs with only 16 per cent of respondents looking at co-investments. First mooted about four years ago, they are designed to provide easier, simpler access for DC investors to long-term private markets. They are structured as alternative investment funds to include at least 50 per cent of long-term illiquid assets. They have been slow though to come to the market but are expected to gain traction because they provide flexibility and control over asset allocation, while outsourcing some governance aspects to the provider.

To date, one of the most common approaches being adopted is the so called 'open architecture' LTAF, where investment services are sourced from an in-house manager or external counterpart if they lack specialist expertise.

Overall, whether through a LTAF or other vehicles, DC schemes are looking at two ways to invest in private markets. The first is a multi-asset fund diversified across a broad range of assets such as private equity, private credit, real estate debt and natural capital. The aim is to diversify and enhance performance when integrated within the main default fund at a fixed percentage – at around 5 per cent across the glidepath.

The second is a single asset class or strategy within a default fund. This could be private equity fund that targets sustainable investments for energy transition aligned with the Paris climate change agreements. More sophisticated pension schemes are likely to look for best-in-class investment services for each of the asset classes to ensure the best possible management of private markets can be provided.

"Investing in private assets gives schemes diversified exposures"

Challenges to overcome

Although the advantages of private markets are widely recognised, there are still the inherent challenges that even the LTAFs do not fully address. This is because unlike other open-ended funds, there is no daily liquidity, clients are required to provide a minimum notice period of three months, and then may have to wait a month to actually receive the cash. In addition, high fees were mentioned by more than two thirds or 68 per cent as a potential barrier. In the DCIF study.

As Butler-Jones puts it, LTAFs are seen as a good step, but they do not fully solve all of the issues. She notes that management of an LTAF can require a higher cash allocation or alternatively, need decisions on which private markets funds to sell to meet redemptions. In addition, they typically offer monthly dealing, which adds operational complexity for DC platforms that are accustomed to daily liquidity requirements.

"This transition would require infrastructure and administrative changes for the platform," she says. "Regulators also suggest using LTAFs, but it doesn't solve issue of liquidity."

Page echoes these sentiments. "Launch of the LTAF regime is positive in that it has opened up options plus sets minimum requirements for illiquid asset exposure, but they are not a cure-all for accessibility headaches, she adds. "However, most have redemption notice periods, fees are high, and they will take time to build mature portfolios. There are also see non-UCITS retail schemes and funds of alternative investment fund structures being used which in some cases have proved more flexible."

Hymans Robertson head of DC investment, Alison Leslie, also notes that schemes are broadly positive but adds that for most DC schemes, accessing private markets funds will require addition of the funds onto DC investment platforms, likely via an LTAF but potentially through other means.

"Wrapping private market funds into white labelled blended funds along with liquid assets would be a viable method for DC schemes providing their platform has the ability to facilitate the liquidity needs of the scheme's membership," she says. "Larger schemes with greater scale have the ability to access private markets more directly through relationships with external managers or through in-house capabilities."

Written by Lynn Strongin Dodds, a freelance journalist

Summary
• Global equities have long been a key pillar of pension fund portfolios, offering growth and income.
• Active managers will aim to beat global equity benchmarks while passive funds track indices – both have advantages and disadvantages.
• DB and DC have different requirements and, within the groups, different schemes have varying needs.
• ESG objectives are an integral part of all global equity investment decisions.

Going global

Sandra Haurant explores the current investment landscape for global equities and the impact of worldwide events on their performance

Global equities form one of the mainstays of pension portfolios, offering funds exposure to the successes of enterprises the world over. We take a closer look at how they fit into investment strategies for defined contribution (DC) and defined benefits (DB) schemes.

Core strength

"Global equities should form the cornerstone of any long-term savings portfolio; they offer capital growth and income generation," says SKAGEN Funds lead portfolio manager, Knut Gezelius. "The total return of the MSCI All Country World Index averages around 8 per cent annually since 1994 – as well as inflation protection, diversification and liquidity benefits."

However, Baron Capital vice president, head of EMEA, Stephen Millar, says the focus on growing assets (through the likes of global equity funds) has diminished for a lot of DB schemes, which have either "moved into surplus, and as a result reallocated to fixed income securities, or closed entirely as a result of being bought out by insurance companies".

Millar adds: "Within DC and local authority DB schemes, global equities should continue to play an essential role, given their inherent ability to outperform inflation over the long term, thereby increasing the income available in retirement that is key to alleviating pensioner poverty.

"Arguably, equities should not only form a significant part of a DC pension prior to retirement, but actually should remain a key element of a post-retirement portfolio, given how much life expectancy has increased over the past few years."

Active versus passive

As with all investment, the choice between active management and a passive approach can have an impact on returns. "Both approaches have their merits. The truly passive approach of investing in a market capitalisation weighted portfolio of all eligible stocks should ensure market-like performance before fees. After fees, modest underperformance should be expected," says RBC BlueBay Asset Management global equities senior portfolio manager, Jeremy Richardson. "The passive approach should ensure that the portfolio always owns the stocks that do the best. However, it will also own the stocks that do the worst, as well as those that are expensive or have questionable business models (if truly passive without exclusions)."

Active managers making decisions, such as opting out of badly performing businesses, should (in theory) ensure better returns than those seen in comparable passive funds, although, Richardson adds: "This requires research that comes with a cost, but also enables extra-financial component of the overall return in the form of active engagement with individual companies."

Nonetheless, while actively managed global equities funds can play a bigger part in engaging with companies, the numbers show that, over time, passive investment is able to provide better rewards. According to Trustnet, passive global equity funds more consistently beat their benchmarks than their active fund equivalents over the decade leading to 2023.

No surprises

Investing in companies the world over means exposure to all manner of events and influences. Anything could, and plenty of things will, happen, with each occurrence having the potential to impact on the performance of a global equities fund. So how do the markets cope with uncertainty brought on, for example, by elections?

"For global equities, the US election this year will be the most significant. Our expectation is that whoever wins will likely have to deal with a split congress. In the past, this has suited equity markets as policy is deemed not to interfere too much with earnings growth," says Cardano senior multi-asset strategist, Ross Barr. "The UK election is less relevant for global equities but the UK equity market may benefit from a change in government and renewed ties to the EU – however, this is likely to be a longer-term story."

In all cases, the markets make assumptions based on what they have to go on; if things turn out very differently, it will react. Think Emmanuel Macron's shock decision to call a snap election in France that could open the field for the far right, for example.

"It's a truism to say that 'surprises' move markets," says Barr. "Before any major event, the market will establish a level that reflects the consensus view of what is going to happen. If this consensus expectation is not met, then the market will move to discount the new reality and adjust upwards or downwards accordingly. A recent example of this is the underperformance of the French equity market relative to the broader European market over the past month."

While markets work on consensus views, those views themselves can be wrong. Gezelius says: "It's very hard to forecast elections or other macro variables with any degree of accuracy. It's better to build a portfolio of strong companies that can perform in different economic and geopolitical environments and thereby deliver excess returns in a range of market scenarios."

It may be true that the markets don't like surprises, but they do have a capacity to absorb many of them, at least over time, suggests Polen Capital portfolio manager of international growth strategy, Todd Morris. "Populism has been on the rise globally since 2016, with voters resonating to provocative messages about change. Reactions versus any prior regime are increasing in frequency, as we're seeing in numerous electoral results. Electoral outcomes may change regulatory and policy backdrops, which may alter the growth trajectory of companies." But he adds: "The impacts of such changes are often marginal."

"Few asset classes can match global equities, particularly over a long investment horizon"

Managers, then, must keep their eyes on the prize in uncertain times. "Our focus remains on the long-term earnings growth of businesses," says Morris. "Elections and politicians will come and go, but enduring businesses will serve customer interests regardless of what direction political winds are blowing."

The long and the short of it

One of the strongest arguments in favour of global equities is their long-term performance. Put simply, Gezelius says: "[…] on a risk-adjusted basis, few asset classes can match global equities, particularly over a long investment horizon." But what about DB pension funds reaching the end of their lifecycles?

Barr says: "Generally, as a DB scheme matures, the volatility and drawdown risk associated with equities becomes less desirable. In this sense they are not a 'long game'. It is likely that a maturing scheme's strategic asset allocation will evolve to include more liability-driven and cashflow-driven investments; gilts and corporate bonds rather than equities."

However, there is no one-size-fits-all strategy, and the balance to be struck "depends upon a pension scheme's funding position and the trustees' objectives as to their endgame," Barr says. "This is especially relevant for schemes looking to access the insurance buyout market; careful planning for buyout is essential."

The ESG question

Where does ESG fit into global equities? Barr says: "The landscape for sustainable investing has evolved. Our advice to pension schemes is that they should carefully consider their own ESG beliefs and goals and commit to a sustainable investment policy that is shared with each investment manager that acts on their behalf." And, he adds: "Each investment manager in turn should be able to demonstrate that their own investment choices, stewardship, engagement and voting activities align with the scheme's sustainable investment policy."

Millar agrees that ESG adds: "Within the management of global equities portfolios specifically, ESG factors should be an integral part of the investment process and assessed at the company level to evaluate how these factors impact both risks and opportunities." He goes on: "Material ESG risks are ultimately critical business risks that have the potential to lead to permanent loss of capital. ESG analysis can also illuminate potential opportunities for revenue enhancement, cost reduction, margin improvement, and improved returns on capital."

Pension funds invest in global equities to ensure solid future returns, but those returns will only materialise if the companies behave responsibly. Barr explains it as "the concept of double materiality"; in other words, the idea that: "The financial risk/reward characteristics of an investment are as equally important as the real-world impact of an investment."

Written by Sandra Haurant, a freelance journalist

Building social returns

Summary
• A housing shortage and increased demand has made real estate investment more attractive to pension schemes.
• There are several areas of real estate investment, each with their own nuances.
• The social and environmental benefits of well-organised investment can be huge, but they must be balanced with returns.
• There are risks to be aware of and pension investors should ensure they work with capable investment managers.

Investment in housing could suit pension schemes' long-term investment horizons and ESG considerations, but how does each housing sector differ and do the returns match their ESG credentials? Jack Gray investigates

The UK is currently experiencing a housing crisis. There is a shortage of homes, and increased mortgage rates and a reduction in social housing has led to a decline in home ownership and growth in the private rented sector (PRS). The government is aiming to build 300,000 new homes each year to keep up with demand, but less than 250,000 were built in 2023.

This could present an opportunity for pension schemes to invest in several areas of real estate. The long-term investment horizons and social benefits may be attractive, but there are questions as to whether the returns are equally attractive, and there are risks to consider.

Russell Investments director, private markets, Sam Steele, notes that real estate investment has evolved: "Traditionally, 10 or more years ago, it was mainly through the real estate investment trust sector, mainly on the listed side. We've seen more of this infiltration into the unlisted side.

"We are all very familiar with the residential sector, but as an institutional asset class it never used to feature within a private real estate portfolio. The three components used to mainly be retail, office and logistics."

The Covid-19 pandemic and online shopping have affected the retail side, Steele adds, while the residential side has seen growth amid increased demand.

"We're seeing the diversified real estate funds starting to add residential to their exposures," she continues. "We're also starting to see an influx of more availability on the sector-specific residential funds.

"What we see managers doing is trying to group the residential sector under a certain category – the 'living sector' – mainly in the PRS, senior care, and student housing."

However, Hymans Robertson senior investment research consultant, Steven Grahame, argues schemes need to be "realistic", as residential investment is relatively new and small in comparison to the commercial property investment.

"The commercial property market offers access to a greater range of strategies, managers, and risk profiles, boasting quantifiable track records with businesses and management teams that are both professional and financially stable," he says.

"We believe there is a role for institutional investment into residential sector and the primary focus of our clients' efforts have been building new homes and considering a mix of housing types across the country."

Differing areas of investment

When considering residential real estate, there are several areas in which pension monies can be invested, each with their own nuances.

"Pension funds can invest by buying existing housing assets or being an early-stage investor in the construction phase," explains Legal & General (L&G) head of residential, asset management, Dan Batterton. "L&G does this through a mixture of both using its own balance sheet and pooling our capital with other like-minded investors, which can produce benefits such as increased diversification and economies of scale."

Amid growth in the rental sector, PIC Capital head of long income, James Agar, notes that institutional investors are particularly attracted to the build-to-rent (BTR) sector due to its track record of long-term financial stability.

"BTR developments typically involve the construction of large-scale residential assets designed specifically to cater to the growing demand for high-quality rental housing," Agar states.

"These properties provide reliable income streams through the rents received, making them appealing to investors looking for long-term cashflows. The predictable nature of rental income, coupled with the growing trend of renting over homeownership, particularly among younger generations, ensures strong demand."

Abrdn head of operational real estate, James Dunne, believes that the biggest opportunities are in the BTR sector.

"In our view, it is the area where there is most need for institutional investment. Currently there are 4.5-5 million private rental homes in the UK and less than 3 per cent of those are owned by institutions. The rest is owned by individual buy-to-let landlords. However, this group has been selling off assets – creating greater opportunities for institutional money," he says.

"BTR is different from sectors such as student or senior living: With those sub-sectors, you already have a defined demographic you are targeting. Whereas with BTR, you could be appealing to much broader groups."

Another sector in demand is affordable housing, with Agar stating that investment in housing associations plays a crucial role in addressing the UK's affordable housing shortage.

"These investments not only enhance the availability of affordable housing, but the strong regulation of the sector also ensures that developments meet stringent standards, ultimately contributing to the wellbeing and stability of communities by protecting some of the most vulnerable individuals in our society."

"You can pick and choose the different sectors, but it comes down to the expertise of the underlying managers"

Dunne explains that affordable housing requires ownership through a registered provider who is responsible for the management of the assets, and a more indirect approach to investing may be more suitable when looking to access this market.

As the population in the UK ages, the senior living sector has also come into the spotlight. Agar says that this demographic shift presents a burgeoning field for investment in senior living, making it an increasingly attractive market for institutional investors.

"The increasing demand for retirement living creates favourable market conditions – with long-term planning horizons and consistent and predictable sources of revenue," he continues. "Nevertheless, there are barriers to investment in this sector, particularly the inadequate provision for older people's housing in local and national planning policies."

Looking towards the younger generations, Dunne notes that purpose-built student accommodation is the most commercialised of the residential sub-sectors and the one in which the greatest number of pension schemes are likely to be invested.

"This is because it's arguably the simplest sub-sector to understand – you are targeted at just one cohort of individuals with just one letting period per annum," he adds.

When investing in different real estate classes, Steele says that it comes down to the actual manager and their expertise in managing those products.

"They are very individual and require different skill sets," she states. "Student housing is very different to PRS in terms of the things you need to consider when you are doing the construction phase and then the whole management piece as well. The same with age care.

"You need to have the expertise and the knowledge because a lot of these sectors are highly regulated. Understanding the regulations and working with the local authorities is important. You can pick and choose the different sectors, but it comes down to the expertise of the underlying managers."

Dunne argues that the key to success when investing in the residential sector is paying close attention to the operation of the asset: "This is not a passive investment – it should be actively managed. But that is not the role of the pension company. It is the role of the investment manager. The closer the investment manager is to the operations, the better the outcomes will be for the pension company."

Meanwhile, L&G Affordable Homes CEO, Ben Denton, notes that social impact and long-term returns can be optimised through investing based on

the local demand for, and existing levels of investment in, each type of tenure.

"Similarly, pension funds should seek to identify the areas of greatest need when investing in affordable housing, to maximise its impact on communities," he continues.

"Regulation plays a role, with English regulation of affordable housing meaning that homes must be owned by a registered provider, who carefully manages their financial sustainability. This regulatory oversight aligns with the interests of investors: Protecting assets, managing reputational risk and ensuring a stable operating environment."

Market performance

When considering which real estate sectors to invest in, pension schemes will understandably be looking at returns. There are several factors to consider and, while there is huge demand for housing, Agar notes that the current landscape of property development in the UK is "increasingly challenging", primarily driven by the pressures of inflation and the lower yields relative to other asset classes, including gilts, since the LDI crisis.

"The bout of high inflation meant the cost of construction and materials escalated significantly, impacting the viability of new housing projects," he says. "Furthermore, the material repricing of gilts, which has been generally beneficial for the funding position of UK DB pension schemes, has had profound implications for financing development."

Despite this, Steele says that returns are attractive from a rental growth perspective: "We're seeing good rental growth come through at around the region of 8-9 per cent. When you look at the return profile, the overall capital growth potentially is not as high, we are seeing 5-7 per cent as returns that you can get from these investments, obviously with a significant exposure to income.

"I think the thing that's concerning is the interest rate situation, inflation and that a lot of households are feeling the squeeze. We are seeing yields range in the region of 4-5 per cent depending on where you are."

L&G head of housing investments, institutional retirement, Hayley Holness, highlights that residential rents typically offer attractive inflation-linked or correlated cashflows.

"From an investor perspective, given increases in risk-free rates, the relative value has been more challenging, which has led to yields on property increasing," she explains. "This higher yield can now provide an attractive entry point for new investors, who are likely to achieve healthy yearly returns over the medium term."

Steele notes that repurposing an asset, say from an office to residential, can be more beneficial as it is brownfield, but that also comes at a significant cost in terms of repositioning and existing assets may not be up to scratch from an ESG standpoint.

Grahame adds: "We are finding that investment opportunity is evolving. There were some early market participants in which there have been some lessons learnt.

"The linkage to income and earnings is additional feature within a portfolio for an allocation to residential property. However, the key standout feature is that the shortage of supply meaning that occupancy levels are high and there is very little void risk.

"The cost is a negative impact on the returns and to date this has tended to favour large single purpose-built buildings offering flats rather than single houses. Overall, we are encouraged by how the industry is evolving and look forward to greater professionalism that drive larger investment flows."

Social and environmental benefits

Pension investment in real estate can have benefits both environmentally and socially. On the social side, the benefits of creating affordable housing is obvious: It gives people with squeezed household incomes a viable place to live. However, there are other social benefits, such as regeneration projects.

"PIC is a major investor in UK housing and regeneration projects," says Agar. "Our experience shows that they create significant social value and as well as drive economic growth across the UK.

"Regeneration will most likely be a key component of the incoming government's plan to reinvigorate regional economic growth and raise Britain's productivity levels. Such large-scale projects also create significant social value for local areas, including skilled jobs, apprenticeships, improved healthcare outcomes, and economic inflows into local businesses."

Dunne adds that the social side is particularly relevant to residential, and managers with an operational arm can have a direct positive impact.

"For us at Abrdn that takes a variety of forms, but a key part is making sure that we create communities in our buildings while also making them part of the wider community," he states.

"It's a virtuous circle: We've found that the more people feel part of a community in a building, the longer they will stay. The longer they stay, the better for the end investor."

There is also a strong social dimension to the development of quality housing, especially against the backdrop of a "major housing shortage", says Denton.

"BTR and suburban BTR enable those seeking to rent to avoid the notoriously challenging private rented sector, offering an opportunity to live in well-managed homes with fair rent policies and longer-term certainty.

"Student housing provides students with safe and well-designed housing that can help them excel in their studies, while affordable housing has a particular social focus in that it caters to those in the greatest need."

Steele notes that, on the environmental side, the residential sector accounts for 29 per cent of carbon emissions.

"There is a lot of scope to make improvements, particularly if you are driving a very strong ESG focus or an impact strategy, you can have a significant impact with some of these investments," she says. "You can build in green leases with your tenants so you can start recording and collecting data, there is opportunity to have more control with the residential sector than different tenant groups."

The development of new energy-efficient housing and the retrofitting of older stock to improve its energy efficiency can play a huge role in meeting the country's environmental targets, Denton adds.

"The cost of construction and materials escalated significantly, impacting the viability of new housing projects"

Assessing the risks

As with any asset class, real estate investments come with risks. There have been several scandals involving properties in which pension monies is invested, leading to court cases and reputational damage. When investing in real estate, Grahame notes that cladding is a "significant issue" for the industry.

"We tend to favour new buildings and seek assurance from those managers that have existing portfolios," he says. "It remains an area of some frustration that disclosure hasn't been as willing or as good as we would have liked."

Dunne emphasises that, in residential real estate, pension investors have to be rigorous on the safety of the building and ensure that everything is managed correctly.

"There are no compromises," he states. "The experience of your investment manager is crucial – pension funds should make sure they have a well-established, professional partner that understands the risks and regulation, particularly as the regulatory landscape in this area is constantly evolving."

Regulatory changes include the recently passed Leasehold and Freehold Reform Act, which is aimed at eradicating bad practice in areas such as ground rents and property management, whilst making it easier and more viable for tenants to obtain an interest in their home for the long term.

"This could have some impact on ground rent investments into residential, but this is not an area that we believe is particularly suited to pension fund investors," says Dunne.

"Other legislation such as the Renters Reform Bill is aimed at eradicating rogue landlords and ensuring tenants have the capability and right to live in a property that is properly managed.

"As professional managers of this kind of accommodation, this is fundamental to our approach and the legislation is putting into law what we already do."

Also commenting on the Leasehold and Freehold Reform Act, Holness believes that the reforms will not affect L&G's ability to invest in housing.

"While we would factor the changes into our baseline assumptions regarding both new and existing shared ownership assets, they don't impact our ability to invest," she concludes.

Written by Jack Gray

Defence: The great debate

Laura Blows explores the current scrutiny around investing in defence firms, and the increasing pressure pension funds are facing to defend their positions on the debate

Summary
- Focus on pension funds' investment in defence firms has increased since the start of the Russia/Ukraine war.
- There is debate on whether investing in defence is ethical or unethical.
- Pension funds have recently experienced greater, differing, pressure, from politicians and the public to invest/divest from defence.
- Trustees must act within their trust's law and fiduciary duties when considering the ESG issues of investing in defence companies.

On 24 February 2022, Russia launched the largest attack on a European state since World War II, with its invasion of Ukraine. Ever since that day there has been a heightened focus on European nations' defence, and in turn, pension funds' level of investment in the sector.

"Recent events have definitely refocused attention on the defence sector, not least because many countries, particularly in Europe, have significantly increased defence spending – in part to provide supplies to Ukraine and in part to reflect a greater sense of vulnerability and uncertainty," Redington head of stewardship and sustainable investment strategy, Paul Lee, states.

Ethical debate

Investing in the defence sector can be quite the moral quandary, with two opposing camps both interpreting the UN Sustainable Development Goal 16 – to promote peaceful and inclusive societies – in different ways.

One camp highlights that, as the Russia/Ukraine conflict has shown, without investment in strong defence systems, countries would be left at the mercy of aggressors; a surely 'unethical' thing to do. However, the other side believes that 'peaceful and inclusive societies' are not possible with the continuing investment of, and trade in, arms and weaponry.

For instance, the Global Alliance for Banking on Values (GABV) issued a Statement for Peace in February, calling on the financial industry to stop financing the production and trade of weapons and arms, stating that the "financing of weapons and arms does not

qualify for, and is at odds with, any definition of sustainable finance".

According to the GABV, the financial sector invested at least $1 trillion between 2020 and 2022 to support the arms industry.

Meanwhile, the aerospace, defence, security trade association, ADS, states that the defence sector generates £9.8 billion in value for the UK economy.

According to its defence director, Samira Braund, ADS works in close collaboration with the government, defence industry and regulatory stakeholders "to advance environmental, social and governance (ESG) considerations", such as through its UK Defence ESG Charter, which "provides a framework for greater ambitions around climate transition and clean tech; societal impact; and governance and ethics".

"Despite this, many ADS members, especially SMEs, continue to report barriers to securing investment and access to financial services due to perceived ESG risk.

"Collaboration between industry, government and the investor community to secure the flow of capital heading into the sector is vital. It would ensure that the UK defence sector can provide the greatest value to investors as well as its necessary service protecting our freedoms and our way of life.

"We now need the financial sector to further recognise the immense social value the defence sector brings and work with us to evolve their investment strategies accordingly," Braund says.

These opposing viewpoints can be tricky for pension fund investors to navigate from an ESG perspective.

However, the UK Sustainable Investment and Finance Association (UKSIF) is "clear-eyed about global geopolitical tensions necessitating strong national defences", its head of governance and strategy, Madison Reamsbottom, states.

"But we believe investor freedom must remain central to protect sustainable investors. Institutions' proprietary rules and approaches foster a healthy, robust and competitive ecosystem. Proprietary investment approaches should not be subject to political pressure," she adds.

Increasing pressure

Investors, including pensions funds, have indeed recently been on the receiving end of government pressure to increase their investment in defence companies.

For instance, in November 2023, the government put out a press release highlighting its commitment to defend the defence industry from "ESG investors trying to immorally defund British defence".

Commenting to defence industry leaders at the time, former Defence Secretary, Grant Shapps, said: "Investment in defence is the morally right thing to do, without which the atrocious activities of tyrants like Putin would go unchallenged and undeterred".

The government was also bringing forward legislation that would have barred LGPS schemes from investing in ways that differed from foreign policy, "but that bill was dropped after the election was called, meaning that schemes are again faced with the need to reach their own decisions on these challenging questions", Lee says.

In contrast to the political pressure to increase defence investment, pension funds are also receiving greater scrutiny, and criticism, of their involvement with defence companies by the public.

"Consumers are interested to know whether their pensions are invested in companies active in war areas and how investment exclusions are applied, if at all"

"This is certainly an issue that consumers are focused on, given the global implications of war," PensionBee chief engagement officer, Clare Reilly, says.

"Consumers are interested to know whether their pensions are invested in companies active in war areas and how investment exclusions are applied, if at all.

"More recently, consumers have been interested in understanding the differences between the treatment of Russia and Ukraine and Israel and Palestine. In the case of Russia and Ukraine, widespread international sanctions have resulted in substantially reduced exposure to Russian-related assets in Western pension funds. The financial response to the war in the Middle East has not resulted in widespread exclusions, owing to a different global treatment of the conflict. The translation of geopolitical tensions into pensions can therefore be complex to explain," she states.

According to Lee, "the situation in Gaza is an example of the challenges around this sector: A number of schemes, particularly in the local authority sector, are facing pressure from beneficiaries and other stakeholders about exposure to companies whose products are believed to be involved in perceived problematic actions".

For instance, in January, the OpenDemocracy website reported on Palestine Solidarity Campaign (PSC) figures, which stated that 52 of the 86 Local Government Pension Scheme (LGPS) funds across England and Wales have investments totalling £1.1 billion in firms supplying weapons or systems to Israel.

OpenDemocracy quoted PSC director, Ben Jamal, as saying: "It is a national scandal that the wages of local government workers are being invested in companies enabling these catastrophic attacks."

However, Lee states that "these arguments tend to be made from an ethical perspective, which is a hard basis for pension schemes to use as a motivation".

"While the recent Financial Markets Law Committee paper on pension scheme fiduciary duties and sustainability matters does encourage trustees to think about sustainability, and climate change in particular, it does remind them to do so through the lens of investment risk and return," he adds.

Sackers partner, Stuart O'Brien, agrees that trustees must act within their trust's law and fiduciary duties when considering ESG issues.

"Broadly speaking, these legal duties require trustees to exercise their investment powers for their 'proper purposes', namely the provision of members' pensions and to take account of factors that are relevant to that purpose, which will usually mean those which are financially material (this will necessarily involve the consideration of both risks as well as returns).

"Proprietary investment approaches should not be subject to political pressure"

"The law is generally restrictive on the circumstances in which it is permissible for trustees to take account of 'non-financial' factors in making any investment decisions and where these are not in the best financial interests of the scheme's beneficiaries," he explains.

"When looking at investment in the defence sector, trustees should keep these duties in mind. So, whilst trustees can reappraise their outlook on investment in defence industries where there is a sense that geopolitical shifts have changed the financial implications of investment, changing investment strategies to 'show support' or for other purposes will generally be off limits for trustees," O'Brien adds.

Investment considerations

However, the defence sector does come with some key ESG risks, and these should be assessed as part of investment decisions, as ESG risks are with any company, XPS Pensions Group senior investment consultant and head of ESG research, Alex Quant, warns.

"Specific ESG factors may be relevant, such as bribery, corruption, weak transparency or over supply of goods. As long as those issues are well-managed and accounted for in the valuation case, the overall business would not preclude investment," Quant says.

"Here it is key to distinguish between 'responsible investing' (integrating ESG into the investment process) and 'sustainable investing' (applying exclusions and/or tilting the portfolio towards sustainable themes). Many 'non-sustainable' funds do invest in defence stocks as those companies do meet the ESG criteria," he adds.

Indeed, it should not be assumed that 'ethical funds' automatically exclude defence firms, as Morningstar Direct research from April 2022 found that, amongst sustainable funds globally, just 23 per cent have a stated policy of excluding military contractors, with 44 per cent of sustainable funds having some exposure to military contractors (compared to 60 per cent for other funds).

However, few pension schemes have general barriers to investment in defence companies, Lee says.

"UK schemes do seek to exclude companies involved in indiscriminate weapons that are subject to international treaties, such as cluster munitions or anti-personnel landmines, but very few actively choose to go further than this," he explains.

"Some schemes will have investments in generic socially responsible funds that retain long-standing ethical bars on defence companies generally, and outside the UK some pension schemes (for example, many of those in Scandinavia) have exclusions on investing in companies involved in nuclear weapons and other products. But such broad approaches are rare in the UK, so that the only real exclusions are on cluster munitions and anti-personnel landmines. Depending which data provider a fund (or its managers) use, this will mean in practice the exclusion of a small handful of US and Asian companies from portfolios – somewhere between two and eight, typically," Lee adds.

It is argued that those companies in controversial or nuclear weapons are excluded on the basis they have significant and unnecessary social ramifications, and therefore do not meet 'do no significant harm' thresholds, Quant says.

"In sustainable funds there is often a revenue threshold associated with the exclusion policy, so that even if a small portion of a company's revenue is derived from, say, nuclear weapons, it will get excluded. This is where we have seen the greatest interest in schemes' exposure to defence companies, to ask why certain companies are excluded from sustainable passive funds, as they feel they do want to be exposed to conventional weapons as a valid investment sector," he continues.

Pension fund investors may well be more interested in the performance of defence companies, as "the sector has many attractive characteristics – not least enjoying long-term contracts with secure counterparties (national governments), Lee says.

"Some companies have implicit, or even explicit, government guarantees. The products are legal, and indeed can for the most part only be sold where the government gives its permission," he adds.

Due to recent geopolitical events, defence company valuations have increased and so "they have inevitably become greater proportions of pension fund portfolios", Lee continues, with most of the exposure to these businesses through public equity and debt portfolios "as all the largest *[defence]* businesses are publicly traded".

So, does this mean pension schemes are reevaluating their investment levels in defence firms?

"Well, there is certainly a heightened political spotlight on the UK's defence industry, which will understandably translate to a greater investor focus," O'Brien notes. However, "I am not sure it is yet becoming a trustee board talking point for smaller and mid-size schemes but no doubt larger investors with in-house investment expertise will be considering things", he states.

"Some investors such as charities may have stronger ethical views, which mean they don't want to invest in any areas of defence, but even in this space, we would expect this conversation to be client-specific depending on their beliefs, and possibly the views of the sponsor organisation," Quant says.

"These investors place this specific ethical position above their financial objectives – this is not to say their views will detract from their ability to meet their financial objectives, but they take a view that they can achieve their financial objectives without investing in such companies," he explains.

For those managing pension schemes looking to assess their investment in defence, Quant recommends that they undertake training to understand the various nuances that exist when investing in defence, such as the differences between controversial and conventional weapons.

"Trustees must act within their trust's law and fiduciary duties when considering ESG issues"

He also suggests that they take into consideration their scheme's 'beliefs' and their schemes' appetite to investing in defence.

They should then understand their current exposure to defence companies, through speaking to their consultants, and seek to change their investments, including their use of sustainable funds, if the current exposure level is not aligned to preferences. Finally, they should encourage and monitor engagement (by managers if in pooled funds) with defence companies to ensure transparency over the companies' activities, Quant concludes.

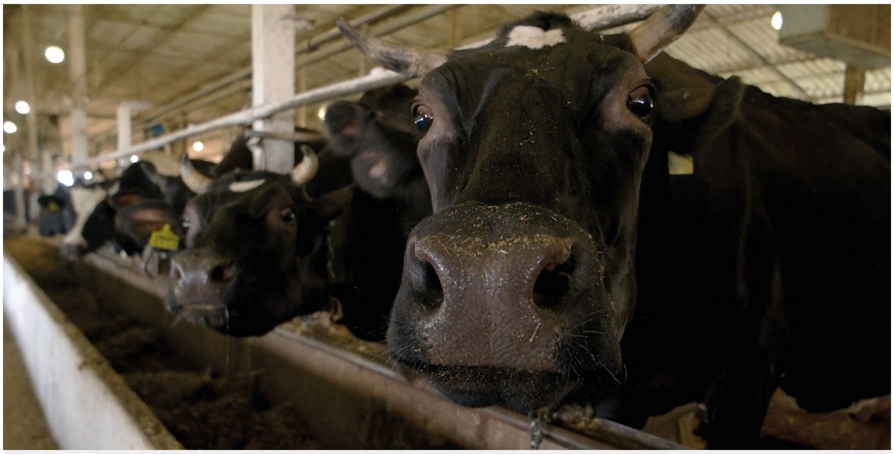
The UK defence sector may operate under one of the world's strictest export and licensing regimes, "but it is essential that in all instances funds invested in defence companies closely scrutinise export control systems and the risks associated with existing and potential end users", Reamsbottom states.

"These analyses must be ongoing and rigorous. Some will fail to meet the criteria and will be deemed too great of a risk. But some will not fail the standards, and there is currently no regulation in the UK's Sustainability Disclosure Requirements that precludes defence investment in all instances.

"There are material sustainability gains to be made in the defence sector, but each company and project must be assessed on a case-by-case basis to properly mitigate risk and identify opportunities," she explains.

Recent conflicts are undoubtedly placing a brighter spotlight on defence. Reilly notes that the increased focus on defence investment as a result of this "demonstrates that pensions are intrinsically linked to everything that happens around us".

Written by Laura Blows



Summary

- Agriculture represents 11 per cent of global greenhouse gas emissions, 70 per cent of worldwide freshwater withdrawals, and accounts for 53 per cent of habitat destruction and species decline, making it just as important a sector as the fossil fuel industry in the fight against climate change.
- There are collaborative initiatives to help investors put pressure on food manufacturers to implement sustainable practices, through methods such as shareholder activism.
- The food industry has been slow to adapt, but new, more sustainable farming practices are emerging, and increased regulation, along with changing consumer attitudes and consumption habits, are expected to influence change.

'Cows are the new coal'

In the fight against climate change, the focus remains on the energy sector, yet the significant environmental issues caused by food production is often overlooked by pension funds concerned about ESG issues, Laura Blows finds

To feed the estimated 10 billion people on this planet in 2050, food production will need to increase by 56 per cent from 2010 levels. Ideally, this increase needs to be created with no net expansion to agriculture land, as without change, cropland and pastureland are projected to increase by nearly 600 million hectares (nearly twice the size of India) by 2050.

These figures from the World Resources Institute report, *Creating a sustainable food future,* from July 2019, are staggering, and within them lie further challenges.

Food production's ESG challenges

"Besides food security, the environmental challenges have not diminished; agriculture alone now represents 11 per cent of global greenhouse gas (GHG) emissions and 70 per cent of freshwater withdrawals worldwide," Aegon Asset Management senior responsible investment associate, Euan Ker, says.

Meanwhile, Farm Animal Investment Risk and Return (FAIRR) director of thematic research and corporate innovation, Jo Raven, highlights how industrial animal agriculture is the primary driver of habitat destruction and species decline, accounting for 53 per cent of all losses.

"To limit agriculture to its 'fair share' of total allowable emissions in a world where global temperatures have risen by two degrees Celsius, the sector must address the demand for 50 per cent more food while reducing emissions by two-thirds from 2010 levels", the World Resources Institute report finds.

It is little wonder then that BRCGS' (previously known as the British Retail Consortium) November 2021 article, *Why ESG is increasingly critical for the food industry,* stated that "over the coming months and years, we predict growing pressure for greater environmental, social and governance (ESG) performance and transparency in the food and drink industry", and that "food production will almost certainly come under the same levels of scrutiny as the oil industry – with companies experiencing ever-increasing pressure to improve their sustainability".

According to Raven, it is important for pension fund investors "to understand their individual exposure to the food and agriculture industry and learn about the important role food and agriculture has to play within the sustainability challenges".

"It is equally as important as the fossil fuel industry, and some would say even more so, as this ultimately is around food security as well," she states.

As her colleague, FAIRR founder, Jeremy Coller, states, "ESG considerations are vital to contain the material investment risks of feeding 80 billion animals for eight billion humans: from 'cows are the new coal' to the risks of class action and regulation changes of antimicrobials *[in the use of animals, which can generate antibiotic resistance in humans, known as AMR]* and polluting water".

Food production clearly has a major impact on all aspect of ESG matters. So, amidst the fight against climate change and the growing desire to implement sustainable investing, investors must be focusing on improving food production sustainability practices, just as much as they focus on the fossil fuel industry and the transition to renewable energy, right?

Wrong. The sustainability issues surrounding food production are being "drowned out" by other ESG concerns, such as "climate, tax avoidance and poverty wages", PensionBee chief engagement officer, Clare Reilly, states.

"Food health is as important as climate. It is just climate change has historically got a lot of the attention," she adds.

The reasons for this lack of attention on food production, despite the significant part it has to play within environmental change, are complex.

"Sustainability within the food industry is a very broad topic. Touching on health and nutrition, climate change, nature, and social equality. Sustainability expectations for the industry can therefore be conflicting. Because the ask would be for low cost, healthy products that have low environmental impacts and no human rights issues throughout the whole supply chain. And the definition of what those asks are is also often unclear. What is healthy? Does low environmental impact mean high yields to take pressure away from land-use change, or lower yield regenerative systems? Are ultra processed plant-based products better for the environment, but not our health?", Abrdn senior sustainability manager and DC Investment Forum (DCIF) member, Ann Meoni, explains.

In contrast, the path to renewable energy is easier to comprehend, Raven says.

"When you think of the energy industry and energy transition, we do have a pretty good idea of what we need to do to get there. We also know of the different technologies in place and there is an infrastructure system around efficiencies and renewable energies etc.

"But the food and agriculture system is incredibly complex. It is also very political and very personal. Therefore, there is such an unclear roadmap of what is it that we need to do manage the *[sustainability]* transition. There is a regional element, because it will look different for each region, which makes the conversation a lot harder. That has been why there has been less focus on this industry compared to others," she explains.

Growing awareness

However, recent global events have helped increase awareness of the sustainability issues within food production.

According to Wellington Management ESG analyst and DCIF member, Sean Caplice, "the food ecosystem has been undergoing changes for some time, but the Covid-19 pandemic really shone a light onto the opacity of supply chains".

"Food production will almost certainly come under the same levels of scrutiny as the oil industry"

Covid-19 also saw meat processing factories in the US and Europe become Covid-19 hotpots, Raven adds, also highlighting the tangible effect the Russia/Ukraine war has had on food supply chains.

This increased interest in the food sustainability has a regional slant, Meoni notes.

"In the US there has been more interest in AMR and animal welfare, while pollution – whether that is GHGs, pesticides or plastic – are more common themes in Europe. Expectations around frameworks such as the Taskforce on Nature-related Financial Disclosures (TNFD) are also more commonly picked up by European investors," she explains.

There are also collaborative initiatives to help investors put pressure on food manufacturers, such as ShareAction establishing the Long-term Investors in People's Health initiative, which notes that "poor diets are a key driver of ill-health, linked to one in five deaths globally, which exposes investors and many of the businesses they're invested in to elevated and preventable financial risk".

Operating since 2015, the FAIRR initiative is a collaborative investor network that raises awareness of the ESG risks and opportunities in the global food sector. Seven years ago, it had fewer than $5 trillion in combined assets, Raven says, and now represents over $70 trillion in combined assets, with over 400 members globally.

The majority of its members are asset managers, rather than asset owners, such as pension funds, Raven states, but their numbers are increasing, particularly over the past couple of years (she notes that Swedish pension funds have been active in this space for quite a few years).

The reason for this growth is clear. "If you are looking to make long term, value creating decisions for your beneficiaries, and looking at the resiliency of your portfolio, the reality is the food and agriculture are at risk from climate and nature impacts. They are at risk from changing regulations due to AMR and from an increased focus on people's health, so there is a real steer towards looking at the negative externalities that the industry relies on and has not been priced into their business model, and that is starting to change," Raven says.

She gives the example of FAIRR's climate scenario tool finding that climate-driven impacts would lead to an accumulative loss of about $1.3 trillion by 2030 for the 40 largest livestock companies.

Meanwhile, Caplice highlights the importance of the traceability within food supply chains when evaluating and investing in companies.

"Traceability not only helps ensure operational continuity but allows companies to manage systemic risks related to child labour and deforestation much more proactively," he explains.

Meoni highlights the recent investor support of a biodiversity proposal for PepsiCo. The proposal asked the food and drink giant to report on risks related to biodiversity and nature loss. "We supported this vote because PepsiCo operates in a sector with heightened biodiversity risks. While PepsiCo do have goals on several nature themes, a broader materiality assessment of nature focused impacts would enable shareholders to evaluate the company's management of material risks," she explains.

Meanwhile, Tumelo CEO, Georgia Stewart, notes that Nestle came under investor pressure this season after it was revealed that some products, like baby food, had much lower sugar content in the UK versus Thailand (and other less developed countries). "Shareholders called for the company to align its global product standards with those in Europe and to reduce added sugars uniformly across all markets," she says. "Although the proposal didn't pass, it was proof of greater investor scrutiny and a good example of the importance of transparent disclosure for investor decision-making," Stweart adds.

These shareholder votes "aren't about doing the right thing", Stewart says. "Our pension funds and other institutional investors believe there is opportunity and/or risk to the companies in their portfolios that is going unaddressed. Through its practices, Nestle perhaps exposes itself to reputational damage or to regulatory risk of a sugar tax. More generally, though, obesity-related disease costs UK business £27 billion per year, while 73 per cent of consumers are willing to pay more for health products, so it's no surprise some investors are acting on this," she explains.

"Separately, AMR from over-use of antibiotics in the food supply chain (such as on intensive farms) is also a crucial topic as investors increasingly look to address systemic risk. Most large pension funds, for example, are highly diversified investors who want to protect their whole portfolio from the risk of another crash-causing pandemic.

"For all of this shareholder activity, I want to stress how critical it is that asset owners (such as pension funds) have a voice – a vote – in the boardrooms of these companies. Some fund managers, such as LGIM, offer their clients the ability to vote in pooled funds. This 'pass-through voting' is a key enabler for more pension funds – who, with the best interests of beneficiaries in mind, are usually the most supportive of these issues – to participate in voting," Stewart adds.

"The drive to find solutions to climate change is providing numerous investment opportunities… for pension funds, allowing them to combine financial returns with benefits to society"

Asset managers and asset owners are not the only ones increasing their focus on the ESG issues within food production; pension fund members themselves are also expressing concern. For instance, PensionBee's 2024 survey of its members found respondents placed 'public health, and food and beverage companies harming people's health with their products' sixth on their list of concerns.

PensionBee's members also felt strongly about the use of shareholder resolutions to affect change within the food sector.

For instance, 88 per cent of its members agreed with the 2023 shareholder resolution for Mondelez (the parent company of Cadbury) to adopt targets and publicly report quantitative metrics to assess whether the company is on course to eradicate child labour and forced labour in all forms from the company's cocoa supply chain by 2025.

In contrast, the actual voting result of that resolution at the company's AGM was 20 per cent in favour, and 80 per cent against.

It was a similar story with the 2023 shareholder resolution asking McDonald's to comply with the World Health Organization (WHO) guidelines on the use of medically important antimicrobials in food-producing animals throughout its supply chains. Eighty-three per cent of PensionBee members agreed with this, yet the actual voting result at the AGM had just 18 per cent vote for it.

Despite these examples of shareholder resolutions not passing, investor interaction is starting to make a positive impact. For instance, Raven highlights how FAIRR has been engaging with meat processing companies in the UK, US, Brazil and Asia to improve working conditions. "We have seen over the past couple of years a real improvement with companies disclosing more information around grievance channels and mechanisms, for their employee base to voice concerns and be represented," she says.

Food industry's response

But how is the food industry responding to the increased focus on its ESG credentials?

"Despite an increased focus on the sustainability challenges that the industry faces and the many corporate pledges that have followed… the food industry has not made wholesale changes to address these problems," Ker says.

"Investor pressure will only go so far; you also need regulatory change; but that's an issue that policy makers find hard to swallow. We have recently seen in the EU how unpopular policy reform is in the agriculture sector for example," he adds.

According to accounting firm

BDO's April 2022 online post, "food is the connection between practically every major sustainability challenge … consequently, the industry should have been an obvious focus for ESG-related research and development; it should have been leading from the front".

It also referenced a Wall Street Journal survey on ESG metrics, published in February 2021, which showed that, out of 5,500 companies studied, only one food business scored in the top 100.

Meanwhile, the BCRG's 2021 article highlighted Canopy Holding's (a food and agriculture holding company) findings that there is a lack of ESG data in the food sector, particularly in social and governance areas.

Yet, the Food and Drink Federation's 2021 report on the impact of ESG on the UK food and drink sector noted that, since 2020, businesses are feeling the pressure more from investors around actioning ESG. It also emphasised the significance of a clear net-zero roadmap for the food and drink industry and in March 2021 announced its plans to reach net zero by 2040.

Putting such plans into practice, Caplice says Wellington Management recently spoke to a food manufacturer that has conducted a full footprint analysis "and the work done on supply chain traceability has allowed them to improve practices around regenerative agriculture *[and help meet]*, regulatory requirements such as the EU Regulation on Deforestation Free Products".

Elsewhere, Ker notes the emergence of 'vertical farming'. "This new technology-enabled farming means crops can be grown reliably, often built in urban areas and other agri-challenged places, running 24/7, growing crops regardless of the changing climate, with some studies suggesting a 516 times higher yield per vertical layer than in conventional field farming," Ker explains.

Baillie Gifford investment specialist and DCIF member, Alasdair McHugh, also highlights 'precision farming', as used by the agriculture expert John Deere, who uses technology to target crops more effectively to reduce pesticide use, to develop autonomous tractors, which "save farmers time and money and, crucially, increase food yields".

"The drive to find solutions to climate change is providing numerous investment opportunities like Deere for pension funds, allowing them to combine financial returns with benefits to society," he states.

Driving change

Pension funds can help drive change in the food sector through engagement, stewardship and joining collaborative initiatives, Raven says.

"Asset owners and the pension fund industry has such an important role to play, as they sit at the top of the food chain. They do set the tone for a lot of the asset management community. This will trickle down and could help accelerate change at a quicker pace than what we have seen before," she suggests.

The current pace of change certainly seems slow, with Ker noting that "while there is certainly more awareness and increased disclosures of ESG topics from the food industry, it remains a very complicated and multi-decade problem to solve. It will take a mixture of investor pressure, political will, and consumer habits to change".

However, change is starting to occur, particularly with regulatory pressure increasing, such as the TNFD framework and the European Commission's 'farm to fork' strategy, which aims to make "food systems fair, healthy and environmentally friendly". Also, in September, the UN General Assembly will convene a high-level meeting on AMR for the second time (the first being in 2016), for world leaders to "collectively address the looming threat AMR poses to global health, food security, and achieving the 2030 Sustainable Development Goals".

Consumers themselves also have a role to play with instigating change. "Growing consumer demand for healthier products may well influence where investors place their funds and how food manufacturers choose to innovate within their product range," Pinsent Masons partner, Zoe Betts, says.

As Caplice says, "it's important to remember that investors are just one stakeholder. Food companies are ultimately serving a customer and feeding the world and society".

Written by Laura Blows

SAUL CIO, Kevin Wade, and Tumelo CEO, Georgia Stewart

Breaking new ground

The Superannuation Arrangements of the University of London (SAUL) has become the first UK pension scheme to take up pass-through voting for both its DC and DB plans. SAUL CIO, Kevin Wade, and Tumelo CEO, Georgia Stewart, tell Francesca Fabrizi what this groundbreaking move means for voting consistency across their investments, as well as the implications for the wider pensions industry

Please give us an introduction to the Superannuation Arrangements of the University of London (SAUL).

Kevin Wade: The Superannuation Arrangements of the University of London (SAUL) were set up in 1976 mainly for the non-academic staff of c.50 colleges and institutions that have links with higher education, including most of the colleges of the University of London, Imperial College and the Universities of Essex and Kent.

From 1 April 2023, SAUL established SAUL Start, a defined contribution (DC) plan, for the first three years of SAUL membership, before members join the existing defined benefit (DB) plan.

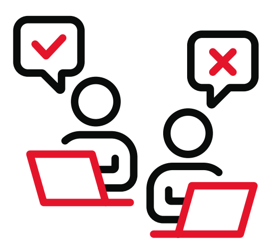
Assets of SAUL at 31 March 2024 were c.£3 billion, the majority held within the DB plan, with SAUL Start having reached c.£8 million.

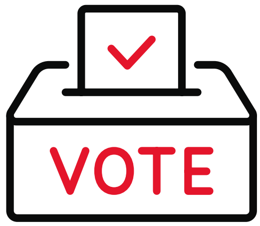
Please tell us about Tumelo and what the firm offers to the pension fund space.

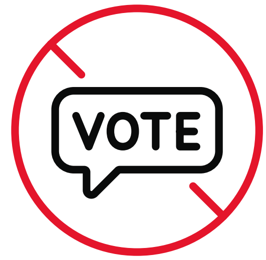
Georgia Stewart: Tumelo is a forward-thinking company that provides innovative solutions to the pension fund space, specifically customised stewardship. The firm offers a technology platform that enables pension schemes and asset managers to implement pass-through voting, thereby allowing them to directly cast votes on shareholder resolutions for the companies in which they invest. This service empowers pension funds to align their voting practices with their investment values, ensuring that their influence is consistent across both segregated and pooled funds. Tumelo's offerings are particularly significant in promoting transparency, accountability and sustainable investment practices within the financial sector.

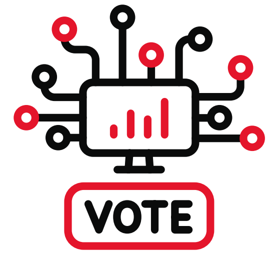
SAUL recently became the first UK pension scheme to take up pass-through voting for both its DC and DB plans. Please explain what this means in practice.

Wade: Historically, the Investment Committee preferred segregated public equity mandates for the DB plan, to ensure that SAUL's voting policy could be implemented on a consistent basis across the holdings (rather than leaving the









voting to managers to implement using their own organisation's policy).

Given the launch of the Tumelo pass-through voting service, it gave SAUL the ability to vote its share of equity exposures within pooled funds rather than leaving the investment manager to vote on our behalf based on their own voting policy. As a result, we were also able to align our voting across the DB plan (aligning the votes of both segregated and pooled public equity mandates) and SAUL Start (with pooled public equity mandates). This has allowed SAUL to send a consistent message to companies irrespective of how the securities are held. This will become more important to SAUL as members are likely to have both DC and DB benefits in the future, with the voting executed on their behalf being aligned across these investments.

It should be noted that SAUL has taken a pragmatic approach to implementing the pass-through voting service by applying it initially to the top 500 companies in the Legal & General pooled funds, as well as any smaller exposures where they are on the Climate Action 100+ list.

Why does this represent a significant step forward for the pensions space?

Wade: The adoption of pass-through voting by SAUL represents a significant advancement for the pensions industry because it strengthens the ability of pension schemes, such as SAUL, to exert influence over the companies in which they invest.

> **"This move sets a new precedent in the UK, encouraging other pension schemes to adopt similar practices and potentially leading to more robust and unified voting standards across the industry"**

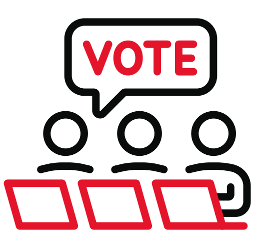
Traditionally, voting rights for pooled funds were controlled by the fund managers, which could lead to inconsistencies with the pension scheme's values and objectives. By implementing pass-through voting, SAUL ensures that all votes are cast in alignment with its policies, thereby increasing its impact on corporate governance and social responsibility. This move sets a new precedent in the UK, encouraging other pension schemes to adopt similar practices and potentially leading to more robust and unified voting standards across the industry.

Which others parties were involved?

Wade: Several key partners have been instrumental in enabling SAUL to implement pass-through voting. Legal & General Investment Management (LGIM) provided the necessary platform and support to facilitate this voting capability for SAUL's pooled funds. Tumelo played a critical role by offering the technology that makes pass-through voting possible, allowing pension schemes to customise and enforce their voting preferences. PIRC, a company that specialises in corporate governance advisory services – across both engagement and voting, has also been involved by providing tailored voting guidelines and detailed company research to ensure that SAUL's voting practices are aligned with its current stewardship principles.

The collaboration among these three entities has been pivotal in achieving this milestone for SAUL.

Written by Francesca Fabrizi



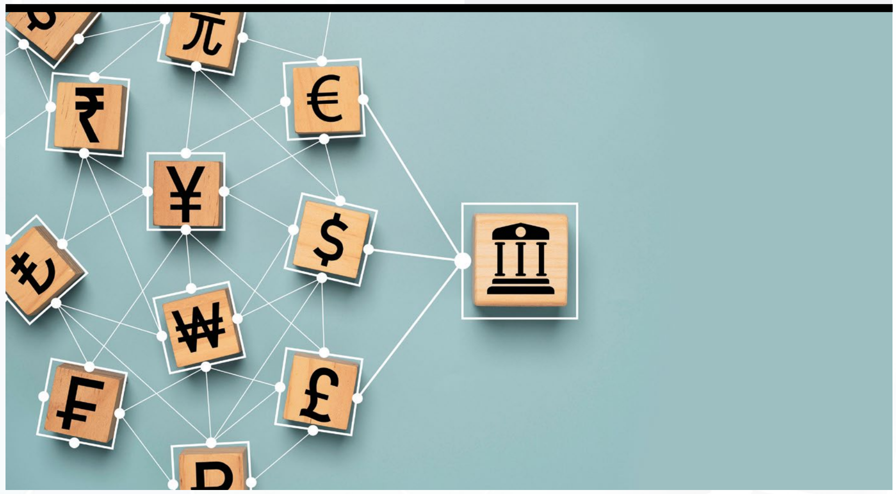
Money talks (but not in Britain)

In the latest edition of *Pensions Age's* financial literacy special focus, Sophie Smith looks at the different attitudes towards talking about money around the world, and the lessons the UK could learn from abroad

Summary

• Cultural attitudes towards money can vary significantly, with some nations taking a more individualistic approach, whilst others place a greater focus on collective efforts that could foster a stronger commitment to pension saving.

• There are lessons that the UK can take from other countries, particularly on existing initiatives like pensions dashboards.



Britain has its fair share of terms to discuss money. Quid, dosh, fiver or a Lady Godiva, dough, bangers and mash – it could give pensions jargon a run for its money.

But Brits are not the best known for talking about money, which is perhaps unsurprising, with recent research from Abrdn revealing that two fifths of all UK adults, representing around 23 million people, have poor financial literacy.

The current environment could have something to do with this, as Abrdn found that nearly two thirds (64 per cent) of UK adults are being held back from investing in the next six months due to low risk tolerance, lack of confidence in the UK stock market and low engagement with investment products.

But it could also be a part of our culture – after all, Brits aren't famously known as a nation of savers, with football chants, complaints about the weather, and a skill for queuing making much more of a global impact.

Attitudes towards money can vary around the world though; take tipping culture as one example. And whilst Britain is not the only nation to view finances as a taboo, there are broader cultural shifts that can force a greater focus on saving for the future.

Indeed, PensionBee director of public affairs, Becky O'Connor, points out in collectivistic cultures, prevalent in some Asian and African countries, an emphasis on family support and financial security might foster a strong commitment to pension saving.

However, more individualist cultures, like the US and UK, frequently prioritise personal achievement and immediate financial needs. "This can lead to a focus on short-term saving goals such as holidays or home ownership, potentially hindering long-term savings such as pensions," O'Connor says.

Standard Life retirement savings director, Mike Ambery, agrees, pointing out that in some countries, like Japan and Singapore, cultural and social norms place more of a focus on future planning than others, while differing levels of state support, and the wider economic environment, can also play a part.

"In the UK we can be quite good at saving for shorter-term goals but tend to put longer-term saving to the back of our minds," he continues. "Auto-enrolment, for example, has brought millions into pension saving but there are high levels of inertia and the current minimum contributions aren't enough to help people secure a decent standard of living in retirement."

These are not the only impacting factors, as Morningstar Wealth managing director, UK and international, Mark Sanderson, points out that the United States, Greece, and Italy also struggle with retirement savings, attributing this to voluntary plans, economic instability, and low financial literacy.

But there is a possibility for change, particularly amid generational changes, as research from Virgin Money found that 43 per cent believe that older generations are less open than younger generations when it comes to talking about money, while the 18-24-year-olds were the most comfortable chatting about money with friends (68 per cent).

Indeed, 7IM head of equity strategies, Ben Kumar, says that you can, over time, change cultural attitudes, noting that the Overton window on LGBT+ issues also shifted in a generation.

And although long-standing cultural attitudes towards saving can't be transformed overnight, O'Connor argues that "concerted efforts" through education, policy changes, and societal encouragement can gradually foster a more savings-oriented mindset.

Turning the tide

This change is already underway, as research from Virgin Money found that 38 per cent think Brits are better at talking about money now than they were in 2019, before the cost-of-living crisis, and 56 per cent feel comfortable discussing money with their friends.

"The tide is turning, as the past decade has seen a surge in financial education tools and platforms, empowering people to become more transparent and engaged with their finances," O'Connor says.

"Levering technological improvements to address an increased demand for financial information indicates cultural change is possible," she adds.

Building on the momentum

To build on this positive progress further, O'Connor says integrating financial literacy into the school curriculum could help equip young people with the knowledge and skills required from the start of their working lives.

"Employers should also play their part by offering pension education to their employees," she says. "Providing incentives such as matched pension contributions could also be a helpful tool in aiding employees to start saving early."

Ambery agrees, arguing that we need to make long-term saving as relevant and as tangible as short-term saving, showing how these goals can sit side by side.

"Education is clearly key and it would be good to see financial and pension education firmly on the school curriculum," he continues. "People need to know that the system works for them to engage with it, so adequacy, quality and governance should all be underlying principles for the UK pensions model."

Kumar, meanwhile, argues that finance companies need to do much more (in tandem with the regulator) to make their products understandable, warning that while people are becoming more interested in finance and investing, "easy accessibility helps a lot".

This is echoed by O'Connor, who argues that it is "imperative" the government implement policies to simplify pension saving.

Ambery says that technology could also play a key part in getting Brits talking about money, not just in large initiatives like the UK pensions dashboard that should boost engagement by helping people to see all their pots in one place, but also in its potential to use data to create bespoke information and communications that are relevant to people at each stage of life, not just at point of retirement.

Looking further afield

This offers the UK an opportunity to learn from the experience of other countries, as Tully notes that Denmark and Sweden have had dashboards for over 20 years, and the Netherlands for over a decade, offering a number of insights for the UK's own dashboards journey.

But this is not the only financial literacy lesson that the UK can take away from other countries.

For instance, GBST CEO, Robert DeDominicis, says the UK could learn from Australia's Quality of Advice Review, in which the Australian government further clarified how super funds can help members make better long-term choices, without straying into full advice – similar to the Financial Conduct Authority's intentions for the advice/guidance boundary review.

"The new rules should be a halfway house, making simple advice around retirement income more easily accessible and cost-effective for pension savers. Let's hope we see similar changes introduced to the UK," he stated.

This is not the only lesson from Australia, as Sanderson says that the UK could also look at Australia's contribution escalation to enhance auto-enrolment.

"It's like setting your savings on autopilot, gradually increasing contributions without you having to lift a finger," he continues.

In addition to this, he points out that governments in both Australia and the Netherlands have run extensive public campaigns to improve financial literacy and build engagement with their retirement savings.

Mercer global leader longevity, Yvonne Sonsino, agrees that providing financial education is crucial for empowering employees to improve their financial wellbeing.

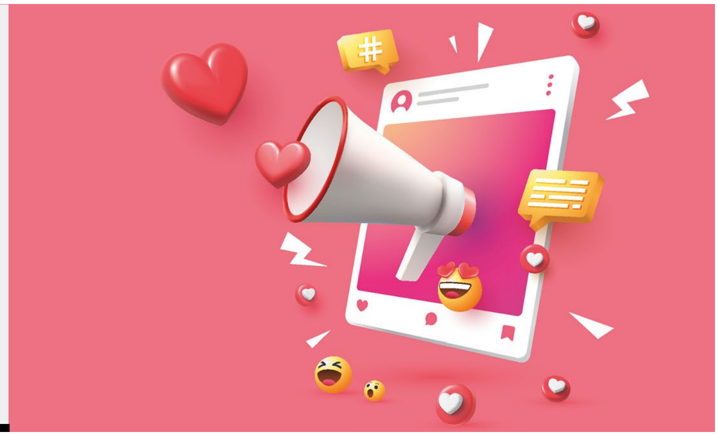
Some are already working to address this challenge, as Sonsino points out that employers are taking steps to support their employees, such as offering webinars, debt consolidation advice, pensions modellers, financial advice, and employee assistance programmes.

The value of increased awareness is clear, with research from Virgin Money revealing that a third of people who are more open to talking about money with friends this year compared to previous years believe they have been more transparent because they have a better understanding of the benefits of being more candid on the subject.

But simply getting the conversation started could be a helpful first step, with research from Starling Bank revealing that nearly half (49 per cent) of Brits think talking about finances improved their financial confidence.

Written by Sophie Smith

Summary
- An increasing number of savers are looking to social media and influencers to help with crucial financial planning decisions, despite concerns over misinformation and the threat of scams.
- The Financial Conduct Authority is taking growing action on this issue, but industry experts believe there is still a long way to go to protect savers and educate influencers.
- The industry can take a proactive approach to work with credible influencers to break the chain of misinformation and take advantage of existing high engagement levels.



#Alwaysapensionsangle

With more and more savers relying on 'finfluencers' as a guiding hand, Sophie Smith considers whether enough is being done to protect against the threat of misinformation, and how the pensions industry can turn the tide of finfluencers in its favour

It is no secret that more and more savers are opting to rely on social media for important financial decisions, with the Financial Conduct Authority's (FCA) latest *Financial Lives Survey* revealing that one in six investors used social media to either research investment, find new opportunities or get updates on existing investments – rising to half of all investors aged 18 to 24.

AJ Bell director of personal finance, Laura Suter, says that research by AJ Bell's Dodl investing app also backs this up, with almost a third of novice investors saying they use social media platforms to research investment decisions, with Instagram and TikTok being the most popular.

"And the celebrity lure is clear, with more than two-fifths saying that a celebrity endorsement could influence them to buy a financial product and 17 per cent already having done so," she says.

Indeed, Quietroom consultant, Cath Collins, says that it's been a consistent trend for a while that people are looking for wider sources of information.

"And the rise of social media, including short-form curated content, has gained massive popularity in recent years," she continues. "This can be seen through Gen Z using TikTok as a search engine – forgoing Google searches in favour of social media channels."

Financial services is no exception, as Trafalgar House client director, Daniel Taylor, says that finfluencers have "really shaken up the pensions and financial services industry, prompting people to take action and bringing attention to important financial matters".

But Taylor points out that there is a significant amount of public scepticism towards media coverage of pensions, revealing that, in fact, 36 per cent of people view it negatively, compared to only 13 per cent who see it positively.

This, according to Taylor, can present a double-edged sword, as while finfluencers can drive engagement and awareness, they can also spread misinformation and further embed distrust.

Fighting against 'fake news'

This is an issue that the regulator is aware of though, having recently published guidance clarifying their expectations of regulated firms and finfluencers communicating financial promotions on social media to try and improve understanding in this area.

The watchdog has also begun to step up its enforcement action, having recently brought charges against nine individuals, including celebrity influencers that have appeared on reality TV, relating to an unauthorised foreign exchange trading scheme promoted on social media.

Suter suggests that this latest case will raise awareness of the implications of breaching the FCA rules, arguing that "there's no doubt it will make people sit up and listen".

However, influencer marketing expert and Branded Content Marketing Association global head of influencer marketing, Gordon Glenister, argues that while the FCA's efforts are commendable, there are several areas where further action is needed.

In particular, he says that increased monitoring and enforcement is needed, as well as stricter regulations and guidelines, and enhanced reporting mechanisms, to allow consumers to anonymously report suspicious financial advice or activities on social media.

Taylor agrees, arguing that while the FCA's recent actions against unauthorised financial promotions on social media are a good start, there's still a long way to go.

"We need more consistent and comprehensive efforts to protect savers," Taylor argues. "Many finfluencers aren't fully aware of the regulations surrounding financial advice, highlighting the need for better education and clearer guidelines to ensure they're following the rules and safeguarding public trust."

Indeed, Glenister says that the awareness of regulations surrounding financial advice among 'finfluencers' and influencers more broadly is generally considered insufficient, as influencers do not have formal training in financial services and are unaware of the regulatory environment.

Given these concerns, Glenister says that there could be better collaboration with financial institutions, suggesting that providers could even develop training programs for influencers who wish to provide financial advice, ensuring they understand regulatory requirements and ethical considerations.

Glenister suggests that regulators could also work with the social media platforms themselves, to implement policies that mandate disclosure of financial advice qualifications and compliance with local regulations.

Taylor is less optimistic though, suggesting that, given the current level of resources available to regulators, it's very unlikely they can effectively police this space unless something significant changes in social media regulation.

Turning the tide

The industry could instead look to beat influencers at their own game, with the current advice/guidance boundary review expected to help make other sources of information easier to come by.

Indeed, Suter points out that reviewing the advice/guidance boundary and enabling more pension firms to give guidance to individuals would mean that fewer people had to rely on sources like social media for information.

But turning our back on influencers and social media is not the only option, and there are some in the industry who would argue that this is a chance to work with social media influencers to address misinformation concerns, rather than push them out of the space altogether, and risk losing an effective and organic point of engagement with members.

Indeed, Zedra client director, Alastair Meeks, says that viewing finfluencers as tools would be the common, somewhat derogatory, attitude of most pensions professionals.

"Finfluencers could, however, be tools in different ways," he says. "They have learned, where most pensions professionals have not, to speak to their viewers emotionally, viscerally and crucially, simply. They understand that most people are not looking to dive into a swimming pool of gold coins like Scrooge McDuck. They understand that saving and investing is something that people to do live life meaningfully better. And they understand how to connect the two in the minds of the general public."

And whilst many pensions professionals may protest that they are hamstrung by regulation from behaving in the same way, Meeks argues that "far too much communication from the pensions mainstream is plodding, informed by a monastic approach to the regulatory regime".

"This is often a cultural reflex rather than a regulatory requirement," he queried. "Instead of looking askance at finfluencers, perhaps we should work with them more and start communicating more often with emotional intelligence?"

Collins agrees, highlighting this as an "opportunity" for the industry to learn from influencers and think creatively about how it communicates beyond the traditional channels.

"We need to cater for everyone's content needs, as well as considering how they consume information," she says. "New ways of creating and distributing content should be welcomed by the industry as a way of improving engagement and reaching a wider group of people from different demographics."

However, Collins admits that accuracy and trust is "essential", cautioning that companies and finfluencers need to make sure they stay on the right side of the FCA.

"In this 'post-truth' world, trust has never been more important. Get this wrong and we will fundamentally damage the relationship with future generations of pension savers," she says.

"We need a strong regulatory framework to protect savers, but we need to be careful that this framework doesn't stifle creativity and innovation. Otherwise we could just push people towards less trusted or less accurate sources of information."

This is echoed by Taylor, who argues that any industry partnership arrangements must have trust at their foundation.

"While it's important to make information accessible, we must also be careful not to trivialise important decisions," he explains. "Oversimplification can lead to mistrust and inaction. Savers need to feel confident that the information they are receiving is reliable and accurate."

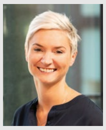
In particular, Glenister stresses the need for companies to choose influencers who have a credible background in finance or have demonstrated a strong understanding of financial topics, and to verify their qualifications, certifications, and previous collaborations to ensure they provide accurate and reliable information.

Written by Sophie Smith

In association with LGIM

Endgame roundtable

MODERATOR



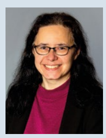
Moderator: Lisa Purdy, Head of DB Solutions Distribution, LGIM
Lisa is responsible for working with clients and consultants to develop solutions for their DB schemes. Previously, Lisa worked at Lloyds Bank as corporate pensions director and was formerly a principal investment consultant at Aon advising clients on a range of investment solutions. Lisa focuses on understanding her clients and providing them with innovative, bespoke solutions. She is a qualified actuary, holds a Master's in Actuarial Science from Imperial College and a degree in Economics from Bristol University.

PANEL

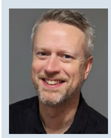
Julie Alexander, Director of Fiduciary Clients, Railpen
Julie became director of fiduciary clients in 2023 after joining Railpen in June 2021 as head of client investment solutions. In her current role, she is responsible for delivery of integrated risk management advice to the trustees of the Railways Pension Schemes in respect of c£34 billion in assets; managed on behalf of 350,000 members. In her 23-year career, she has spent time in-house as an investment officer with the Coal pension schemes; 13 years at WTW as a senior investment consultant; and most recently, worked at fiduciary manager Kempen.

Joe Dabrowski, Deputy Director of Policy, Pensions and Lifetime Savings Association (PLSA)
Joe is responsible for policy areas including DB, DC, and LGPS pension provision, corporate and scheme governance and institutional investment issues. He is a board member of the Cost Transparency Initiative, and an adviser to the LGPS Scheme Advisory Board (England & Wales). Before joining the PLSA, Joe spent nine years at the Pension Protection Fund, where his last role was head of the chief executive's office. Earlier in his career, he worked in policy and operational roles within central government.

Steve Delo, Chairman, PAN Trustees
Steve is chairman of PAN Trustees and a former president of the Pensions Management Institute. Prior to becoming an independent trustee, his career spanned senior roles in consulting and asset management. He is currently chair of trustees for a number of major UK DB and DC schemes. Steve has significant experience of DB funding negotiations, covenant evaluation, conflicts management, regulator engagement, DC governance and regulation, trustee team building, administration rectification issues, scheme restructuring and more.

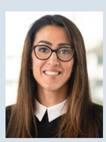


Clare James, Client Director, Zedra
Clare joined Zedra as a client director in January 2019 after a career spanning 24 years acting as scheme actuary, investment consultant and corporate pensions adviser to DB, DC and hybrid schemes ranging in size from £4 million to £5 billion. Clare spent the majority of her career as a principal at Punter Southall (now XPS) and previously worked at two other major pensions consultancies. Clare has advised clients in a wide range of sectors, and has been involved in all major aspects of pensions and investment consultancy.

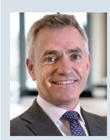


Matthew Jones, Professional Trustee, Capital Cranfield
Matt has over 20 years in managing scheme funding and investments. With experience as an actuary, advisor and executive in an asset management firm, he brings expertise that spans the industry. Matt has served as a trusted scheme actuary for a number of prominent DB schemes, and has also provided advice to employers and trustees of workplace DC pension schemes. Matt has collaborated with trustees and employers across diverse sectors, and his expertise encompasses various aspects of pension management.

Alasdair Macdonald, Head of Investment Strategy, WTW
Alasdair joined Willis Towers Watson in 1999 and is now head of investment strategy in the UK. This role involves chairing the investment strategy group, chairing the global investment assumptions committee, sitting on the investment committee for WTW's 'best ideas' diversified growth fund, the TWIM Partners Fund; and overseeing the modelling and LDI teams. He acts as lead consultant to a small number of pension clients, including the British Steel Pension Scheme, which has now insured its liabilities in full through a series of four buy-in transactions with Legal & General.



Aysha Patel, New Business Origination Lead, UK Pension Risk Transfer, Legal & General
Aysha is a director in the pension risk transfer team at Legal & General which works with trustees, sponsors and their advisers to secure pension scheme member benefits through buy-ins, buyouts and other de-risking solutions. Over the past nine years, she has taken lead roles in the origination, pricing and execution of landmark transactions. Prior to Legal & General, she worked in pensions consulting at a leading actuarial consultancy where she specialised in liability management and scheme de-risking.



Myles Pink, Partner, LCP
Myles advises pension schemes on removing risk through insurance-based solutions: buy-ins, buyouts and longevity swaps. He works with pension schemes that are at varying stages in their de-risking journey plans to help them determine when it is appropriate to focus on longevity de-risking. Myles was one of the founding management team at Paternoster in 2006 and transferred to Rothesay Life when it bought Paternoster in 2011. For eight years he worked on the insurance side of the business structuring and negotiating buy-ins, buyouts and longevity swaps. He joined LCP in March 2014.

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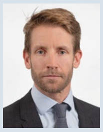

Will Riley, Head of Solutions, LGIM
Will joined LGIM in 2019 as head of solutions, responsible for the strategy and portfolio management of investment solutions for pension schemes and insurance companies. Prior to joining LGIM, Will was head of portfolio management for client solutions at BlackRock joining Barclays Global Investors in 2005. His experience includes managing LDI portfolios, fiduciary management portfolios, multi-asset portfolios and derivative overlay strategies. Prior to joining BlackRock, he was a senior fund manager at Sanlam Investment Management in Cape Town.

DB endgame planning: No one-size-fits-all

Our panel of experts reflects on the current state of the buyout market; how schemes can best prepare for buy-in/buyout or run on; what new and emerging trends we are seeing in the space; how exclusive partnerships with insurers work; the implications of funded reinsurance; and where ESG fits in with endgame planning

Market overview

Moderator: In recent years, we have seen large improvements in pension scheme funding levels, with The Pensions Regulator estimating that half to two thirds of pension schemes are now in surplus i.e. they are definitely more than fully funded on a buyout basis.

Having said that, there are several reasons why buyout may not be the endgame of choice. There might be issues around data preparation, GMP equalisation, illiquid assets and capacity in the insurance market, or just a lack of desire to actually do a buyout. We're obviously seeing discussions around extraction of surpluses as well and the government is likely to be looking to make changes in that area. So, there's a lot of change happening.

To start today's discussion, I'm going to ask Aysha *[Patel]* to give a brief overview of the buyout market.

Aysha Patel: I'll start by reflecting on the past five months. It was a relatively quiet start to the year, Q1 was a lot quieter than we thought it would be, coming from 2023 where it was full throttle right up until the end of the year and market volumes were the largest we've ever seen.

That changed coming into Q2. In the last couple of months, the pipeline has grown significantly, particularly with transactions of over £1 billion each.

We've also seen an uptick in mid and smaller schemes coming to market. Some insurers, including us, are focusing on how we can better service the smaller end of the market with a view to being able to scale up capacity.

Overall, we're probably still expecting 2024 to be around a £50 billion year which would put it on par with 2023.

Myles Pink: I agree there are certainly a lot of pension schemes that have been, and continue to be, focused on getting to a state of full buy-in – it's important to recognise that there's a difference between a scheme that's at full buy-in and then going to buyout. Some pension schemes think they may be in the state of full buy-in for some time. One or two are wondering whether, before they lock into that pricing, they might want to either close a small deficit, or maybe get to a state of surplus.

We're also seeing consultants with ideas around using surplus in defined benefit (DB) to fund defined contribution (DC) as a logical thing to do. In some cases, it makes sense to give surplus back to sponsors that have put an awful lot of money in over the years. In some cases, it makes sense to augment benefits or a combination of the two.

So, we're starting to see people not being quite in such a rush to lock down this position, when it's just on the point of being fully funded, when there might be something we can do beyond that.

To conclude, whilst I'm optimistic about the volumes this year being comparable with last year, we are also seeing schemes pausing to consider,

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not so much alternative endgames, but considering that, if the endgame is still to get to insurance, is there something we might do along the way.

Moderator: What's the trustee perspective?

Clare James: Whilst I agree on those general trends, one barrier I have seen in relation to some of my schemes that were very keen on going to buy-in and would have transacted earlier this year is the *Virgin Media v NTL* case. I've got one client that is in the charity sector, where there is a sizeable potential additional liability, where it was agreed it was best to pause to await the outcome of the appeal because taking that step to buy-in is a one-way decision – once you have bought-in, you can't unwind the position. We agreed to pause as we and the sponsor want to understand the consequences because, depending on the outcome of the case, if there is a funding gap, we might want to delay buy-in for a short while and use the assets to generate returns to fill that gap.

Another thing that has caused several of my schemes to pause – schemes that had originally been thinking that buy-in/buyout was the way forward – is where there is a US sponsor. The US GAAP accounting treatment of a buy-in or buyout can lead to some eye-watering impacts which has caused some US sponsors to reconsider buy-in or buyout and instead look at run on.

Pink: Is that the difference between getting to full buy-in where there isn't a settlement or going on to buyout?

James: From what I have seen on my schemes, the accounting impacts for both scenarios can be significant. However, buy-in is an investment decision which ultimately is a trustee power. This can create quite a difficult dilemma as, on the one hand, if a scheme is funded sufficiently to buy-in, as trustee you have an opportunity to de-risk and improve the security of benefits for members by getting the benefit of an insurance company covenant behind the scheme, but on the other hand, taking this action could have quite a significant detrimental impact on the sponsor's accounts. Yet, if you continue to retain risk in the scheme and the funding position deteriorates, you could be criticised as trustee for not taking the opportunity to de-risk when there was the opportunity to do so.

Steve Delo: I'd echo the point that the Virgin Media case has put a bit of a handbrake on everything.

But also, we've had years of talking about buyout as the likely endgame but, at the time, it was a far off action, almost abstract. Then we had the mini-budget and the liability driven investment (LDI) crisis, and suddenly many schemes are swept forward in funding. We're in front of goal.

There was an initial rush of thinking, this is brilliant, let's execute on an insurance transaction. Now there's a bit more pause for thought. Is it the right thing to do? Are there other options? What are the ramifications of doing this? With that rush of blood gone, there's now more consideration about the multitude of options out there, and the reality of pursuing them.

Also, something that wasn't discussed very often is the sheer amount to do post the transaction too – a lot of data work. We've got a very busy admin world right now, and it's harder to get these things over the line. So, some trustees are now saying, we've done this transaction, but we didn't appreciate we've now got all this other stuff to do.

Pink: Also, if you think about that journey plan that you're describing as having been rushed forward, that was in reality one of three journey plans and, as it's been rushed forward, it's exposed two others that were lying underneath it – one being the data journey plan and the other the liquidity journey plan.

Everybody is heading towards a goal at some point, and it was thought that those three journey plans would coincide with that goal. One, as you say, has been brought forward but, in many cases, the other two aren't there yet!

Patel: We've seen this in practice over the past 18 months or so, schemes are coming to market that are fully funded and want to buyout, but they still have illiquid assets as they are ahead of their journey plans. There's innovation in the market and insurers are looking for ways to support these schemes. However, the right solution will depend on a scheme's objectives – typically a balance between value and certainty. Insurers can take on all of the illiquid assets and provide complete certainty upfront, but this comes at a cost, particularly if it isn't efficient for us for them to hold these assets.

Alasdair Macdonald: To me, this is sentiment versus fundamentals that we see all the time in financial markets. Sentiment has swung massively post the LDI crisis. Having done a straw poll of our largest clients, we see 20 to 30 per cent post-LDI crisis that were about to settle now running on. Actually, if you backtrack to pre-LDI crisis, nothing's changed because, fundamentally, the speed limit is market capacity. We all kidded ourselves that we could all suddenly settle, despite all these issues around data or illiquids, but we never

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could have done, in reality. So, you moved from a world where capacity was going to be rationed – insurers were going to ration by volume or by price. We're now hopefully rationing by utility, which is a much more sensible way to do it.

Pink: If that speed limit could be increased, how much capacity have the insurers got?

Patel: We don't see a capacity issue. We hear that every scheme that comes to market is receiving quotes. DLA Piper recently conducted a survey which found all consultants operating in the small schemes space have seen successful transaction rates for small schemes alongside good value for money.

Some insurers, including us, are developing small scheme propositions that will allow them to better service the smaller end of the market. This is likely to increase capacity further over time. We also have new entrants coming into the market which will add to this.

James: I think there is more anxiety on the issue of capacity at the smaller scheme end of the market. Sponsors are worried they are going to lose the opportunity to buyout, because we see entrants coming into the buyout space happy to quote at the smaller end of the market and then, as they get traction and win larger schemes, they are less keen to quote for smaller schemes. Moving forward, subject to there being more new entrants, there will be less and less available choices for the smaller schemes.

In comparison, at the larger scheme end of the market, there's a feeling that we don't need to rush as much.

Julie Alexander: I've heard from quite a few insurers that it's not capacity in the market that's the barrier to transact, and that hasn't been the experience with the rail schemes either, but rather it is things like illiquid assets, data readiness, trustee education, getting comfortable with the member experience and turning the abstract idea of a buy-in into the reality of a transaction. Also, we've got some closed sections with incredibly strong funding levels which still have a few actives that won't be able to do a full buyout.

Then there's the conversation to be had around whether or not we bother with the partial buy-in phase, or we just look at mitigating risk through alternative strategies such as LDI, cashflow-matching strategies and so on, and then wait for the full buyout to be attainable.

Size of going to market as well is a key factor. The rail schemes have got some very small sections, and it's about how you take those small sections to market, and the balance of even expenses versus the cost of the buyout.

Preparing for buy-in/buyout

Moderator: What are the key considerations for a pension scheme if you're approaching the market? What makes you attractive from an insurer standpoint?

Patel: Preparation is key. We don't expect data to be perfect, but being able to demonstrate that some cleansing has been done is critical. The same goes for benefits. Looking at your assets is also important. Schemes should work with their advisors to understand how insurers invest the premiums that they receive. Any mismatch could impact on affordability. Investing in insurer friendly assets also means that an insurer may be able to accept the assets as premium payment, reducing costs. Finally, as discussed earlier, schemes should also review any illiquid assets they hold.

Some other areas which perhaps aren't as obvious include thinking about your governance structure. We do look at, for example, whether there is a joint working group in place. Does it look like there is a clear plan to transact? Have decision

meetings been planned? Can the scheme move quickly if an opportunity arises?

Engagement is also key – and that's not just engagement with the insurer, but are the trustee and sponsor speaking to one another? Are all advisers engaged? Not just the de-risking adviser, but the scheme actuary and the investment advisor too.

These are all things that we look at when we're looking at which schemes to quote on in our triage process.

Alexander: I have also heard that having either a professional trustee or a specialist buyout consultant involved makes the transaction more appealing and can be key to getting access to insurers. Is that your experience?

Patel: We do look at who's bringing the scheme to market, and we do want someone who's experienced, who'll understand how to work with insurers whilst also getting the best outcome for their client.

We're seeing professional trustees more than ever before. We see schemes really benefit from their knowledge and experience. In fact, a lot of professional trustees now want to speak to insurers directly and not just hear from them through their consultants.

Delo: It is quite a challenge for lay trustees to do this sort of exercise, from the decision-making side of the fence.

Macdonald: They won't have done it before, and it's an existential transaction, it's quite scary.

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Pink: Also, in terms of the process, if a consultant comes forward and tells you you're one of eight insurers being considered rather than one of four, for example, will that affect things?

Patel: Well, a smaller number of insurers hopefully gives us a better chance of winning. So, clearly, we will prioritise projects where there is a smaller competitive field, all other things being equal. We're seeing the number of insurers operating in each segment of the market increase. So, what could have been the remit of three insurers at the very big end of the market is now four or five. We look for opportunities where we have the best chance of success.

Exclusive partnerships

Pink: Could you also comment on the exclusive partnership approach? There's a very interesting dynamic here. You would think that there wouldn't be much pressure on an insurer to give a great price if you're the only insurer in the process.

Patel: We're increasingly seeing larger schemes adopt a partnership model, where they work collaboratively with an insurer in an open and transparent way to achieve their buyout goal. We've successfully partnered with a number of schemes.

Here it's all about upfront understanding – there's a level of commitment from both sides, and there's got to be some transparency that goes with that, which goes beyond what we would normally see in a more competitive process. We look for ways of giving those schemes comfort that we are pricing at a market level and that we are prioritising them.

A partnership approach is not right for every scheme, but for schemes that perhaps have specific or non-standard requirements, it can work very well.

Pink: From a trustee and an adviser point of view, it's good to have an insurer that's working hard on the assets to put the deal together.

Will Riley: Yes, especially when you've got complexity of asset types as well, where you can actually get more time with the assets to really understand the pricing, what is going on behind them, whether that's on the illiquid side, or in relation to complex derivatives. So, that ability to really get a true understanding of what's going into those assets and where you can price that just makes it so much better for pricing at deal time.

Macdonald: If you look at LDI managers engaging with counterparties and so on, it's not about getting the best deal at a point in time. There's a longer-term gain here as well and value to be had. If you've got a sensible LDI manager (in this example) or de-risking adviser or whatever, we know what the market price is. We can benchmark these things. You're in competition with your future and previous selves in a strategic partnership.

So, people just need to get a bit smarter about how they design these processes – it's easy to think of it as a one-time transaction, so let's try and get the best price, but that doesn't necessarily get you the best price.

Alexander: I would argue that there's also reduced focus on price as the key factor. That's certainly been the case with the railway schemes, especially when coming from a position of surplus, in that maybe we are slightly less sensitive to price in favour of other factors.

For example, because we have 107 sections, and 1,000 set of scheme rules, working with an insurer that understands us and how to work with those scheme rules is incredibly important to us. That is something we'd be willing to pay more for over another insurer.

Our trustees are also passionate about member experience so, again, that's something we would be willing to pay more for. So, price is not the only factor even if it's an important one.

Riley: It's also not great for the market to have multiple insurers spending all of the time it takes to model that in a process of, say, four when three know that all of that work's going to go in the wastepaper basket at the end of it. Plus, think about all the other trustees waiting for that same pricing team to become free.

Alexander: What we've done more recently, because we know we're going to have quite a strong pipeline of transactions and we want the ability to deliver that strong pipeline of transactions, is have a panel of just a couple of insurers that are going to get to know us, making the transaction process smoother.

Riley: Also, if you are looking at the market at that time and you're lining up four insurers, you're pretty much tied into that moment when you're going to be doing the transaction. Whereas, if there is an opportunity in the next three months where you can almost have the opportunity to catch the falling knife, to be able to say I think credit spreads have increased to a certain extent, that can actually benefit you much more than the benefits you're going to get from getting a reduction in price from having three or four different insurers lined up against each other.

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Surpluses

Joe Dabrowski: Also, because we are seeing surpluses – and those surpluses don't seem to be going away any time soon – is there an argument for saying that schemes, trustees and employers are happier to potentially sit and wait and queue while, for example, they clean up their data? If there's no longer a deficit problem, they might be more willing to move in a year's time or two years' time, there's less urgency. The market is heated now, trustees know it's heated, they know the demand is there, therefore prices might not be as competitive as they might be in a year.

Matthew Jones: That brings us to the argument of possible uses of surplus – we could all come up with loads of ways to spend the money that we create, but why would we do that? And is it our job to do that?

Moderator: That is a key question.

Jones: Well, I think fundamentally, as trustees, that's the bit we've got to square off first. What's our purpose? What's our objective? Is everyone on board with that? Is it a reasonable thing to do? To square that off, to say OK, we have a period of time because it's going to take two or three years to get these things done, let's really consider what does this look like, is it worthwhile? That fundamental governance around purpose is a good thing.

Dabrowski: Is it your choice is another thing, because a lot of surpluses are employer choices rather than just scheme choices. Some of it's mixed, some of it's got a whole combination of 'if this' and 'if that' circumstances.

Macdonald: There is another perspective on the surplus point in that, now some schemes are in surplus and we may be able to use it for the sponsor or members, then suddenly the question of value comes to the fore – previously it didn't matter so much in that, if you had enough money and you secured the benefits, members were happy, sponsor was happy. Now, if you could secure the benefits cheaper in three years' time, then that's more benefits for members, more money for the sponsors. It's now about value rather than price. That's completely changed the perspective.

Alexander: There's a lot of work to do though to bring the concept from the abstract to the reality in terms of that surplus. Conceptually, it's compelling and it's a very worthwhile conversation that we're having with our trustees and I'm sure lots of trustee boards are having. But the reality of how you release that in a fair way, so that it benefits your members at that point in time, whatever that point in time is, will take a bit of thinking about.

Macdonald: We have lots of live discussions where effectively the trustees and sponsor are setting a new deal, which is 'who gets x per cent of the surplus?' We can argue over how the trustees spend their surplus and how the sponsor spends it. That's irrelevant. The basic thing is, what's the powers in the rules? What cards do we have to play? Let's have a one-off negotiation to set a new deal. Sometimes it's 90 per cent to the sponsor, 10 per cent to the trustees. Sometimes it's the other way around, depending on powers. And we've got people actioning that – the surplus is now sometimes being viewed as an endowment fund to pay DC contributions for 50 years.

Mansion House has kicked off all of these discussions, but the reality is, we can do all this already. We did it in the 1990s. This is not new. Everyone thinks this is a weird concept, but in the 1990s we gave contribution holidays and discretionary pension increases and we had big solvency surpluses. That's where we are now.

Dabrowski: The change in government will alter that dynamic too.

Delo: There are, however, quite a few schemes that are broadly funded on buyout where the corporates are still pushing for buyout because they'd like them off the books. The shorthand for many sponsors remains that DB is horrible thing, so let's get rid of it. It's a pain in the neck, it costs a lot of money, it wastes a lot of time and finance directors have got to go their heads around it. So, there's still that driver to buyout.

These can be problematic in that you can't quite get a transaction away because – back to that point on the data journey plan – you don't quite know what you're insuring. You still want to do a transaction, but it's quite difficult to execute it if you don't have a big enough buffer to confidently deal with the post transaction aspects. Trustees could actually get these transactions going if insurers were prepared to do something, prepared to turn the screw a bit more to get them away. I think insurers could do some quite nice quick deals there.

Pink: But are sponsors as keen on buyout as they used to be? Because presumably they've been staring at surpluses on an IAS19 basis for some time now.

Delo: Well, once they've switched on to that, the dynamic starts to change. That hasn't yet fully filtered its way through.

Macdonald: It needs to be done in the right language as well. We had

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one client that was keen to settle. Then we explained to the finance director, if you let us run off, for every year past being able to settle, you could get a very significant return on capital coming through. It's not risky. It's not like we're betting on equities. It's just the scheme matures, members retire, transfer out or take commutation. Suddenly, the finance director thought, why on earth would I settle this?

So, we spoke in the right language. We framed it the right way.

Investment strategies for surplus

Riley: Does all of this potentially change investment styles? We talked about it earlier as being like an endowment, in terms of having the bulk of your assets hedging the full funding ratio, then having this piece at the top that is the surplus. Are people thinking about separating those two out or managing those two as one whole or trying to segment it away so that you've got something separate that is being managed?

Macdonald: Well, effectively, we had a world where there was a cost to capital for the sponsor, and we had aggressive funding negotiations with the sponsor wanting to pay later, not now. Then we had this world where there weren't deficit contributions, we were well-funded. Trustees did not feel a cost to capital. So, it's like more money, less investment risk, generally way below anything that's economic in the real world.

Now, with the prospects of surpluses being used for members, suddenly trustees have a cost to capital. Yes, you can de-risk to gilts plus 25, that won't reduce total risk, but your members are now getting lower discretionary increases. There's a cost to capital introduced to the system, so you get a rational allocation of resources.

To then address your question Will *[Riley]*, with small surpluses, no one is doing anything different. But some schemes are getting surplus to the extent that they can see it is not realistically going to be needed for benefits. So, they can potentially invest it for surplus generation in a different way.

Alexander: It really relies on a very good and proper assessment of the risks.

If your sponsor is not bulletproof, if it's not government guaranteed or very strong, I'd want to be very, very confident in my assessment of the risks if I was a trustee before I took that view.

If you think about where the trustee risk is, what's my job if I'm a trustee? My job here is to pay the pensions. If I was in the position to do so and then the funding position weakened materially, I would feel very uncomfortable. That's the risk. It's getting from that position of a little bit of surplus to enough surplus to have that conversation which is key.

Macdonald: I'd be interested in some of the professional trustees' views around the table because I have had trustees say to me, we're damned if we do, damned if we don't. Previously, when there was no prospect of members getting any share, it was obvious what the least risky trustee strategy was. Once a decision to settle at 100 rather than pursue a bigger number comes into play, then it's potentially more challenging for trustees.

Dabrowski: Yes, and there's been a cohort of trustees that haven't had to face this problem for 20 years. So, for many it will be novel. Equally, on the portfolios, are people rebalanced post the LDI crisis? There were a lot of people that were very overweight on illiquids and are just maybe now getting back to the other side. So, where do you add the risk back in if you want to carry on with a little bit of extra risk?

Pink: There is this other risk that we haven't talked about, which is longevity risk. With cancer vaccines and anti-obesity treatments, it could be that if you're not hedged for longevity, that might be something that you're very significantly exposed to.

Moderator: We have been doing a lot of work around investment strategies for managing these surplus portfolios. Will *[Riley]*, could you perhaps expand on that?

Riley: What we're finding with clients is that they end up having a primary focus on trying to meet their obligations. So very much a CDI-style portfolio where they're thinking about how they make the liability payments but also, what risks they are running within the portfolio. So, rates, inflation, and then, importantly, how much credit risk they're running within the portfolio.

The second part of that is thinking about how they're going to optimise the portfolio and get it ready for when buyout does come along. So, the transferability of assets, whether there are any illiquid solutions that they can try and manage – thinking about how to get the portfolio ready so that, when those opportunities do come along, they're in a position to be able to engage with an insurer and be able to move some of the assets or all of the assets across.

That seems to be a growing trend ever since the gilts crisis.

Pink: Another market change has been in relation to partial compared to full buy-ins – we've got a chart that shows how the partial buy-in versus full buy-in volumes have changed over the years. We're now at virtually 100 per cent full buy-ins.

Alexander: My perception on that – and it may be biased coming from the Railways Pension Scheme perspective – is that, if you think you've got a very long journey, if you think you're going to be waiting 10 years for your full buyouts, it might be right to do a series of buy-ins.

However, for us, given that we're so close to the full buyout, is it worth the hassle to do a series of buy-ins? We might focus on liability matching first and then move straight to a full buyout when the time is right.

Delo: Then you can do it in one big deal at the end where you know you've got your data right and what your rules are. There's probably a lot of logic to that rather than chipping away with buy ins. Of course, we're in an industry that has been chipping away for a while with buy-ins because, until yields shifted, we never thought we could buyout.

Jones: The gilts crisis was a clear inflection point for many schemes; depending on the level of hedging in place, schemes may have a very different outlook now than before. I was working within the Local Government Pension Scheme (LGPS) at the time and, given the lack of LDI within the LGPS, the crisis wasn't so much an operational or strategic issue but instead materially improved funding positions across the LGPS and actually accelerating the de-risking conversation in these schemes.

Moderator: Indeed, the LGPS has a different set of challenges and opportunities.

Jones: Yes, and on the back of that, there still are a significant number of large open DB schemes as well as LGPS that will be in a similar position. The challenge you've got there is how do you manage this past service risk alongside keeping the sustainability of future accrual going? More broadly, how do we as an industry look at adequacy of pension provision across our system and how do we utilise some of these techniques, developed for closed DB schemes, to support the need for longer-term provision of benefits? It's an open question and one we need to answer.

James: For open schemes I am involved with, which include LGPS, it is the ongoing stability of the contribution rate that is key, which requires a very different approach to funding and investment than for a legacy scheme with an endgame scenario.

You put in place a plan to make good a deficit over an agreed period and you just want the agreed contribution rate to remain stable from valuation to valuation, so that there are no surprises on employer finances, especially in the case of a local authority where there could be implications for taxpayers.

Dabrowski: There's a different problem in the LGPS in that, most funds are well funded, some of them are extremely well funded. So, they're thinking about how to lower employer contributions, what is the connection to the local authority costs as large administrative authorities, given that most of them are under financial pressures – it's different.

James: It is. There are of course also some open schemes in non-LGPS space. I have one that is open to new entrants and future accrual, which has benefited from the financial crisis effect and instead of having a small deficit, it is now well funded with a surplus. Again, it is the stability of contributions rates that is key, especially for the employer because the cost of future benefit accrual needs to be affordable and sustainable to support keeping the scheme open to new entrants and accrual for the foreseeable future.

Alexander: That's a very live issue for the Railways Pension Scheme because we have a cost sharing arrangement. The trustees are obligated to act in the best interests of members. If your members are paying a portion of that future service cost, then it's unambiguously very important to keep that cost affordable. Otherwise, people won't join the scheme. So that's something we're very conscious of in terms of how we manage risk in the open sections and that we're very sensitive to.

Our trustees would also love it if the current surplus environment led to a bit of a re-think about pension provision generally and potentially increased DB pension provision. Is this maybe a catalyst for the rebirth of collective pensions? There is an acknowledgement that DC is not going to be enough pension for most people.

Delo: One of the problems of the industry is that we put so much of our brainpower into dealing with the legacy issues and not enough into dealing with the future and trying to design things that will benefit retirees of the future. Employers do the minimum. Auto-enrolment sort of works but we also know that it's not going to deliver enough.

We've got to start switching on to inspiring employers to do more again.

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Market innovation

Moderator: What innovation is happening and how is artificial intelligence (AI) impacting the market?

Patel: From our perspective, to say that AI is radically changing everything is not quite accurate, but it's something we're looking at to make processes more efficient. Pricing is currently a very labour-intensive process, you're doing an actuarial valuation in a matter of weeks, so we're looking at ways we can make this more efficient. Ultimately, we'd hope that AI could be used to help us scale capacity.

Delo: But risky if you get things wrong?

Patel: It would be fully tested before being implemented – you've got to invest that time now to create something that will work for the future.

Pink: We see the administration industry under enormous pressure – can AI help there?

Delo: The big problem of the industry is that pensions admin has got too difficult and there's not enough resource. That's what's going to slow everything down. That's the friction in the process, and the risk. We haven't got enough admin capacity because there's all the other stuff to do as well. We've got all the equalisation data work. We've got to get ready for dashboards. If there's a Virgin Media adverse outcome, we might be remodelling a load of benefits there.

It's all got too difficult, and we don't have enough experienced administrators in the industry. I do think we have to acknowledge that that admin capacity crunch is going to bog us down quite a lot.

Patel: It is an area we're very focused on. Our admin team is in-house, and we are very conscious of continuing to offer an excellent member experience and service particularly in a busy market.

For example, we could scale up our smaller scheme proposition and do far more quotes, but we do not want to overload the post-sale process, because it needs to be an end-to-end solution.

Dabrowski: From what we are seeing, there's quite a lot of innovation happening in this area, and it's moving on in fast leaps and bounds. In a couple of years, the world will be very different.

Macdonald: This could be a massive macro story too. Potentially, this is the 1990s again, where we saw the rollout of PCs, the rollout of the internet, 10-15 years of great growth, low inflation, governments getting debt back under control because the economy is booming.

Or maybe it isn't, because there's nothing there. But we've got five or 10 multi-trillion-dollar companies who will throw all the capital at this bet. Something's going to stick, something's going to come from it.

So, when you're thinking back to what the risk exposures are if you run on versus settling, you need to bear that in mind too – this could be a great decade for investing!

Riley: It sounds like the impact of AI could be more about cost reduction rather than actual growth – if you are going to see those improvements and enhancements coming through, it might make you a lot more efficient. So could be very positive in terms of cost.

Moderator: What about technology development away from AI?

Riley: We are investing quite heavily into systems that will help the whole investment process.

If you think about the endgame process, about aligning everything from the beginning when you're looking at portfolios all the way to the annuity portfolio and getting that all together on the same platform in terms of how you can think about pricing and how you can think about how those portfolios are being managed, then there's also a lot more we can do around buyout optionality and monitoring.

So it's about making sure you can then be tracking exactly what's going on in the client's portfolio from a buyout perspective – around knowing when you're going to get to that trigger point, and, if there is a trigger point, what you're going to be doing at that point when you hit it.

Alexander: I'd like to see some of the technology innovation filter from the insurers to the pension schemes. Innovation always starts with whoever has the commercial imperative or the commercial bandwidth to do it – at the moment, that's the insurers.

James: On a slightly different angle in terms of innovation, one thing that can slow down the progress to buy-in is when you have got a complex benefit structure and there may be certain benefits within the scheme that are uninsurable. I fully understand in a situation where a scheme might have a DB benefit with a DC underpin, this cannot be insured and an alternative solution such as a benefit augmentation or uplift needs to be found. But there are other situations where, for example, pension schemes have benefits linked to state pension age, which can be changed by future government policy, and currently this type of benefit cannot be insured.

I am wondering whether there might be any more innovation or development in this or similar areas expanding on the types of benefit it is possible to insure?

Macdonald: Potentially the public sector consolidator?

James: Well, as I understand it – and I appreciate the detail is yet to be fully known – the public consolidator is proposing schemes accept a standardised benefit structure. For trustees, that can create a problem because it would involve creating winners and losers, which is a difficult line for trustees to go down.

Funded re-insurance

Dabrowski: Can we talk about funded re-insurance as that seems to be a hot topic?

Patel: Absolutely. Funded reinsurance involves reinsuring asset as well as longevity risk to a reinsurer. We use funded reinsurance. It's not our long-term business model, it is something we use tactically to manage our risk and optimise capital usage, and ultimately provide better pricing to pension schemes.

We only reinsure with strongly rated reinsurers, and our counterparty exposures remain well within our tolerances. All our funded reinsurance arrangements are collateralised which enhances the security.

The Prudential Regulation Authority (PRA) has taken a keen interest in funded reinsurance, and we've been actively engaging with them on this.

Delo: Could it be a tool that a less good insurer could use in a less well-managed way?

Pink: I think the PRA is sufficiently on top of it in that, even if it's used in different ways, it's constrained sufficiently that trustees don't need to worry. Because if you're contracting with that fronting insurer, the way they're risk managed behind it has never really been something you should be too troubled about.

I think the question really is, what is the motivation for funded re-insurance? If the motivation is simply because they have access to asset opportunities that your team don't have the capacity to be reviewing carefully, then I'm all up for that because that's just bringing more interesting things into the frame.

Macdonald: The bigger, more general, point we should be making is that insurance is not risk-free. But, if you've got a weak covenant, it's quite clearly better to be with an insurer. It is perhaps less obvious for some of my clients with quite strong covenants that that's a better trade.

ESG

Dabrowski: Another big theme that asset owners are beginning to think more about is responsible investment and the approach being taken by insurance providers – is that as good as it could be? Has it been as progressive as funds themselves? Largely not, I don't think, but I think it's changing.

Delo: It's a tricky one to deal with because, as a trustee, you can only judge an insurer at the point of transaction. You don't know what the insurer you've chosen is going to do in the future.

Pink: Is it the trustee's job to worry about that?

Alexander: If trustees have strong ESG views or beliefs in the pre-transaction phase, it would be hard to fathom why they wouldn't be worried about it post-transaction. It's all in the same bucket as 'do trustees understand the risk of insurers, do they understand what's in the black box?' Maybe it's all been a bit esoteric and a bit far away and now they're starting to think about those things in a real sense. So, trustees are spending some time understanding what different insurers' approach to sustainable ownership is.

Then there's a secondary challenge of, how does that align to individual trustee boards' beliefs? Some trustees have very strong beliefs on that, and it's reflected in their pre-transaction strategies.

Delo: But you also don't know where your insurer is going to end up – you might insure with one and it ends up somewhere else. You might start with good admin, good ESG credentials, and end up with bad admin, bad customer experience.

Alexander: That might be a barrier to transacting full stop.

Macdonald: I do have some trustees who have taken that view, that they want control of the assets so they can manage the ESG risks. The shorter the time period over which they pass stewardship over to the insurer, the better, because there's less uncertainty.

I also have clients with a strong focus on ESG who, given their leverage, have created change with the insurer, agreed new policies and processes and so on – the insurer might not stick with that, but at least the client feels they have done something.

Patel: We see ourselves as a leader in ESG investing, but more generally, if the industry puts pressure on insurers in this area it will help drive everybody forward. So, trustees making it not just a tick-box in their selection criteria will be important.

Moderator: All in all, we have had a really interesting discussion today covering so many different areas and perspectives. Thank you all for joining.

Retirement saving and life-limiting conditions

Saving for a pension may seem of less importance to those with life-limiting conditions. But that does not mean that the industry can or should do nothing

Summary
- It can be difficult to talk to people with life-limiting conditions about their financial futures.
- However, these conversations are vital because of medical advances and inheritance issues.
- While funds can have conversations about this subject, it is still difficult to assess how medicine will evolve over decades.

Mark Ward was 14 years old when a nurse told him and his family that he was HIV-positive. He had been born with severe haemophilia A, a medical condition in which the blood does not clot correctly, and would, as a result, spend years in and out of UK hospitals after slight injuries would lead him into near-fatal conditions. It was through this, from 1977, that he took the now-notorious Factor VIII product, which forms the backbone of the recent ‘tainted blood’ scandal.

One injury as a child led to the deterioration of his left knee, which necessitated an operation in 1983. After six weeks in the hospital, as Ward and his parents were leaving, one of the nurses called across the room, “Mr and Mrs Ward, do you want to know the HIV results? They’re positive. See you next time.”

A follow-up appointment a week later saw the family being informed to not tell anyone of the infection and that Ward should only expect to live for another two to three years and that he should not plan on having an 18th birthday party.

Somehow, he survived. He left school and joined British Airways, but had to hide his HIV status, even when his health eventually began to deteriorate.

“The years before I started getting ill,” he tells *Pensions Age*, “I was earning £26,000. That was decent money back then. Then BA was told I had AIDS, so they wanted to get rid of me through medical retirement or being fired the next time I got sick. So, I took the retirement and opted for the maximum lump sum, which was only about £14,000 or £15,000. I was dying, so I wanted to leave something to my parents.”

Since then, the treatment of HIV has moved from being a death sentence to something closer to a manageable condition. In 1991, the US’s Centers for Disease Control and Prevention said that the median survival time of those diagnosed with HIV was just 18 months. Now, a single pill lets many lead normal lives.

For Ward, being infected with HIV has tainted his entire life. After leaving BA, he oscillated between working and periods of ill health. He never saved for a pension. He now spends his time as an activist and will release his autobiography, *Bleeding Fabulous,* later this year. But he remains in a financially parlous state.

“I’m 55,” he tells *Pensions Age*, “and my monthly pension is just over £600 a month. That’s not something you can live on.”

Shifting conditions

Medical science shifts constantly, with conditions and illnesses becoming more manageable over time, and with prognoses constantly adjusted. A terminal, continual decline three decades ago can now be slowed, extending life expectancy, or even halted. Recent years have seen great strides not just with HIV, but also conditions such as Parkinson's, Multiple Sclerosis, and Alzheimer's.

This is a challenge for the pensions industry: How can you help someone plan and budget for a future they may not believe they will have?

"Having a life-limiting condition can obviously mean quite a broad range of things," says AJ Bell head of retirement policy, Tom Selby, "from terminal cancer and having weeks to live to a more-minor condition that reduces average life expectancy but with the possibility someone might live into their 80s or beyond. And there is always the unknown of scientific breakthroughs that change the likelihood of people with certain conditions living to a ripe old age."

Such things are hard to know or make sense of, which is why proper advice and education is key. It is an argument often made across the financial services sector.

"The biggest thing for me," says WTW director in the DC consultancy team, Gemma Burrows, "is around education and understanding. One thing that we don't do well at as an industry is giving people accessible guidance and advice that will help them make informed decisions. That's something we need to look at, but the flipside to it is that it's often not valued as there's a cost to the advice being given."

The challenge, says Burrows, is that there is an inherent difficulty in getting people to plan for a future they think will not happen. Income may also be a challenge as life-limiting health conditions may mean that income over a career may remain uneven and limited by the struggles of building a career while having medical limitations.

"It is," she admits, "a perfect storm."

Inheritance planning

One aspect that the industry could push on when talking to people with life-limiting conditions about their future financial health is that of inheritance planning – what will happen to a partner or spouse in the future, and their own financial wellbeing.

"One of the things to remember about pensions," says Selby, "is they are extremely tax efficient on death and can be passed on completely tax-free to your nominated beneficiaries if you die before 75. You can also access your pension flexibility from age 55 (rising to age 57 in 2028), so provided you live to this age then you will be able to access your pot flexibly, with a quarter tax-free and the rest taxed the same way as income."

"How can you help someone plan and budget for a future they may not believe they will have?"

It is a point taken up by Hargreaves Lansdown head of retirement, Helen Morrissey. She points to the 'significant' piece of mind that comes from someone knowing their pension savings will support a loved one during difficult times.

She adds: "With this in mind, it is really important that schemes remind members of the importance of updating paperwork such as expression-of-wish forms to make sure the right people benefit should the worst happen."

There are other aspects that may be beneficial. Those with life-limiting illnesses, says Selby, are likely to qualify for an enhanced annuity, meaning a higher guaranteed income over a shorter period if the insurer anticipates someone having a shorter lifespan. This is a point that could easily be made to those in this situation.

And it is a point that was made in parliament last May. Back then, MP Dave Doogan of Angus asked whether the House would consider early access to pensions for those with a terminal illness. Doogan's comments were aimed at the UK's state pension, but MP Margaret Ferrier, an independent representing Rutherglen and Hamilton West, said that terminal cancer patients had been told by pension providers that they were ineligible to access their pension earlier as they might live longer.

The landscape for this, however, is varied, with different approaches taken by different pensions providers. The current guidance provided by the government is that you may be able to take your whole pension as a tax-free lump sum if you are under the age of 75 and have a life expectancy of less than a year, provided that certain criteria are met.

Endgame

The situation is not impossible for those in Ward's position, coming into the twilight of their careers with little or nothing saved for retirement.

"Having too small a pension pot isn't something anyone else can do anything about," says Selby. "It is still possible to make up for lost time, particularly if you have a decent salary, if you don't start until your 40s or even 50s, although clearly you'll need to make big contributions."

Burrows echoes this statement. "It's never too late to save," she says. "There are a lot of tax efficiencies around saving, plus there's auto-enrolment."

As to whether pension funds can build in thinking about medical advances, Burrows said that that was a role for underwriters.

"They do consider things like mortality rates and postcodes for how it impacts on life expectancy," she says, "so there has to be some consideration for that sort of thing. But how do you qualify, and to what extent, how something may advance over a certain period?"

Written by Pete Carvill, a freelance journalist

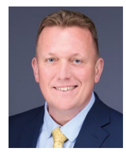
Overseas inspiration

Pensions Age asks: What elements of other countries' pensions systems would you like the UK to adopt?

If I had to pick just one thing that I would like the UK pensions system to adopt, it would have to be the built-in increase in mandatory company contributions rates that applies to pension contributions in Australia. Because increases are legislated for long in advance and with gradual increases over quite a long time period, it has stopped improvements in the private sector pension provision being a political football or subject to swings in the economy delaying increases. It's also resulted in it being an almost universal provision and over time has built a high level of retirement security for most Australians.

Of course, this is against a backdrop of an income and assets tested state pension, so as retirement savings have built up, many Australians won't get a state pension. However, I think the universal nature of this decent level of employment-related retirement provision makes up for the lack of universal state pension, which those on the lowest levels of income will still get. The outcome is a workforce and retired population who value and are engaged with their retirement savings.

Zedra Governance client director, Anne Sander



There are a lot of lessons to be learnt from other countries' pension systems, but my main takeaway would be putting the effort into planning to deliver on a project that meets its objectives in full is key.

Take Ireland's auto-enrolment system. They are developing it with pot for life built in, along with a 'clearing house' from the very start to achieve the aim of helping people keep the same pension pot and stop billions of pounds being needlessly lost. It is a plan the previous Chancellor said he was exploring at the last Budget, but the reality is it would now be very complex and expensive to retro-fit in the UK. We should focus instead on existing discussions around the pot-follows-member model to improve retirement outcomes and provide greater member security.

Broadstone head of market engagement, Simon Kew

To enhance the UK's pension system, adopting elements from the US and Sweden's models, as well as incorporating tontines, could be highly beneficial.

The US system allows individuals to borrow against their pension pot, providing greater flexibility in managing personal finances. This feature can be particularly useful in times of financial need, allowing individuals to access their savings without incurring heavy penalties or taxes.

Sweden's notional defined contribution (NDC) model is another exemplary system. This approach ties benefits directly to lifetime earnings and economic growth, promoting fairness and sustainability.

Incorporating tontines into the UK pension system could also provide significant advantages. Tontines are investment pools where participants contribute funds, and payouts are distributed among surviving members, increasing as members pass away. To address concerns, such as a spouse receiving no benefits if a member dies, the system can be designed so that a portion of the deceased's share goes to their spouse, with appropriate limits to prevent exploitation, such as age differences and deathbed marriages. Tontines strongly incentivise better health and longevity among participants.

By integrating the ability to borrow against pension pots, linking benefits to lifetime earnings and economic growth, and incorporating tontines for risk sharing and health incentives, the UK could create a more robust, fair, and sustainable pension system. These changes would enhance financial security for retirees and ensure the system's long-term health.

Cartwright senior investment consultant and head of digital assets, Glenn Cameron

Every year the pensions world rankings reliably feature the Nordics, Dutch and Australian systems at the top. What these systems have in common when compared to the UK is generous state pension provision and a funded workplace pension system defined by sector-wide funds with scale, run by employees and employers in the members' interest.

The question is how much consolidation and how fast. The Nordic model combines a small number of sector funds with a state-owned fund alongside. For example, Alecta serves most of Sweden's 'blue-collar' workforce and the AP funds serve the whole country; in Finland there are only a handful of major occupational funds alongside Kela the state institution; in Denmark ATP serves the whole country alongside sector-by-sector occupational funds. In the Netherlands and in Australia sector-wide industry funds dominate funded pension arrangements.

IFM Investors executive director – public affairs Europe, Gregg McClymont

There's a lot to learn from the Canadian pension industry, where there's a number of different instruments that enable longevity risk to be shared. These include variable payment life annuities within DC plans, target benefit plans, and tontine trusts and longevity pools within mutual funds. The implementation of each instrument is marked by the over-arching legislative backdrop, sometime in unanticipated ways. We believe the primary lesson here is to regulate in a way protects members while 'letting a thousand flowers bloom' so providers can embed longevity risk sharing in different contexts and with different flavours.

Hymans Robertson head of digital strategy (investments), Phil Hardingham

The biggest factor in determining retirement outcomes is the contribution rate. The UK's 8 per cent minimum lags behind other countries with similar reliance on DC schemes, including Australia (11.5 per cent), Iceland (15.5 per cent) and Denmark (average 12 per cent). The UK is also a bit of an outlier in the make-up of contributions, with employees paying more than employers. Other countries tend to favour a more even split, or greater contributions from employers.

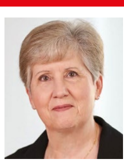
Scottish Widows head of policy, Pete Glancy

The Dutch system provides a potential template for the UK to draw from, particularly considering its use of scale, which has been achieved through consolidation.

The Netherlands went from having over 1,000 funds two decades ago to less than 200 today. More pertinently for UK corporate DB schemes is how quickly the number of similar Dutch individual company schemes fell, decreasing by 70 per cent over the past 10 years.

This additional scale would be a landscape shift for the UK industry and whilst we may face challenges enacting it, it would bring with it huge benefits.

Van Lanschot Kempen head of investment strategy, UK, Alastair Greenlees



As a nation, we lose 10s of billions each year to financial fraud, with £6 billion of that in pensions. This is totally unacceptable, but no UK parliament has been brave enough to go after the scammers and fraudsters, but instead has adopted a lazy victim-blaming approach – if only people were more sensible with their money, scammers and fraudsters wouldn't win. Sadly, this is far from the truth and is exactly why the UK is one of the most scammed countries in the western world.

If I had my wish, the UK would follow the approach adopted by the USA, where after the damage caused by Bernie Madoff, fraud is treated as a serious crime. Prison sentences are severe and convictions much more likely. In addition, the federal government can seize the assets of suspected scammers – money used to resource intelligence, law enforcement and prosecution. The IRS also gives tax relief to victims to aid recovery. We have it the wrong way round and fail to protect our citizens.

PSIG chair, Margaret Snowdon

Pensions history

The politics of change

Modern British general elections, played out in TV debates and social media, feel very different from those which took place only 20 or 30 years ago. But in some respects, they have hardly changed at all. George Ross Gooby (whose extensive papers are part of the Pensions Archive Trust collections) wryly remarked in the 1964 election year that policy items on pensions, among other things, were 'often one fears simply for the purpose of vote catching'.

We live in a more cynical age. But long-term solutions might emerge if politicians followed two principles.

The first is honesty with themselves and the public on the challenges and choices open to them. How can the widening disparity in the pensions coverage, benefits and security of public servants and everyone else be tackled? If minimum auto-enrolment contributions are unlikely to produce a comfortable retirement what will be done to encourage or compel more realism? Who will pay for it? And what is the role of the state pension?

The second principle is the use of the tax system to encourage saving and responsibility by all and the provision of a stable and uniform framework applied to all.

Concluding his remarks on politics in that election year over 50 years ago, Ross Gooby hoped that the pension fund whose investments he managed would continue to flourish so that 'our pensions can keep pace with the inflation, which governments seem unable to combat'. Very little changes.

Pensions Archive Trust director, Jane Marshall

www.pensionsarchivetrust.org.uk/our collections

The bright side

***Pensions Age* takes a closer look at some of the recent good news stories in the pensions industry...**

The **Independent Governance Group** completed its Three Peaks Challenge, climbing 2,800 metres and walking 34 kilometres. In total, the group has raised £11,500 so far for Alzheimer's Society.

Nuveen announced plans to partner with Albert Kennedy Trust, to help support LGBTQ+ young people who are homeless, at risk of homelessness, or living in hostile environments around the UK.

Standard Life hosted the Race for Life in Battersea Park as the headline sponsor for the second year running. Organisations from across the pensions industry and beyond came out in support of the event to help raise money for Cancer Research UK's life-saving work.

Rothesay and The England and Wales Cricket Board announced a multi-year partnership, making Rothesay the official title partner of men's and women's test matches.