Biodiversity
The important role pension funds have in protecting biodiversity

Surpluses
How can current DB surpluses be used to potentially boost DC savings?

Sustainable EM investing
How to factor ESG considerations within EM investments

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July/August 2023

PENSIONS Age

The leading pensions magazine

Banking crisis: *How the knock-on effects of the recent US banking turmoil have been felt much closer to home*

Case study: *The lasting effects of 'pension liberation'*

The tortoise and the hare

Can slow-moving DC reform finally catch up with financial reality and futureproof pension saving?

Interview: In his first interview since the dashboards reset, PDP principal, Chris Curry, discusses the recent ministerial update and responds to industry concerns

Editorial Comment

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

We naturally slow down as the temperature rises and the sun shines down. When the nice weather finally arrived this year (in fits and bursts), so too did the announcement that the dashboards programme will be reset, with the Pensions Minister, Laura Trott, confirming a new connection deadline of 31 October 2026 *[see page 18]*.

Coincidence, I think… so. Yes, it probably is.

But still, PDP principal, Chris Curry, in his first interview since the announcement of the reset, urges the industry not to consider this reset an extended 'summer holiday' from dashboard preparations but to maintain momentum.

The PDP will be working collaboratively with the industry over the next few weeks and months, so there will be plenty for schemes to get involved with still.

I recommend that those responsible for the creation of the UK dashboards also use this time to consider what has gone before – how other countries have implemented dashboards, to emulate their successes and learn their lessons where applicable. Helpfully, we at *Pensions Age* have provided an overview on just this subject, on page 52.

However, dashboards' implementation may not be the only thing slowing down. Last month saw MPs urge the DWP and TPR to halt their existing plans for a new DB funding regime, at least until they have produced a full impact assessment for the proposals *[see page 12]*.

I certainly agree with this suggestion of a full impact assessment, lest we not learn the lessons from the 2015's freedom and choice shock announcement. We as an industry are still discovering the effects of this 'act for vote-wins first, think later' approach to policy making.

Taking the time to look at the big picture *[our magazine theme this issue]* is all the more vital now due to the changing world we are living in – just a few years ago, I couldn't imagine that we wouldn't be writing about low interest rates and DB deficits – now high inflation and surpluses abound.

In fact, one option for DB surpluses that we dwell upon on page 60 is their potential use to boost DC pension levels. Practical challenges remain of course, but these are issues that could be overcome, particularly given the benefits to the broader economy this solution may provide.

Whether this will be a proposal in the IFS' UK pensions system review remains to be seen, following its concerns around the 'substantial risks' facing future generations of pensioners. It is hoped the review will provide realistic changes that the government can easily implement – see our cover story on page 39 for more.

So, with more change and reform ahead, especially with the Chancellor's Mansion House announcements at time of press, maybe we should enjoy a summer lull while we can.

Laura Blows, Editor

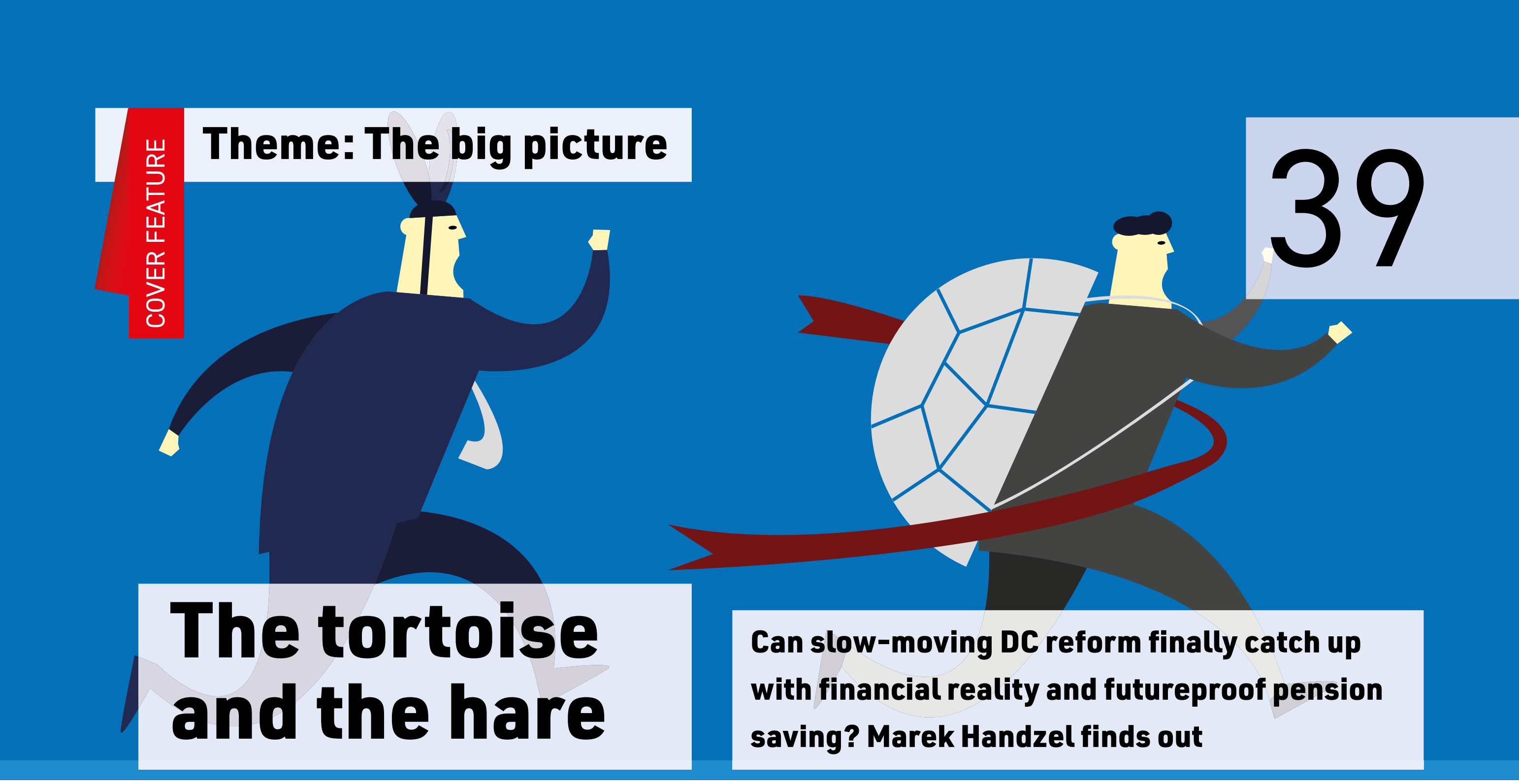
In memory: Marilou Tait

It is with incredible sadness that we announce the loss of a much-loved and highly respected long-standing member of the Perspective Publishing family, Marilou Tait.

Marilou held senior roles in the accounts department at Perspective for over 20 years, and attended many *Pensions Age* and *European Pensions* Awards, where you would have found her on the dance floor.

Marilou had a unique grace and kindness about her. Her generosity, warm personality and positivity made her a popular and well-regarded member of the team, and she will be sorely missed by colleagues past and present.

Marilou passed away peacefully at the end of June after a short period of illness, surrounded by her family and friends at her home in the Philippines.



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The tortoise and the hare

Can slow-moving DC reform finally catch up with financial reality and futureproof pension saving? Marek Handzel finds out

Features and columns

News, views & regulars

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Features & columns

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NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 13,010 July 2021-June 2022 print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20).

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Dateline - June 2023

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

2 June The **Court of Appeal** granted unions permission to appeal against the recent High Court judgment over the government's proposed method of paying for costs incurred by the McCloud ruling in relation to public sector pension schemes.

5 June Aviva and the HM Treasury-owned operator of the **Dormant Assets Scheme,** Reclaim Fund Ltd, successfully completed the first transfer of dormant assets from the insurance and pensions sector to the government-backed scheme.

5 June The gender pensions gap for private pensions stood at 35 per cent in 2018-20, falling to 32 per cent amongst those who are eligible for auto-enrolment, analysis from the **Department for Work and Pensions (DWP)** found.

5 June The Pensions Ombudsman confirmed that it is currently investigating a cyber incident, having disabled some systems, including application forms and LiveChat, as a precautionary measure.

5 June The **Pensions Minister,** Laura Trott, confirmed her intent to launch a consultation on plans to extend auto-enrolment to lower earners and younger workers in autumn, subject to the Private Member's Bill achieving Royal Assent.

6 June The Pensions Regulator (TPR) urged DC trustees to ensure that they are protecting savers amid market volatility, warning that older savers could be disproportionately impacted by economic turbulence.

8 June Trott provided an update on the **Pensions Dashboards Programme (PDP)** reset, which confirmed a new connection deadline of 31 October 2026. However, Trott said the Dashboards Available Point "could be earlier" than this.

8 June The company director of a target sports centre denied fraudulently evading his pension duties, pleading not guilty in a prosecution brought by **TPR**.

12 June The **DWP** launched a new campaign to encourage pensioners to check their eligibility for Pension Credit, ahead of plans to launch an 'invitation to claim' mailing trial this summer.

14 June TPR said that it is "more important than ever" for trustees and scheme managers to work collaboratively to progress pensions dashboards "quickly and efficiently".

14 June MPs urged the government to show what more it will do to help people make informed financial decisions, and to review whether the current rules for increasing Pension Protection Fund (PPF) compensation for inflation are appropriate.

16 June Bank of England (BofE) executive director, financial stability strategy and risk, Sarah Breeden, emphasised that while the BofE remains ready to act where tail risks to financial stability materialise, pension schemes must also 'play their role'.

16 June The **High Court** ruled that a lack of actuarial confirmation would render relevant amendments to affected contracted-out DB pension schemes' rules invalid and void, in a case that could have "far-reaching implications".

19 June The **BofE** launched its first system-wide exploratory scenario exercise, aimed at improving understanding of the behaviours of banks and non-bank financial institutions in stressed financial market conditions.

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

19 June Government Actuary, Martin Clarke, was recognised in the **King's Birthday Honours List 2023,** alongside a number of industry figures, including Nest chief investment officer, Mark Fawcett.

21 June The **Work and Pensions Committee's** inquiry into DB pension schemes kicked off this week, as the committee heard updates from a number of industry experts, with warnings that pensions policy could risk being stuck in a "bygone era". The committee's call for evidence in the inquiry also received over five dozen written submissions from a range of industry organisations, associations and regulators.

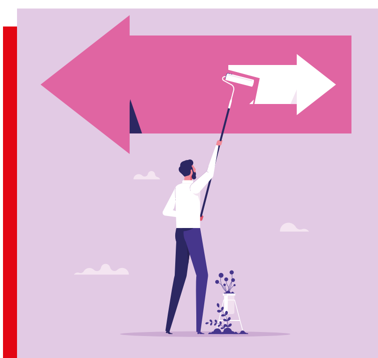
21 June The **DWP** announced plans to work with TPR and industry on changes to improve the pension transfer experience, without undermining the policy intent. The comments were made as part of the DWP's review of the pension transfer regulations, which found that whilst the original policy intent remains appropriate, concerns over their application remain.

21 June Industry experts warned that the inflation problem is still not contained, after the **Office for National Statistics** revealed that the Consumer Prices Index remained at 8.7 per cent in May, while core inflation rose to 7.1 per cent.

22 June The **BofE** increased its base rate by more than many industry experts expected, taking interest rates to 5 per cent, the highest level in 15 years.

23 June MPs urged the DWP and TPR to halt their existing plans for a new DB funding regime, at least until they have produced a full impact assessment for the proposals.

26 June The **Financial Conduct Authority (FCA)** ordered a financial adviser to pay £106,100 to the Financial Services Compensation Scheme (FSCS) to contribute towards the redress owed to those advised to transfer out of their DB pension schemes.



28 June A number of UK pension schemes raised concerns that the **FCA** listing proposals could risk "undoing stewardship progress", calling for a broader, evidence-based policy discussion. A total of 10 pension schemes co-signed a letter in response to the FCA's consultation on primary markets effectiveness, warning that the current proposals would dilute investor protections and exacerbate current issues. The Pensions and Lifetime Savings Association (PLSA) raised similar concerns, warning that the proposals could weaken shareholder rights by removing some important checks and balances, leading to a lack of diverse input and challenge from asset managers to companies.

29 June The **FCA** banned Denis Lee Morgan of Pembrokeshire Mortgage Centre (PMC) Limited (in liquidation) from advising any customers on pension transfers and opt-outs, and from holding any senior management function in a regulated firm.

30 June The **FCA** set out new rules designed to give retail investors and more DC pension schemes access to Long-Term Asset Funds (LTAFs).

News focus

Chancellor announces pensions reforms to ‘boost UK economy’

Chancellor Jeremy Hunt’s first Mansion House speech has revealed plans to “unlock” up to £75bn of additional investment from DC and Local Government Pension Schemes (LGPS), to support the Prime Minister’s priority of growing the economy and delivering benefits to savers

Chancellor, Jeremy Hunt, has announced a package of reforms designed to boost pensions and increase investment in British businesses, suggesting that the defined contribution (DC) reforms could increase a typical earner’s DC pot by 12 per cent.

Hunt’s first Mansion House speech revealed plans to “unlock” up to £75bn of additional investment from DC and Local Government Pension Schemes (LGPS), to support the Prime Minister’s priority of growing the economy and delivering benefits to savers.

The Mansion House Reforms are ‘guided’ by the Chancellor’s ‘three golden rules’, which aim to secure the best possible outcome for pension savers, whilst prioritising a strong and diversified gilt market, and strengthening the UK’s position as a leading financial centre.

While Hunt’s speech noted that the UK has the largest pension market in Europe, worth over £2.5trn, he argued that “how this money is invested is limiting returns for savers”, suggesting that reform could provide a boost to both savers and the economy.

As part of this, he confirmed plans to introduce a permanent superfund regulatory regime to provide sponsoring employers and trustees with a new way of managing DB liabilities.

Hunt also announced that a call for evidence will be launched on the possible role of the Pension Protection Fund (PPF) and the part DB schemes could play in productive investment, whilst securing members’ interests and protecting the sound functioning and effectiveness of the gilt market.

The PPF welcomed the plans for a call for evidence, with chief executive, Oliver Morley, suggesting that “in seeking views on whether we could help deliver better outcomes for defined benefit pension members and the wider economy, it recognises that the PPF’s skills, capabilities and proven track record could be harnessed to deliver new solutions”.

“We remain focused on delivering for our current members and levy payers and stand ready to support policy makers and industry in the future,” he continued. “We encourage stakeholders to contribute views and look forward to playing our part in this important debate.”

Along with the DB reforms, the Chancellor unveiled a number of DC measures, including the launch of the Mansion House Compact, a voluntary commitment for DC schemes to allocate a minimum of 5 per cent of assets in default funds to unlisted equities.

Nine of the UK’s largest DC pension providers have already voluntarily pledged to allocate 5 per cent of assets in their default funds to unlisted equities by 2030, as part of this new agreement.

These initial Mansion House Compact members are: Aviva, Scottish Widows, L&G, Aegon, Phoenix, Nest, Smart Pension, M&G and Mercer.

The Compact, a non-legally binding initiative, is intended to show a provider’s intent to take meaningful action to achieve better outcomes for UK long-term savers by facilitating access to the higher net returns that can arise from investment in unlisted equities as part of a diversified portfolio.

In addition to this, Hunt confirmed that the government will look to launch a consultation on setting an ambition to double existing LGPS investments in private equity to 10 per cent, suggesting that this could "unlock" £25bn by 2030.

The consultation is also expected to outline a deadline of March 2025 for all LGPS funds to transfer their assets into LGPS pools and suggest that each pool should exceed £50bn of assets.

In order to ensure that the money unlocked by these reforms is invested quickly and effectively, the Chancellor also revealed that he has asked the British Business Bank (BBB) to explore the case for the government to play a greater role in establishing investment vehicles, drawing upon the BBB's skills and expertise.

Hunt also revealed plans for a call for evidence to explore how the government can support pension trustees to improve their skills, overcome cultural barriers and realise the best outcomes for their pension schemes and subsequently their members.

He also said that the government will also be looking to encourage the establishment of new collective defined contribution (CDC) funds, which can invest more effectively by pooling assets.

In addition to the pension-specific measures, Hunt has announced broader measures designed to make UK capital markets more attractive for business and grow the economy.

In particular, the new measures will look to simplify prospectuses, meaning that the document a firm must produce for any would-be investor is easy to produce, accessible, and understandable.

The Chancellor also set out plans for a new kind of trading place that connects private and public markets, which will allow private companies to access public markets, helping them grow and driving more economic activity – the first of its kind worldwide.

The wide-ranging package will build upon the Edinburgh Reforms announced in December 2022, which included plans for regulations to reform the DC pensions charge cap and increase the pace of DC pension consolidation, and the comments Hunt made in his 2023 Spring Budget for a Long-term Investment for Technology and Science (Lifts) scheme to support DC investment into "innovative UK companies".

"Our reforms will benefit savers and society – unlocking investment into pioneering UK businesses, growing the economy, and helping the record number of people saving into a pension"

Commenting on the plans announced within his Mansion House speech, Hunt stated: "British pensioners should benefit from British business success. By unlocking investment, we will boost retirement income by over £1,000 a year for typical earner over the course of their career. This also means more investment in our most promising companies, driving growth in the UK."

Secretary of State for Work and Pensions, Mel Stride, added: "British workers should have the confidence that their pension savings are working as hard as they are. Our reforms will benefit savers and society – unlocking investment into pioneering UK businesses, growing the economy, and helping the record number of people in this country saving into a pension to achieve the retirement they want."

The reforms were also welcomed by The Pensions Regulator (TPR), with chief executive, Nausicaa Delfas, suggesting that they will support TPR's ambition for pension savers to be in large, well-run schemes that deliver good outcomes at every stage of their retirement journey.

"They will drive a long-term focus on value, encouraging schemes to invest in the full range of asset classes to deliver higher returns for savers," she continued.

"The value for money framework will shine a light on schemes that consistently underperform, and new powers will allow us to enforce consolidation where necessary.

"Similarly, the expansion of CDC schemes and introduction of a permanent regime for pensions superfunds all represent a welcome boost for innovation in savers' interests."

Adding to this, Pensions and Lifetime Savings Association (PLSA) director of policy and advocacy, Nigel Peaple, said: "The government has engaged with the pension industry over many aspects of the proposals announced. It is important and very welcome that pension schemes' ability to direct their own investment strategy in the best interests of their members has been protected.

"With the right policy and regulatory initiatives, and support from the right type of fiscal incentives, there is a potential for a win, win, win – for pension savers, schemes and the UK economy.

"However, this is a complex area, and it is easy to get the wrong outcomes, so the government is right to propose undertaking a public consultation on all the key issues over the next couple of months."

Written by Sophie Smith

MPs urge TPR and DWP to 'halt' new DB funding regime

MPs have urged the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR) to 'halt' their existing plans for a new DB funding regime, at least until they have produced a full impact assessment for the proposals

MPs have urged the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR) to 'halt' their existing plans for a new DB funding regime, until they have produced a full impact assessment for the proposals, including the impact on financial stability and open DB schemes.

The comments were made as part of the Work and Pension Committee's (WPC) report on liability-driven investment (LDI), which identified two fundamental concerns with the new regime: That the approach is not sufficient to allow open schemes to thrive, and that it will result in greater 'herding' in investment decisions.

The WPC's report highlighted the September 2022 LDI episode as demonstration of the potential for the investment strategies used by DB schemes to give rise to systemic risks, noting that while action has been taken to address some of the weaknesses exposed, there is still more work needed.

In particular, the committee said while it supported the Financial Policy Committee's (FPC) recommendation that TPR should specify minimum levels of resilience for the LDI arrangements in which pension schemes may invest, TPR does not have the data to check whether its guidance is being followed.

Given this, it called on the DWP and TPR to report back by the end of October 2023 on how they plan to monitor whether LDI resilience is being maintained, including a timeline for TPR's commitment to become more digitally enabled and data-led.

The WPC also agreed with the FPC's recommendation that TPR's remit be extended to take financial stability into account, arguing that when the LDI episode arose, the regulatory framework was "complex and fragmentary, and not fit for purpose when it came to managing systemic risks".

The committee also backed calls for the government to bring investment consultants within the Financial Conduct Authority's regulatory perimeter, suggesting that such plans should be brought before the end of parliament.

More broadly, the report also acknowledged the potential role of scheme consolidation in improving governance, although it specified that consolidation needs to be into a safe vehicle, which requires legislation.

Given the time it will take to consult on, legislate for, and implement measures to improve governance, the committee also suggested that the DWP considers whether the use of LDI could be restricted, potentially by testing a trustee board's ability to understand and manage the risks involved.

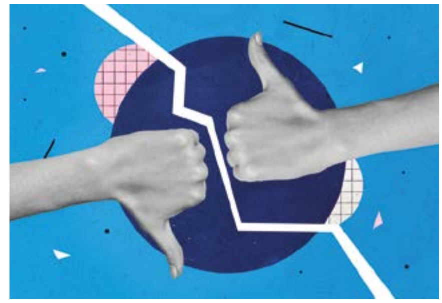
Commenting in response, a spokesperson for TPR said: "We note the recommendations in the committee's report and will work with DWP to respond to it. We have taken decisive action to learn lessons from the impact of last year's economic turmoil, including to improve the data we hold.

A DWP spokesperson added: "We welcome the committee's report. We will fully consider its findings and respond formally in due course."

Written by Sophie Smith

UK pension schemes warn against FCA listing proposals

A number of UK pension schemes have raised concerns that the Financial Conduct Authority's new listing proposals could risk undoing stewardship progress, with some warning that the changes could have the opposite effect than desired



A number of UK pension schemes have raised concerns that the Financial Conduct Authority's (FCA) listing proposals could risk "undoing stewardship progress", calling for a broader policy discussion.

A total of 10 pension schemes co-signed a letter in response to the FCA's consultation on primary markets effectiveness, warning that the current proposals would dilute investor protections and exacerbate current issues.

Although the letter welcomed the debate about how to create vibrant UK capital markets that attract high-quality, innovative firms and high-quality, investors, it also identified concerns.

In particular, the letter suggested that the proposals would roll back fundamental investor protections, such as the right to a shareholder vote on both significant and related party transactions, as well as the equal voting rights that serve as the foundation of a fair and democratic capitalist system.

This, in turn, could dilute investors' ability to act as robust stewards of members' asset, and potentially diminish the UK's reputation as a world leading 'quality' market and its role as an example for high corporate governance standards.

Considering alternative measures, the group revealed that individual schemes' discussions with companies, IPO advisers, and investment managers, has found that companies are primarily looking for fair valuations, a stable policy, economic and political environment, and a deep, liquid pool of long-term domestic and international capital.

Given this, it argued that policymakers should pause their current proposals and seek to implement other, evidence-led measures to address these issues.

"We do not think that the changes proposed will solve the fundamental issues affecting our equity markets. Rather, we think that they will amplify the current challenges as well as leading to worse outcomes for members"

The signatories to the letter were: Railpen, Brightwell, Brunel Pensions Partnership, The Church of England Pensions Board, HSBC Bank (UK) Pension Scheme, Merseyside Pension Fund, Nest, People's Partnership, TPT Retirement Solutions, and Universities Superannuation Scheme (USS).

The letter said: "We naturally want to see the UK continue to thrive as a global financial centre. However, we do not think that the changes proposed will solve the fundamental issues affecting our equity markets.

"Rather, we think that they will amplify the current challenges, as well as leading to worse outcomes for our members. We look forward to a broad and evidence-based policy discussion that includes, and listens to, voices from across the entire capital markets ecosystem."

The Pensions and Lifetime Savings Association (PLSA) raised similar concerns over the proposals, warning that they could weaken shareholder rights by removing some important checks and balances, in particular for asset owners and retail investors, leading to a lack of diverse input and challenge from asset managers to companies.

Indeed, the PLSA argued that the current proposals may not result in more companies listing, but reduce the standards expected of existing companies, meaning that they could have a contrary effect to what is hoped.

The PLSA also noted that while one of the main arguments for the introduction of a single listing category is the "widely discussed concerns around the long-term decline in number of UK listed companies", it is not proven that governance standards and investor protections required by a premium listing are the root cause of the decline.

Given this, the PLSA said it would instead be supportive of an evidence-based, cross-governmental investigation into the root causes of this decline, which could then provide the appropriate basis for solutions which genuinely make a difference and continue to require shareholder approval in circumstances which warrant this.

Written by Sophie Smith

DWP to work with TPR and industry on potential transfer regulatory changes

The Department for Work and Pensions (DWP) published its review of the 2021 pension transfer regulations, confirming plans to work with The Pensions Regulator (TPR) and the industry on potential changes to improve the pension transfer experience, without undermining the policy intent

The Department for Work and Pensions (DWP) has announced plans to work with The Pensions Regulator (TPR) and the industry on potential changes to improve the pension transfer experience, without undermining the policy intent.

The comments were made as part of the DWP's review of the pension transfer regulations, which found that while the policy intent remains appropriate, concerns over the application remain.

In particular, the review suggested that the incentives flag is incorrectly blocking transfers due to the different interpretations by some providers.

In addition to this, the review found that the overseas investment amber flag needs to be more clearly defined or removed, with respondents arguing that the way it is structured can mean that an amber flag needs to be raised even when schemes have no concerns.

These concerns were also reflected in the transfer data, as the review found that overseas investments was the most common amber flag, making up 57 per cent of amber flags.

In addition to these specific flag concerns, the review found that several individuals were required to attend multiple safeguarding appointments, even if they were consolidating because individual schemes are identifying flags.

The DWP acknowledged that these practical issues are likely to have increased the transfer times of a pensions safeguarding appointment, revealing that the waiting times for an appointment have increased from two to six weeks over the period of the regulations.

Respondents also warned that transfers are taking longer overall due to the additional due diligence checks and longer waiting times for MoneyHelper.

However, the DWP pointed out that while some reported savers are having significant issues in so far as transfer requests being delayed or blocked, to date The Pensions Ombudsman has received a small number of complaints, with most being in respect of blocked transfers where there was a red flag.

The data, collected from 1 January 2022 to 31 December 2022, covered around 290,000 completed transfers, revealing that 94 per cent of transfers were completed under condition 1 or condition 2 where no flags were present.

Meanwhile, 5 per cent were completed outside of the regulations (contractual or discretionary transfers), while 1 per cent were completed with a red or amber flag.

Of the 290,000 overall transfers, 2,400 transfers were given at least one amber flag, with 96 per cent of these proceeding to transfer.

A total of 300 transfers were given at least one red flag, 47 per cent of which were due to the member failing to provide required information, while 26 per cent were due to the member not providing evidence of receiving MoneyHelper guidance.

The review also included insight from the Money and Pension Service, showing that there were over 12,600 pension safeguarding appointments between December 2021 and February 2023. However, 43 per cent of attendees were unsure of the flag type.

Written by Sophie Smith

High Court 'overturns 25-year consensus' on contracted-out DB schemes' amendments

Legal experts have suggested that a recent ruling from the High Court could have "far-reaching implications" for schemes that contracted out on a salary-related basis after 1997

The High Court has ruled that a lack of actuarial confirmation would render relevant amendments to affected contracted-out DB pension schemes' rules invalid and void, in a case that could have "far-reaching implications".

Under section 37 of the Pension Schemes Act 1993, the rules of salary-related contracted-out schemes could not be changed in relation to section 9 (2B) rights unless the actuary had supplied written confirmation that the scheme would continue to meet the statutory standards.

Section 9 (2B) rights are attributable to contracted-out service from 6 April 1997, while the statutory standards are a benefits test based on rights under a notional 'reference scheme'.

However, law firm CMS noted that, until this ruling, there was no case law on which types of amendments needed the actuary's confirmation and the consequences of failing to comply with the condition in section 37.

Given this, legal experts argued the recent High Court ruling in the case of *Virgin Media v NTL Pension Trustees II,* relating to a scheme trust deed and rules rewrite in 1999, could have "far-reaching implications" for schemes that contracted out on a salary-related basis after 1997.

In the ruling, the judge decided that if the required actuarial confirmation was not supplied, the effect of section 37 was to render the amendment invalid and automatically void. The court also ruled that the references in the legislation to section 9 (2B) rights included both past and future service rights.

"For members it may mean unexpected windfall benefits, but that's not all good news because there are potentially winners and losers, with a transfer of value from some members to others"

The judge also ruled that the actuarial confirmation requirement applied to all amendments of relevant contracted-out scheme rules, not just those that could negatively impact section 9 (2B) rights.

CMS said this could extend, possibly significantly, the scope for amendments to be void where there is no actuarial confirmation, arguing that while the industry will need time to digest the full impact of the decision, trustees may wish to review past deeds of amendment to confirm whether the appropriate actuarial certifications were obtained.

Arc Pensions Law senior partner, Anna Rogers, also warned that the judgment could result in "extra benefit cost for sponsors if closure to accrual, changes in index, or caps on increases or salaries are invalid".

"For members it may mean unexpected windfall benefits, but that's not all good news because there are potentially winners and losers, with a transfer of value from some members to others," she stated. "The issues will surely have to be decided by the Court of Appeal in this case or another one unless the Department for Work and Pensions is willing to fix this issue with retrospective correcting regulations."

Arc Pensions Law partner, Jane Kola, added: "We are still digesting the detail of this case and its consequences, but it seems to be the worst possible interpretation the judge could have reached when it comes to certainty over benefits. It could be a hammer blow for schemes looking to secure benefits in the buy-in market, or those who already have. It could undermine the whole basis for the transaction."

However, CMS pointed out that requirements have changed over the years, explaining that "it does not necessarily follow that a court would reach the same conclusion in every case".

It also acknowledged that trustees may be reluctant to take material action whilst there remains the possibility of a successful appeal or parliamentary intervention.

Written by Jack Gray

Gender pensions gap at 35%, DWP says

The Department for Work and Pensions has published its first official report on the gender pensions gap, estimating that the gap is currently at 35 per cent for private pension savers

The gender pensions gap for private pensions stood at 35 per cent in 2018-20, although this figure fell to 32 per cent amongst those who were eligible for automatic enrolment (AE), analysis from the Department for Work and Pensions (DWP) has revealed.

In its inaugural report on the issue, the government showed that the gender pensions gap varied according to age bands, and was smallest for those aged 35-39 at 10 per cent, before increasing to 47 per cent for those aged 45-49.

The DWP pointed out that the gender pension gap fell again in later years of working life, noting that this is similar to the trajectory of the gender pay gap.

The research also found that, for those eligible for AE, the gap is smaller compared to the population-wide metric throughout all age bands.

In addition to this, the research showed that, for the age bands 30-34 and 35-39, when the gender pensions gap of all savers is smallest, the pension wealth of female savers eligible to be automatically enrolled is higher than male savers, reversing the gap.

The DWP noted that this finding is in line with the high participation rates amongst female employees who are eligible for AE, with the report revealing that participation for all AE eligible female employees is higher than all AE eligible male employees, despite the differences in working patterns.

However, the DWP acknowledged that some part-time workers earn less than the earnings trigger and may not be automatically enrolled into a workplace pension, meaning that these employees are therefore not included in the AE eligible population.

More broadly, when considering all employees in the UK, the DWP found that 79 per cent of female employees and 80 per cent of male employees participated in a workplace pension in 2021, giving a participation gap of all employees of 2 percentage points.

However, the DWP clarified that, as a result of the different employment rates between men and women, the UK population-wide participation gap in 2021 to 2022 is 3 percentage points, with 55 per cent of men and 52 per cent of women participating in a workplace scheme.

Despite the ongoing gap, the DWP's statistics also showed that pension saving has increased in real terms for all savers since the introduction of AE in 2012.

In particular, the data revealed that, while AE eligible male employees saved £48.5bn into workplace pensions in 2012, compared to £33.2bn for female employees, this had increased to £62.6bn and £52bn respectively in 2018-20, representing real terms increase of £14.1bn for male employees and £18.8bn for female employees.

Despite this, the DWP acknowledged that the total contribution gap for all female employees compared to all male employees was around 17 per cent.

Whilst the gender pensions gap has fluctuated in recent years, the report showed that median female pension wealth around normal minimum pension age (NMPA) had increased in real terms since 2006 to 2008, recording a real-terms increase of 90 per cent for the median female compared to an increase of 70 per cent for the median male.

Indeed, according to the data, the median female had £50,000 of real terms uncrystallised private pension wealth at age 50 to 54 in 2006 to 2008, increasing to £94,000 for the median female and £145,000 for the median male at age 55 to 59 by 2018 to 2020.

The research also considered the gender pensions gap by the type of pension, revealing that the gender pensions gap was smaller for those who hold some DB pension wealth, and largest for those holding only DC wealth.

The DWP said that it had welcomed industry suggestions as to how to create a definition of the gender pensions gap, before defining the gender pensions gap in private pensions in the report as the percentage difference between female and male uncrystallised median private pension wealth around NMPA for those individuals with private pension wealth.

Commenting on the report, Pensions Minister, Laura Trott, emphasised that whilst the pension participation gap has closed, the wealth gap persists, suggesting that the official measure will help track efforts to tackle the gender pensions gap.

Written by Sophie Smith

CofE pension scheme to disinvest from oil and gas

The Church of England (CofE) Pensions Board has announced its intention to disinvest from Shell and other remaining oil and gas companies

The Church of England (CofE) Pensions Board has announced its intention to disinvest from Shell and other oil and gas companies that are failing to show sufficient ambition to decarbonise in line with the aims of the Paris Agreement.

The new investment restriction will apply to all oil and gas companies that do not have short-, medium- and long-term emissions reduction targets aligned with limiting global warming to 1.5°C, as assessed by the independent Transition Pathway Initiative (TPI), and will also apply to equity and debt investments.

The CofE Pensions Board explained that while it has engaged with the sector over the past 10 years, and some have come close to achieving alignment as assessed by the TPI, none have met the threshold to remain investible.

Given this, it confirmed that it will no longer prioritise engagement with the oil and gas sector on climate change and will instead refocus its efforts on reshaping the demand for oil and gas from key sectors such as the automotive industry.

As part of this, it will seek "robust" commitments related to the use of oil and gas from demand sectors such as aviation, utilities, automotives, and steel, as well as engaging policy makers on the need for greater ambition in public policy.

Commenting on the plans, CofE Pensions Board CEO, John Ball, stated: "There is a significant misalignment between the long-term interests of our pension fund and continued investment in companies seeking short-term profit maximisation at the expense of the ambition needed to achieve the goals of the Paris Agreement. Recent reversals of previous commitments, most notably by BP and Shell, has undermined confidence in the sector's ability to transition."

Commenting in response, a Shell spokesperson stated: "It's disappointing, but not surprising given its recent change in stance, that the CofE Pensions Board has taken this decision.

"Our commitment to becoming a net-zero emissions energy business by 2050 remains as strong as it ever was, and we firmly believe our strategy is aligned with the more ambitious goal of the Paris climate agreement.

"At the same time, we are clearly focused on capital discipline, enhanced performance and delivering shareholder value, through a strategy that balances delivering energy security with investments in the lower-carbon energy sources of the future."

Written by Sophie Smith

NEWS IN BRIEF

A new company called **Aptia** was formed following the purchase of the US health and benefits administration and UK pension administration businesses of Mercer. Launched with support from Bain Capital Insurance, the new company combines the two businesses purchased from Mercer and will continue to provide service, support and benefits plan management to more than five million people.

Nationwide Pension Fund completed a £1.7bn longevity risk transfer transaction with Zurich Assurance and Prudential Financial Inc, covering longevity risk for 7,000 in-pay members.

Smart Pension announced that it is the first institutional investor to commit to AXA Investment Managers' (IM) new equity fund for UK investors. The investment will be made through Smart's Sustainable Growth Plus fund.

The Pensions Regulator confirmed that it recently approached the Home Office to discuss the development of a charter for the pensions industry, as part of the government's fraud strategy.

TPT Retirement Solutions shared its first Human Rights Policy, which aims to support international norms and the United Nations Guiding Principles.

The average value of DB pension transfers hit the lowest month-end level in seven years at the end of May, according to **XPS Pensions Group.**

The trustee of the **Royal Mail Pension Plan** (RMPP) agreed to a request from Royal Mail Group to release some money that has been held separate from the RMPP, to pay a one-off lump sum payment to all employees.

The **Zoological Society of London** launched a biodiversity guide for pension trustees, outlining a step-by-step approach to tackle biodiversity loss and nature risk in investments.

Dashboards connection deadline pushed to 2026

The Pensions Minister, Laura Trott, provided an update on the Pensions Dashboards Programme reset, which confirmed a new connection deadline of 31 October 2026. However, Trott said the Dashboards Available Point "could be earlier" than this

The Pensions Minister, Laura Trott, has provided an update on the Pensions Dashboards Programme (PDP) reset, with amended regulations to include a connection deadline of 31 October 2026.

In a written statement, Trott confirmed that, rather than setting out the entire staging timeline in legislation, the government will instead set this out in guidance, which it will collaborate on with industry "this year".

In addition to this, Trott clarified that the 31 October 2026 connection deadline is not the Dashboards Available Point (DAP), suggesting this "could be earlier".

In her statement, Trott explained that she is laying amending regulations with a "new approach to delivery", which aim to allow the government to work more collaboratively with the pensions industry.

Trott stated: "Pensions dashboards will transform the way in which people plan for retirement. On 2 March 2023, I announced that the PDP would require additional time to deliver the connection of pension providers and schemes, in accordance with the connection deadlines set out in the Pensions Dashboards Regulations 2022 and the Financial Conduct Authority's corresponding pensions dashboard rules.

"More time is needed to deliver this complex build, and for the pensions industry to help facilitate the successful connection of a wide range of different IT systems to the dashboards digital architecture. In recognition that the requirement to connect to the digital architecture should remain mandatory, we will include a connection deadline in legislation of 31 October 2026.

"The government remains as committed as ever to making pensions dashboards a reality and we are ambitious about their delivery. I am confident that this re-appraised approach will enable us to make significant progress on delivering dashboards safely and securely, enabling consumers to take advantage of their benefits to plan for retirement."

Industry organisations welcomed the clarity provided by the update, although concerns were raised over plans to set out the new staging timeline in guidance.

Pensions and Lifetime Savings Association (PLSA) director for policy, and advocacy, Nigel Peaple, for instance, said that while the clarity and flexibility was welcome, "many in the pensions industry, including the PLSA, would have preferred the new staging timeline to be set out in regulation, as was previously the case, rather than only in guidance, as is now planned".

"To make this new approach work, it will be necessary for the dashboards programme to work in a very open, transparent and collaborative way," he stated.

Indeed, Association of British Insurers (ABI) director of long-term savings policy, Yvonne Braun, confirmed that the ABI's members have indicated they're willing and able to continue to comply with a voluntary timetable.

However, she clarified that it would have been the preference that these remained a regulatory requirement to prevent a last-minute rush of firms connecting to the system.

"We ask that government keeps this under review and considers making the staggered dates a regulatory requirement again if it should become clear that the wider industry is not taking the same approach," she stated.

The Pensions Regulator (TPR) also argued that it is "more important than ever" for trustees and scheme managers to work collaboratively to progress pensions dashboards "quickly and efficiently".

In a blog post, TPR director of regulatory policy, analysis and advice, Louise Davey, said that "the key to success is preparation", arguing that a phased and well-planned approach to connection should be maintained so savers can reap the benefits as soon as possible.

Written by Sophie Smith

Diary: September 2023 and beyond

Pensions Age Autumn Conference
14 September 2023
The Waldorf Hilton, London
The Pensions Age Autumn Conference, now a firm favourite in the UK pensions sector, offers pension funds and those working in the pensions sector the opportunity to learn and network alongside their peers at one of the busiest times in UK pensions history. Register now to hear from regulators, leading associations, providers, and peers.
For more information, visit:
pensionsage.com/autumnconference

PLSA Annual Conference
17-19 October 2023
Manchester Central, Manchester
Returning to a 2.5 day format, this event will bring together more than 1,000 pension professionals for a programme of world class keynotes, roundtable discussions, educational sessions and key topic deepdives. The conference will see the UK pension industry come together to discuss every aspect of pensions, from communications and engagement, to investment, to the geopolitical outlook, and the trustee agenda.
For more information, visit:
plsa.co.uk/events

Irish Pensions Awards 2023
2 November 2023
5* Shelbourne Hotel, Dublin
Now in their 12th successful year, the Irish Pensions Awards continue to go from strength to strength. Presented at a prestigious gala dinner, these awards aim to recognise 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.
For more information, visit:
europeanpensions.net/irishawards/

Pensions Age Awards 2024
27 February 2024
London Marriott Hotel
The 11th Pensions Age Awards aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The awards are open to any UK pension scheme or provider firm that serves pension schemes in the UK. Ahead of the prestigious gala dinner in 2024, the deadline for entries is 1 November 2023.
For more information, visit:
pensionsage.com/awards

Visit www.pensionsage.com for more diary listings

Month in numbers

80%
Over a third (36 per cent) of UK adults have made changes to how their workplace pension is invested, marking an 80 per cent jump since November 2021, research from Barnett Waddingham has revealed.

Five years
The annuity break-even point has fallen by five years due to a "significant improvement" seen in annuity rates over the past 18 months, research from Canada Life has revealed.

£39bn
The market value of private sector, funded occupational DB and hybrid schemes fell by £39bn (3 per cent) to £1.23trn in the fourth quarter of 2022, data from the Office for National Statistics revealed. These schemes' assets, excluding derivatives, declined by £118bn (8 per cent) during the quarter, marking a continued trend. The fall in assets was partly offset by non-pension entitlement liabilities decreasing by £59bn and the negative net derivatives balance reducing by £30bn over Q4.

VIEW FROM THE SPP: Biodiversity investment opportunities

Human prosperity has improved more in the past 30 years than all of the past centuries combined. However, this has been at the expense of animal and plant species. Putting an end to this unsustainable relationship demands a deeper understanding of biodiversity impact on human wellbeing, with policy makers now considering its protection as important as halting global warming.

As a steward of global capital, the financial industry, too, must play a more active role. It can facilitate a nature-positive transition, by transforming the way it allocates capital and developing new models to price biodiversity risks and opportunities more accurately. By finding a way to attach a value to the ecosystem services we currently receive for free, a genuinely sustainable economy is within reach.

Investors also need to be cognisant of biodiversity-related taxes, permits and offsets likely to be introduced by policy makers. Therefore, by understanding different threats biodiversity loss poses to businesses, they can begin to correctly price such risks, identify gaps in the current ESG framework and discover new ways to invest in natural capital.

By developing a thriving natural capital market, investors can help shift capital flows away from businesses and projects that degrade the natural environment and towards regenerative initiatives.

Nature has always been the economy's most important asset. It is time the finance industry recognised that.

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

SPP investment committee member, Kate Rickards

Appointments, moves and mandates

The Secretary of State for Work and Pensions has appointed Helen Copinger-Symes, Nina Hingorani-Crain, and Nikki Marsh to the Nest board.
Copinger-Symes brings over 30 years' experience in financial services to the role, having previously worked for several global investment firms. Hingorani-Crain, meanwhile, has over 25 years of experience, with leadership roles in the public, regulatory, corporate and charity sectors. Marsh has also covered a broad range of roles within her career, including marketing, digital transformation, and communications, with her leadership career in financial services spanning 13 years.
The appointments follow two recent departures from the Nest board, as Clive Elphick retired from the board on 31 January, while Mutaz Qubbaj stepped down on 31 May, following the conclusion of his term.

The New Airways Pension Scheme (NAPS) has reappointed PwC as trustee for employer covenant advice.
PwC, which has advised the scheme for over 15 years, will continue to work alongside the NAPS executive team, the actuarial and investment advisers to provide employer covenant advice on changing regulation and landscape, including the new Defined Benefit Funding Code and wider environmental, social and governance (ESG) issues. Commenting on the reappointment, BA Pensions CEO, Vinny Ehzuvan, stated: "The last valuation period was a period of considerable change for both the scheme and the sponsor, and we tremendously valued the support, advice and insight from PwC's employer covenant team. We look forward to working with PwC, to ensure our scheme members continue to remain protected."


Douglas Hogg

Zedra Governance has appointed Douglas Hogg as client director.
Based in Edinburgh, Hogg will lead the expansion of Zedra's pensions presence in Scotland. He has worked in the pensions and investment industry for over 20 years, including within a global asset manager, a bulk purchase annuity provider, and as an actuary providing advice to trustees and corporate sponsors of pension schemes. Hogg stated: "Zedra's tailored approach to trusteeship and commitment to client success, along with the team's expertise and collaborative culture, made this an easy decision. I look forward to working with our clients and partners here in Scotland as we expand the Zedra presence in the area."


Tom Bulpitt

Just Group has named Tom Bulpitt as director of pricing and reinsurance for its DB de-risking business.
Bulpitt joins from European insurance consolidation group, Athora, where he led its work on capital strategy. In his new role, he will lead the pricing and reinsurance function, optimising Just's positioning in this market, as well as the implementation of a pricing and reinsurance platform for the business. Bulpitt will report to Just Group managing director of DB, Pretty Sagoo. The appointment was announced alongside the hiring of Richard Wood, who will lead the reinsurance execution, and Andy Fryer as head of proposition development.

Dukes Education has appointed Smart Pension to provide workplace pensions across more than 30 independent schools.
Dukes Education employees were enrolled into the Smart Pension Master Trust in April, allowing members access to a real-time pension anywhere via a mobile app and web, powered by Smart's Keystone technology. Under the agreement, Dukes Education employees will also be able to use Smart Pension's 'smart retire' offering, allowing them to manage their savings beyond retirement. Broadstone advised Dukes Education on the appointment. The announcement follows the news that Evri (formerly Hermes UK) had also appointed Smart Pension as the workplace pension provider for its 12,000 'self-employed plus' couriers. Commenting on the appointment, Smart Pension director of workplace, Stuart Reid, said: "We are delighted to be appointed by a leading education group such as Dukes Education. This appointment is testament to the quality of the Smart Pension Master Trust, as well as Smart Pension's innovative and engaging technology and financial wellbeing offering, available to its million-plus members.We are particularly proud of our expertise in the education sector. Our unique platform smoothly integrates multiple schools and workplaces, delivering value for money and simple payroll integration for education employers."
Adding to this, Dukes Education Group director of people, Claire Little, said: "We are pleased to appoint Smart Pension and provide a workplace pension that is investing sustainably, offers value for money, as well as great service and support. Smart Pension has a great offering with huge amounts of flexibility and first class technology to make life simple, as well as additional benefits and rewards for members."

The Cambridge University Assistants' Contributory Pension Scheme (CUACPS) has appointed Redington as strategic investment adviser.
Redington was appointed on a retained basis to support the Investments Committee in evolving the investment strategy to align to their ultra-long-term growth requirements within the bounds of a pension scheme regulatory environment. As part of this, one of Redington's key responsibilities will be enhancing the scheme's sustainability characteristics, with particular attention on the role the scheme can play in the climate transition as investors and responsible stewards of capital. The CUACPS is an open defined benefit pension scheme with c.£700m in assets and c.13,900 members, consisting primarily of the university's support staff as well as certain staff from other associated employers. Commenting on the appointment, CUACPS Investments Committee chair, Michael Pratten, said: "I'm delighted to be working in collaboration with Redington to optimise outcomes for CUACPS members in this next phase of our journey. Redington has already demonstrated its ability to tailor its approach to our needs. The strength of its team and depth of capabilities across both public and private markets – as well as in sustainable investment specifically – will no doubt prove invaluable as we evolve our strategy for our ambitious long-term growth objectives." Redington head of global assets, Tara Gillespie, added: "The CUACPS has a rich track record of delivering benefits to Cambridge University's Support Staff over the past hundred years, and it's a pleasure to be helping shape an investment strategy that will continue to serve its needs and objectives for the decades ahead."


Dan Mikulskis

People's Partnership, provider of The People's Pension, has appointed Dan Mikulskis as chief investment officer.
Joining in September, he will lead the investment team, which oversees the investments of the members of The People's Pension, with assets under management currently at £21bn. Commenting on his appointment, he said: "I believe that asset owners have a special and important role, and it's an absolute privilege to join People's Partnership as it grows to become one of the UK's biggest DC asset owners of the next decade. I'm proud to take on the responsibility of shaping the future of the People's Partnership investment team and am keen to get started."


Richard Zugic

Clara-Pensions has named Richard Zugic chief financial & operating officer.
Joining from Phoenix Group, he brings 25 years' experience in the pensions and life insurance industries to the role. A qualified actuary, he is also a trustee of the Abbey Life defined benefit (DB) pension scheme. The appointment was announced amid a broader restructuring of the responsibilities within Clara's senior management team, as Clara progresses with preparations for its first transactions. As part of this, chief operating officer, Kim Toker, and chief financial officer, Andy McKinnon, will be leaving at the end of June 2023, with their responsibilities to be combined in the new role of chief financial and operating officer.


Graham Butcher

Rothesay has announced the appointment of Graham Butcher as chief financial officer.
Butcher joined Rothesay in 2007, and is currently head of strategy and chief underwriting officer. In his new role as CFO, Butcher will take on responsibility for all divisions of Rothesay's finance function, including financial and product control, actuarial assurance and capital management, in addition to his current responsibilities overseeing the strategy team and new business underwriting. He will also join Rothesay's board as an executive director. He succeeds Andrew Stoker, following his decision to step down from the role at the end of September this year.


Lisa Whitfield

Hymans Robertson has named Lisa Whitfield as head of strategic relationships for pensions.
Whitfield joined Hymans Robertson in 2017 and has over 30 years' experience in financial services. In her time at Hymans Robertson, she has had a strong focus on building relationships with key stakeholders across the market, having also coordinated the Hymans Robertson Professional Trustee Programme. Her new role will see her focus on developing the firm's key strategic relationships with professional independent trustees, law firms, third-party evaluators, covenant assessors and other key influential stakeholders throughout the industry.

No more carriage clocks at 65: Keeping retirement planning relevant

Is it time for employers to look for something new from a pension scheme, to make sure it can give their members what they need throughout retirement?

Retirement is changing. Gone are the days when an employee would sink into their armchair after 40 years with the same company, content with a farewell-gift carriage clock to stare at on the mantlepiece.

The 'R' word today has different meanings for different people. It happens at a wider variety of ages and encompasses a broader range of lifestyle choices. Some might continue to work part time, others set off travelling with the enthusiasm of a 20-something backpacker. Many feel younger than their years and can look ahead to 25 years or more of later life.

Faced with more to think about, decisions about funding later life can be an increasing source of anxiety for employees. Employers will be keen to help alleviate this, by offering their employees options to support retirement planning. Gaining confidence in this area will have a positive effect on their financial wellbeing.

In considering how to provide this support, there's a crucial factor to bear in mind: As well as being different things to different people, retirement can be different things to the same people… at different times.

Our research at Aviva has identified three phases of later life: Active, passive, and supported. This is how many people expect their retirement to go, with an 'injection' of cash at the start to get going. They recognise that a supported stage may well be on the cards one day, but often don't want to think about this and assume things will work themselves out.

As we seek to support scheme members along the path to later life, we all need to be aware of the changing awareness of retirement realities. And that means a more strategic, customer focused and less product-focussed approach to retirement planning.

The great fear: Running out of money

The first thing to consider is longevity. How can we support members to fund a long life? One of the most fundamental questions facing anyone considering their long-term future is **how long does my income need to last?**

For a female aged 60, the average life expectancy is age 87. Put another way, half the population of women aged 60 today will die before the age of 87 while half will live longer than 87. Half of those still alive at 87 will still be alive at 94 and there is a 1 in 10 chance that a woman aged 60 will celebrate her 98th birthday.

This means that by planning for a 27-year retirement, a woman aged 60 has a 50/50 chance of running out of money, relying only on the state pension into old age. And employees are becoming increasingly aware of scenarios such as this.

This means we have a duty to encourage informed decision-making around pension saving and spending. By signposting and encouraging employees to explore their average life expectancy through the ONS resources, employers and advisers can help do this. But we also need to offer them retirement solutions that support their decisions.

Annuity vs drawdown… why there's no simple answer

Of course, there are ways in which an employee can help protect against running out of money. Some consider an annuity, transferring the risk to an insurance company. Fifty-two per cent of those surveyed in Aviva's recent research* said that receiving a predictable income was a priority in retirement. But the potential downside of annuity at earlier retirement ages, is that the wide range of life expectancies and the need to offer a guaranteed income, can limit the amount provided to those who die earlier than average.

And an annuity doesn't allow for income to vary over time, perhaps paying a higher income in the more active, early years of retirement. Drawdown, of course, offers greater flexibility… but the fear of running out of money in later years remains.

With growing realisation that different stages of retirements have different financial demands, the potential stress of making an irreversible choice on retirement increases still more. It may be time to offer a solution that moves away from the need to make one big decision.

A fresh approach: Different solutions for different stages of retirement

A solution may be to blend the best of both options, by bringing together the flexibility of income drawdown in the earlier years with an annuity in later life.

Those who have the misfortune to die early can pass their pension pot as a legacy, taking advantage of the attractive tax treatment of pension benefits. Those who live longer can then protect against the threat of outliving their pot with a guaranteed income.

A packaged solution with individual, separate pension pots channelled towards annuity and drawdown could be the practical means towards making this approach work. With the possibility of a third pot for occasional spending pot as a 'safety net'. **But how much to put in each?**

The need for guidance – technological and human

One thing is clear: Guidance on the amount of sustainable income to use in the early years and when to buy a guaranteed income would be needed.

Technology can certainly be useful. Employees want to know 'what have I got?', 'is it enough?' and 'what should I do next?' These questions will only get louder as retirement choices and definitions become more diverse. At all stages of their careers, and beyond, scheme members can benefit from the capacity to access this information in a concise, visually engaging, interactive, and efficient format. Having pension information all in one place, accessed at the touch of a screen, could remove some anxiety for people.

Online tools – calculators to help users assess their possible level of income or financial needs in retirement – are fine as far as they go, but they may not be sufficient to help scheme members decide on how much of their pension pot to use in each phase. And even if online resources were to become more sophisticated, many would still want back-up from a human.

It's interesting to consider where those planning retirement might look for that guidance. Aviva's research found that, after friends and family, 54 per cent of responders looked towards pension providers for information about later life planning – ahead of any other sources, including banks, government resources… and financial advisers. While responsible providers are always quick to recommend speaking to an adviser, it's clear from this that the providers themselves need to include some element of guidance in the solutions they offer.

Aviva's research found that, after friends and family,

54%

of responders looked towards **pension providers** for information about later life planning.

Time to think about the process, not just the product

All of this suggests that an increasing awareness of varied retirement needs – and phases – means we must move towards offering flexible, staged, guided retirement solutions. The time when employees could be invited to simply choose between products is surely over.

People no longer expect to spend later life whiling away the hours staring at the clock. But all of us need to recognise how the passage of time can affect their financial needs over what could easily be 30 years of life after work. Providers need to offer – and employers need to choose – pension schemes that offer support which reflects how much can change during retirement… as time goes by.

To find out more about how retirement is changing, check out Guided retirement on Aviva's website.

Retirement is changing - Aviva

In association with

AVIVA

*Big Window Qualitative Research (October & November 2022), Big Window Quantitative Research (May & June 2022), both commissioned by Aviva *GOV.UK Research and analysis Planning and Preparing for Later Life Updated 8 November 2022

View from the AMNT: AI - the future for pension advice

***"Knowledge is not power; it is only potential. Applying that knowledge is power. Understanding why and when to apply that knowledge is wisdom."* - Takeda Shingen**

We have all heard of the advances in AI and how it has the potential to alter the way we obtain information. ChatGPT claims: "We've trained a model which interacts in a conversational way. The dialogue format makes it possible for ChatGPT to answer follow-up questions, admit mistakes, challenge incorrect premises, and reject inappropriate requests." While this 'ability' has caused consternation, the potential for benefit to the user is self-evident.

The field of pension advice has, again, come to public attention with the recent payment of £20m to British Steel workers for unsuitable pension advice; further payments are expected.

Following the British Steel scandal, a tougher regulatory regime was put in place to protect those seeking advice and, though this was welcomed, it had the unforeseen consequences of increasing the cost of advice and decreasing the numbers of pension advisers. This in turn has led to increased scams.

The advent of an AI model able to answer questions and challenge incorrect premises seems ready made for providing much-needed financial advice at reasonable cost.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

View from the PLSA: Investing in the UK

UK pension funds invest almost £1trn in the UK through a mixture of asset classes. But there have been numerous calls for funds to play a bigger role in providing capital to support UK growth.

Some suggest the best way to achieve additional investment is by undertaking radical and rapid consolidation of the pensions sector. Scale has its advantages but, there are quicker and simpler ways. Our *Pensions and Growth* paper identifies multiple opportunities to encourage pension funds to invest further in UK growth, which do not restrict pension schemes' ability to direct the investment of members' savings.

Chief among them is establishing a rich and continuous pipeline of enterprises needing investment for providers to bring to market and investors to choose from.

The government should also press ahead with AE reforms – removing the lower earnings limit, starting AE at age 18 and gradually increasing contributions. Only by increasing the flow of new assets into DC can we hope to provide more capital.

The PLSA is asking the government for policy certainty and to set out a clear plan for the future of the UK economy.

Our proposals build on current government initiatives and address the needs of the pensions landscape as it is now. We risk unintended consequences by trying to radically reshape the market or water down the fiduciary duty that is fundamental to our system.

PLSA deputy director of policy, Joe Dabrowski

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: Delivering value for savers

In January 2023, Minister for Pensions, Laura Trott, announced a package of measures "to deliver value for savers and boost fairness, predictability and adequacy across the private pensions sector".

The measures focus on value for money aimed to improve security and bolster returns for savers. Measures including requirements on schemes to disclose investment performance, costs and charges, and quality of service using comparable metrics; feedback on workable solutions to tackle the issue of small pots; and an extension of collective defined contribution (CDC) schemes including multi-employer models.

Whilst the new value for money framework will help trustees to make informed decisions to support long-term improvements for savers, this drive towards greater transparency and standardisation of reporting may end up having limited impact in addressing pensions inequality for a significant cohort of UK pension savers. It is challenging to see what significant improvement in retirement outcomes these measures will bring to those working in low paid part-time roles experiencing savings opportunity loss because they are primarily the providers of childcare and adult carer support in our society.

In a recent research survey commissioned by the PMI (April 2023) nearly half of the women who replied believed that better childcare support would enable them to return to work sooner – giving them the opportunity to both be more productive and to make better preparation for life when employment has ended.

PMI president, Sara Cook

Kickstarting GMP equalisation

ITM's Andrew Lowe provides a guide for schemes to kickstart GMP equalisation

For many schemes, it feels like getting GMP equalisation projects moving, let alone completed, is an impossible task. This can be especially true when considering all the other daily challenges facing schemes which takes focus away from this complicated challenge.

Whilst GMP equalisation calculations are some of the more complex in the pensions administration world, there are relatively straightforward solutions to configure and deploy IF you have the right data.

We have highlighted key areas below where accurate and complete data is required to facilitate swift progress on GMP equalisation. We've also included some insight on how to start now, even if you are waiting on other decisions or resources to progress the overall project – ultimately reducing time and costs when these other blockers are removed.

It's also hugely important to be pragmatic about how data will impact the outcome of a project – spending £000s to adjust benefits by pennies is inefficient. Data gaps can be plugged more effectively by taking clever approaches which minimise the risk of a negative outcome.

While the below is crucial for the progress of your GMP equalisation project, it's vital to address data quality more widely before undertaking scheme projects such as preparation for buyout, transition of administration, or implementing technology.

By considering your approach to data preparation as part of a wider strategy and in line with your overall scheme objectives, it's possible to get even more value from what can otherwise be standalone project-related data activity.

For example, work carried out now to trace deferred members will allow schemes to re-engage with them in the short term, including for GMP equalisation. But also having an eye on member data needed for pensions dashboards will ensure maximum value from that tracing exercise.

If planned properly, your data preparation activity can be prioritised for your immediate needs but needn't prevent you from getting wider value – making other scheme activities such as automation, dashboards preparation or road to buyout less costly and time-consuming.

Written by ITM executive pensions consultant, Andrew Lowe

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Data Item	What is it?	Why is it important?	What can Schemes do to prepare?
Unlinked dependants	Every dependant member is related to an original scheme member but often this link is lost when the dependant member record is created	To effectively carry out GMP Equalisation calculations, the original member's pension and service information is required – without a link this cannot be identified	Original members can be found through tracing and linked to the dependant's record
Transfers-in	Details of any transfers into the scheme, the dates they were received and relate to, and the pension that they provide within the scheme	Any GMP within a transfer needs to be considered for equalisation – this will be more accurate with detailed information on the transfer	Ensure that details of transfers-in are held consistently and transferred-in GMP is easily identifiable – this could be executed during GMP rectification or when considering historic transfer files
Part-time information	Details of part-time service including dates and hours worked	Pension benefits (including GMP) need to be split between periods to be equalised, and those that are not – part-time service can impact this split significantly	Ensure that part-time service data is complete and consistent, potentially by reviewing historic payroll files
Service dates	The dates of service completed by a member	Pension benefits (including GMP) need to be split between periods to be equalised and periods that are not – accurate service dates are essential for this	Ensure that accurate service dates are held for all members – possibly including a review of old payroll information or other backfiles
Later Earnings Addition (LEA)	Details of any LEAs paid to members	Members who retire from active service after GMP age may be entitled to an LEA – details of this are required to understand the difference between the true and opposite-sex positions	Ensure that LEA information is held for all impacted members – where information is not available agree on how assumptions should derive LEA amounts

VIEW FROM PA: The importance of cyber security

Events in recent months have highlighted the importance of having strong and robust cyber security in place.

Countries such as China and Russia have been upping their cyber-attack activities, while rapid advancement in AI technology has heightened the risks posed by hackers and data farmers drastically. Pension organisations are a key target for cyber attacks, holding vast amounts of data across a wide demographic of people and not always having the most robust systems in place to repel such attacks.

Data breaches from cyber attacks leave pension organisations vulnerable to lawsuits, as we have seen with the recent cyber incident at Capita. Furthermore, the pension system relies heavily on trust and members need to know that their data is safe. Pension crises in the past, such as the British Steel Pension Scheme transfer crisis, and the collapse of sponsoring employers, such as BHS and Carillion, have proven how hard it is to win back people's trust when something goes wrong with their pensions.

The Pensions Regulator recently stated it was "critical" that governing bodies take steps to protect members and assets against cyber risks. Its General Code will introduce the expectation that governing bodies have an effective system of governance in place to minimise potential security risks.

Ultimately, it is up to pension organisations to ensure they are alert to the risks and have the right systems in place.

Written by Jack Gray

VIEW FROM PASA: CDC – let's get the party started!

We can all celebrate the fact that CDC has arrived for thousands of Royal Mail workers. But it's no good if only a small number of folk (relatively speaking) can benefit from the hard graft which has been done to turn the ambition of CDC into a reality.

In order to truly get the party started, we need to open up its doors to a wider range of individuals and organisations, which means sending out invitations to a much wider audience. The timing of the most recent call for evidence on decumulation, which dovetails neatly alongside the consultation on CDC, can't be pure coincidence…

Many of us see real potential for CDC to play an enduring role in UK pensions, possibly for the auto-enrolled generation who thrive on defaults. Also for DC members with larger pots looking for a solution which pays an income for life in a fuss-free environment.

We now need to think about some of the practical questions relating to CDC schemes. This is exactly why PASA set up a group to scratch their heads over what the answers to those questions might involve in real life. For example, although it's widely agreed communication for CDC members will be a major challenge, we mustn't overlook administration too in the rush to develop and launch new products. PASA will consider how administration factors could be woven into the new CDC income solutions, to try and avoid unwelcome surprises. Watch this space for more details…

PASA
assess | aspire | achieve

PASA CDC Working Group member, Kevin Wesbroom

VIEW FROM THE ACA: Supporting CDC

I spoke recently at the All-Party Parliamentary Group on Pensions annual lunch, also attended by the Pensions Minister, MPs, peers and colleagues from the industry. I noted that we've been really pleased to see many of the measures announced by the Minister aimed at closing the pensions inequality gap, for example around collective defined contribution (CDC) schemes, which ACA has vocally supported.

I also noted that whilst we support the re-jigged Funding Code, we do think that open schemes will continue to risk being forced down an unnecessarily cautious funding approach, which could result in yet more schemes choosing to close. That is why we have responded with suggestions in this area.

However, I think we are beginning to make real progress in the battle for good quality pensions for the next generation. With CDC schemes, employers don't risk deficit payments, and can again feel comfortable providing good quality pensions to attract staff – perhaps paying close to the 20 per cent contributions of old.

And on the 'pure' defined contribution side, we've long called for a plan for a gradual increase in auto-enrolment minimum contributions. Whilst we recognise that current economic circumstances make that very difficult, we believe a firmer ambition from government would be welcome to further guard against poor outcomes further down the road. We look to hear more from government over the next few months.

ACA
ASSOCIATION OF CONSULTING ACTUARIES

ACA chair, Steven Taylor

The future of DC pensions

Scottish Widows workplace pensions director, Graeme Bold, discusses the future of defined contribution (DC) pensions in the UK

In the past decade of auto-enrolment and pension freedoms, we've seen Generation DC emerge with over £500 billion invested in workplace pensions.[1] As we look to the end of this decade, the 'Connected Twenties', this will double to over £1 trillion. It's a monumental change that means people will have bigger pots with more options to consider. Technology is revolutionising how people view their finances, and by the end of the decade, pensions will be swept up in a tide of digital connectivity that will open up a new way of running your finances from your phone.

Digital difference

Over the Connected Twenties, we will see change, with moving to Open Finance gain momentum in ways that we've seen happen in areas like fitness, where people track health goals on dashboards. This has already started happening in finances with Open Banking, where account data from multiple providers is consolidated, enabling members to access a wider range of services. Open Banking has been around for half a decade, reaching over seven million users,[2] and has proved the concept of sharing sensitive data without compromising security. Similarly, when pensions dashboards arrive, they will provide simple and secure information about all pensions in one place – hugely improving pensions awareness.

Scottish Widows, as part of Lloyds Banking Group, already enables people to see other products next to their Lloyds, Halifax and Bank of Scotland bank account up to 15.5 million times per week. The key to this is having a single digital identifier that works across the bank. Every week people in huge numbers do non-banking transactions from their banking app – and people seem really comfortable doing this. The challenge is to enable non-bank products to be managed in this simple way – that's where Open Finance comes in.

The open finance environment

As a natural progression from Open Banking and the development of pensions dashboards, Open Finance revolutionises how consumers engage with their finances – updating personal details in one place and finding that filters all the way to your pension plan demonstrates remarkable connectivity. It creates significant change in market structure as well as client engagement. So, it's no longer a question of if it will happen but rather how soon it will develop.

We've seen that people login to their bank account 26 times a month – that's nearly every day. This is one of many regularly accessed apps – and increasingly people want to go to one place and view all their finances, without having to remember countless passwords for separate products. The aim is to eventually move from data aggregation platforms to how we experience information in a personalised way. And this won't necessarily be a pension provider specific opportunity – tech-savvy entrepreneurs can also take advantage.

As Open Finance evolves, other tools become redundant. All large commercial providers have been busy building pension apps and these will need to adapt to remain relevant. At Scottish Widows we will launch Open Finance account aggregation into our app later this year, as irrespective of access point, putting pensions in the context of wider finances is key to promoting overall financial wellbeing. Aggregating data should help people's money work harder for them, giving individuals a more tailored experience with personalised nudges that are far smarter than the nudges we have today. A nudge that offers solutions in the moment to make more of your finances – that recognises spending patterns and suggests ways to optimise savings.

The landscape of DC pensions

The landscape of DC pensions is rapidly evolving, and employers will need a partner who can invest to succeed here and will need to adopt an entirely new digitally connected approach. Open Finance needs to work for the masses and not just the digitally savvy. Understanding how to make the most of opportunities in a way that works for everyone is what will set providers apart. Employers and advisers have told us that they want the concept of a GPS for finances – creating a personal journey for members, so they can visualise how they get to their ideal financial destination. As we head through the Connected Twenties, the pace of change increases – and opportunities for a completely different engagement model come into view.

Written by Scottish Widows workplace pensions director, Graeme Bold

In association with

SCOTTISH WIDOWS

[1] According to Broadridge, UK Defined Contribution and Retirement Income 2022.
[2] According to research from OBL, UK reaches seven million Open Banking users milestone.

VIEW FROM TPR: No last-minute dash on dashboards please

Be prepared. It's a great motto and should not be just the preserve of the Scout movement. In fact, pensions dashboards are a clear example of where preparation will be key to success.

Dashboards will allow savers to see all their future pension entitlements in one place. They also have a role to play in reuniting savers with the estimated 2.8m lost pots worth more than £2.6bn.

Last month, the Minister for Pensions laid amending regulations to implement an approach to delivering pensions dashboards, including a connection deadline of 31 October 2026.

Now we have a roadmap for delivery it's more important than ever trustees and scheme managers work collaboratively to progress dashboards quickly and efficiently.

We and the DWP expect all trustees and scheme managers to work together with their providers and agree a practical plan that avoids competing demands on capacity and other resources.

Trustees must recognise getting data ready for dashboards will not be easy and will take time. They must understand the data required to match savers to their pensions, and the data that will be sent for savers to view. They should then audit whether that data is dashboards-ready.

Getting your data dashboards-ready will not happen overnight. A last-minute dash will not be successful. Now is the time for action. Those trustees, scheme managers and administrators that prepare now will be best placed to make dashboards a success.

TPR's interim director of regulatory policy, analysis and advice, Louise Davey

The Pensions Regulator
Making workplace pensions work

VIEW FROM THE ABI: Pensions dashboards

The potential for pensions dashboards to truly transform savers' experiences for the better is vast. Providing a one-stop-shop for each individual's pension needs will empower people to actively engage with and understand their pension, as well as encouraging them to plan and manage their financial futures.

We remain fully supportive of the reset of the pensions dashboards delivery programme. Taking time to deliver this complex project and facilitate the successful connection of a wider range of IT systems is right, and we entirely support further collaboration between DWP and industry.

Although it would have been our preference that the staging timelines remained a regulatory requirement, to prevent a last-minute rush of firms connecting to the system, our members have indicated that they remain willing and able to continue to comply with a voluntary timetable. We have asked for connection to be kept under review, so that if it becomes clear that the wider industry is not following the guidance, the government will consider bringing the staggered connection dates back into the regulatory requirements.

We all want to see the Pensions Dashboards Programme reach its full potential and a genuinely collaborative approach with industry will be essential, including on deciding when dashboards will be made available to customers.

ABI

ABI policy adviser for long-term savings policy, Emily Mae Collins

VIEW FROM THE PPI: The *Pensions Primer*

Every year in June the PPI releases our highly anticipated *Pensions Primer: A guide to the UK pensions system*. The *Primer* is a comprehensive document aimed at a wide audience, from those wanting to learn about pension system basics to those looking to update their knowledge. It really is a one-stop-shop for everything relating to pensions policy!

When working on the *Primer* our researchers spend time reflecting on the many changes that have occurred, such as the introduction of pension flexibilities, the decline of DB and rise in state pension age, their impact on today's system, and also the future challenges we face.

These feed into the important research topics PPI is addressing, such as CDC development, engagement with pensions, and drawing lessons from international systems of pensions access. The *Primer* also shows us how the evolving landscape continues to widen the scope for future research possibilities. Our research informs the debate and is reinforced by our events and discussions which in turn feed through to policymakers. 'Informing the debate' underpins everything we do at the PPI and helps us work towards our vision of 'better informed policies and decisions that improve later life outcomes'.

Already we are looking ahead to our research schedule for 2024. Now would be an opportune time for you to get in touch with us to discuss your thoughts and ideas and feed into the schedule.

PPI head of membership and external engagement, Danielle Baker

PENSIONS POLICY INSTITUTE
PPI

A week in the life of: TPT CEO, David Lane

I am the CEO of TPT Retirement Solutions (TPT), a DB and DC pensions master trust, serving more than 2,600 organisations and more than 425,000 members, managing assets of £10.3 billion.

I started the role in January of this year and the past few months have been extremely busy. A key focus has been developing our new strategy and ambitions to restructure and grow the business. I am based mostly in our Leeds office, along with the majority of our colleagues, but spend a good deal of time with our investment management team in London.

Monday

I kickstart the week with the regular one-hour Monday morning 'Pulse Meeting' with the executive team. We set out the priorities for the week ahead, call out anything that needs urgent attention and collaborate on any challenges. It marks a productive start to the week and focuses our attention.

The afternoon is taken up with our monthly meeting, reviewing scheme funding positions, investment strategy proposals and employer covenant reviews. Our trustee services director, chief investment officer and employee relationship director, along with their teams, lead the discussions, and we implement the decisions on behalf of the trustees.

Tuesday

The morning starts with a couple of hours finalising the content for our forthcoming staff business briefing session, ensuring the session shares progress on important goals and future planning.

Recent months have been very exciting at TPT. We have been working on a host of interesting things, namely the significant business restructuring of the organisation. Following which, we will be able to offer new services and products to trustees external to TPT: Our new DB proposition, which will be launched in the autumn.

The day includes a meeting with the CEO of the software firm providing the platform infrastructure for the planned enhancements to our DC proposition. We are investing heavily in improved customer experience and digital transformation as we plan to launch this for new business early next year.

Wednesday

In the morning I meet with a colleague to discuss our stance on collective defined contribution (CDC). There is some uncertainty around employers' appetite to make the switch, but we are in the process of discussing it with potentially interested employers and gauging feedback.

The afternoon is spent reviewing the planned changes to our corporate website and brand refresh. This is all intended to align with strengthening TPT's position in the market, scope of services and the new growth strategy.

Thursday

The morning is spent catching up with colleagues and teams in the business, seeing where any support is needed on day-to-day delivery items.

Following a series of meetings in the afternoon regarding the business restructuring, the day ends with TPT's corporate summer barbecue – a great opportunity to catch up with colleagues in an informal setting.

Friday

In the morning, I meet with the Change Management Committee. These meetings give me a great snapshot of everything going on in the business within a single forum, particularly useful given the very exciting phase TPT is going through.

I have a final meeting before the weekend starts, with our marketing and sales leads, to talk through our PR and client engagement plans for the next quarter.

The road best travelled

Francesca Fabrizi sits down with Hymans Robertson strategic capital adviser, Abhishek Srivastav, to discuss his years in and around pensions, international travel, his love of meditation and the Dalai Lama

What's your employment history (including jobs outside of pensions)?
I started in management consulting with Accenture. They helped me ascertain my focus in financial services, working later with investment banks, retail banks, insurers, wealth managers and private equity behemoths, whilst travelling the world.

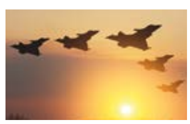
Fortuitously, I left just before the global financial crisis to go to business school, during which I explored private equity with General Atlantic and broader asset management with Deutsche Bank. Deutsche trained me on Wall Street and provided me with the opportunity to build an institutional asset management business in the UK. This was my first encounter with pensions and I vividly remember discussing the Purple Book and IAS 19 during my interviews!

Another stroke of luck helped me sidestep the impact of sale talks at the bank, by joining a former colleague at Threadneedle (now Columbia Threadneedle). This led to my longest stint of eight years, which culminated in helping build a pension solutions business but also working with endowments and insurers globally. Since then, I've been heavily involved in a renewables infrastructure technology business, Austin Hybrid Power, and a digital transformation as-a-service business, Austin Global Infrastructure Services, to help my family.

I re-entered the pensions industry a year ago, thanks to Hymans Robertson, as a senior investment consultant and head of investment solutions, and now am also a trustee on the Hymans Robertson Foundation.

What's your favourite memory of working in the pensions sector?
Sharing thoughts on the nature of UK pension fund capital to the then-chair of the Treasury Select Committee.

If you did not work in pensions, what sector do you think you would be in instead?
I would love to say a music producer, in LA, but the reality is another part of financial services.



What was your dream job as a child?
To join the air force and, in my teenage years, to become a consultant, both following in my father's footsteps.

What do you like to do in your spare time?
With three jobs, two young kids and elderly parents, time is scarce. However I try and maintain my meditation practice, which has turned from a habit to a hobby. Some of us in the industry also practice together and everyone is welcome.

Do you have any hidden skills or talents?
Freestyling or 'dropping some bars', although it has been a while.

Is there a particular sport/team that you follow?
Having moved so much, I never followed one sport. I grew up loving American football and the SF 49ers, but after spending time in India, I also follow the national cricket team. My son's passion is, finally, also drawing me into football.

If you had to choose one favourite book, which would you recommend people read?
Why we sleep by Matthew Walker because, as the name suggests, it is universally applicable. It is immensely beneficial and a fun read. There is also a TED Talk.

And what film/boxset should people see?
Time poor, so no recent recommendations, however, from my youth is *The Corporation* by Noam Chomsky. It assesses corporate personhood, or the personality traits of corporations that are, now, entitled to most legal rights of a person.

Is there any particular music/band that you enjoy?
Toughest question! Music is my passion and I love almost all genres. Longstanding affinity towards classic rock and conscious rap.

Who would be your dream dinner party guests?
The Dalai Lama, as it would be filled with a great vibe, lots of wisdom and laughter!

Is there an inspirational quote/saying you particularly like?
"This too shall pass". It applies to every moment.

Written by Francesca Fabrizi

Painting the 'big picture' for the future of pensions

Pensions Minister, Laura Trott, reflects on the progress made since she came into office in October last year, and her upcoming priorities for the future of pensions

On a visit to a girls' secondary school recently, I found myself touring state-of-the-art science labs and speaking to students about their career dreams, while also attempting to remind them of the importance of pension saving (as Minister for Pensions, this comes with the territory).

One thought has stayed with me since then: While these young people are preparing to start their careers, it is our responsibility to make sure they aren't stuck with the pension inequalities of the past when they come to enter the world of work.

Since coming into office in October last year, I've being sketching the outline for where I see the future of UK pensions heading.

I want to make sure pension saving outcomes are adequate and predictable, that pensions are fair and working hard for savers, and that we start to bridge the generational gap for those who are paying into a DC scheme with those who pay into a DB scheme. To do this my plan is to reform and futureproof the DC market.

I started this in January with a package of changes that included the value for money framework, where schemes will need to disclose their investment performance, costs and charges via clear and comparable metrics to the benefit of savers; reforms to the charge cap, giving schemes more flexibility to invest in 'illiquid assets' such as start-up companies, renewables and infrastructure; feedback on workable solutions to tackle the issue of small pots; and an extension of collective defined contribution (CDC) schemes, most significantly to include multi-employer models.

We are all no doubt aware that being in an underperforming pension scheme can lead to someone missing out on thousands of pounds in retirement. The value for money framework and these additional measures were the first step towards improving security and creating better returns for savers, so they can enjoy the retirement they've worked so hard for.

But what comes next?

I've said it before and it is something the industry is well aware of, but since 2012, automatic enrolment (AE) has transformed the pensions landscape in the UK for the better, but we know there's more to be done to ensure a fairer future for savers.

This is why the Private Member's Bill on the extension to AE currently going through parliament is so vital. Not only will this benefit over three million workers and bring half a million 18 to 21-year-olds into saving for the very first time, but it will also bring in many more women and other groups who have historically found it harder to save for retirement.

I've also committed to measuring the gender pensions gap, with a new official measure announced in June. The measure shows the gap in pension savings between the average British man and woman is 35 per cent.

This measure – to be published yearly going forward – will help shine a light on the issue of the gender pensions gap, allow us to track progress, and, most importantly of all, encourage efforts to reduce it.

There is more to come this summer, with a forthcoming package of measures set to build on what we have achieved so far, and truly work to futureproof our pensions. Because there is lots to do to make sure we shift to focus from cost to returns, we know the difference a few percentage points will make to the amount in someone's pension pot, so that is what I'm focused on.

I look forward to continuing to collaborate with industry and stakeholders to boost returns for pension savers and ensure people across the country are able to enjoy the retirements they've worked so hard for.

Written by by Minister for Pensions, Laura Trott MBE

Risk management lessons from the banking crisis

UK pension schemes may have felt a long way removed from the recent turmoil in US banking, but the knock-on effects have been felt much closer to home, Nick Reeve reports

Summary
- Following the banking crisis in the US and Europe, pension schemes have been assessing the potential impact.
- Risk management and portfolio diversification have been key factors in helping protect pension schemes from the aftershock.
- Trustees have been urged to learn lessons on risk management from the crisis and remain prepared for further volatility.

How does the collapse of a cryptocurrency trading platform lead to counterparty risk discussions at UK pension schemes?

The interconnected nature of financial services means that what began as the failure of a niche company based in the Bahamas has led indirectly to significant questions about monetary policy, counterparty risk and financial stability.

It all started with FTX. Once a darling of the crypto world, in late 2022, the digital currency trading company collapsed into bankruptcy amid accusations of fraud. The sudden loss of confidence swept through the crypto world, taking with it the fortunes of several other companies.

Investors began to scrutinise the activities of banks providing services to FTX and other crypto-asset companies. In early March 2023, after several of its digital asset clients walked away, Silvergate Bank announced plans to wind up. Days later, Silicon Valley Bank (SVB) – a key provider of financial services to the technology and venture capital sectors – folded after a rush of deposit withdrawals, and Signature Bank quickly followed.

While US federal regulators moved quickly to protect deposit holders, a wave of panic rippled around global markets. Investors were immediately reminded of the chaos of the 2007-09 financial crisis.

J.P. Morgan Chase came to the rescue of the beleaguered First Republic Bank, which was also haemorrhaging cash, adding to concerns about financial stability. In Europe, UBS bought Credit Suisse after its rival began to experience serious difficulties after years of poor performance.

Rapidly rising interest rates were blamed as banks struggled to liquidate assets to meet withdrawal requests. Higher rates lowered the price of longer-dated US treasury securities and, amid broadening financial stability concerns, offloading or even valuing large amounts of these assets became difficult.

So far, however, regulators have managed to contain the effects of these incidents. Bank share prices have mostly stabilised amid talk of regulatory reviews and stronger liquidity rules. The worst, it is hoped, is over.

View from the UK

UK pension schemes may feel somewhat removed from this US-centric chaos. However, trustee boards will likely have asked questions of their asset managers about potential exposure to US banks.

Northern Trust Asset Servicing pension and insurance executive, Mark Austin, says events in the US banking sector should remind pension schemes that "counterparty risk is real" and exists throughout the financial system.

"These impacts range from mere inconvenience to actual financial loss, and it is worthwhile for trustees to both understand the nature of these risks and ascertain their level of tolerance for them," Austin says.

For UK schemes, the direct impact will vary depending on portfolio construction and exposures but, as

Mercer UK chief investment officer, James Lewis, explains, market sentiment will have had a "far more significant" impact: "We always recommend building diversified portfolios to manage unknown and unknowable risks. There was a rapid response to each of the bank collapses and, while the rapidly rising interest rates of the last 18 months clearly played a major role, the authorities have acted quickly to support the banking industry. If interest rates continue to rise, we expect to see further volatility and stress in financial markets. However, that will also create opportunities."

"Markets are sensitive to rising interest rates, and a recessionary 'hard landing' remains a risk," explains Redington managing director, Carolyn Schuster-Woldan. "The impact of market dynamics will be uneven across asset classes, regions and sectors, and so it's crucial to maintain a well-diversified portfolio."

Diversification is key, trustees and consultants proclaim. Unless a scheme had allocated significant portions of its portfolio to US banks or technology venture capital funds, the effects were unlikely to divert schemes from their journey plan.

Vidett trustee director, Martin Collins, echoes this view, but emphasises a need to have robust conversations on risk with asset managers: "The main measure that pension schemes should be taking to protect against these risks is diversification – you shouldn't have excessive exposures to any institution or sector.

"Beyond this, you should also quiz your investment managers to ensure their investments don't have a concentration of risk from any source."

Risk management lessons

As well as providing financing to many up-and-coming technology firms, SVB also often provided personal financial services to the same firms' directors or staff. Furthermore, some venture capital investors interested in the US technology space had SVB as a lender. This concentration of activity in one sector meant that, once technology firms began to act on their concerns and withdraw their deposits, a trickle of exits became a wave.

It is not just about counterparty risk with technology investments. With liability-driven investment (LDI) strategies under scrutiny after last year's gilts crisis, trustees will be looking to understand the counterparties of any lending or collateral strategies within their LDI provider's portfolio.

Fortunately, LDI funds have not been unduly affected by these banking collapses. Some strategies, along with regular corporate bond mandates, may have had exposure to Credit Suisse debt, but a diversified approach will have minimised the effect on pension schemes.

"Trustees must take appropriate and proportionate actions to understand the risks inherent in the investments they select," says Entrust trustee director, Tom Neale. "Where these investments include strategies that take counterparty risk, they should understand that and satisfy themselves that the due diligence performed by their consultant in recommending the manager is detailed enough to ensure counterparty risk is managed adequately."

Such risks should not be difficult to monitor, says Austin. Counterparties should be assessed "as part of regular discussions with the providers to the scheme". He adds: "When investing in global markets it is difficult to avoid risk completely, but understanding it and identifying where it exists is key to deciding if it can be mitigated, or accepted as being within the trustees' level of tolerance."

Interest rates – too far, too quickly?

The banking collapses have also increased scrutiny of monetary policy. The US Federal Reserve has raised its core rate from 0.75-1 per cent in May 2022 to 5-5.25 per cent in May this year, while in the UK the base rate hit 5 per cent in June, having been just 1 per cent a year earlier.

Buck CIO and head of UK investment consulting, Carl Hitchman, says markets may not have fully adjusted to the implications of higher interest rates. The failures of US banks could be "the first rumbles of thunder of an approaching storm", he warns.

"The economic narrative has shifted quickly from an expectation of very low inflation for the long term to an expectation of persistently high inflation," he says. However, the next inflation "surprise" may be to the downside, Hitchman explains, and central banks may be judged to have overcorrected with the rapid interest rate rises – which could spell more economic and investment volatility.

Higher rates could also see capital calls from LDI providers as they seek to reduce leverage, further adding to the liquidity pressure on some pension schemes.

Hitchman says the current good environment for defined benefit funding, which has led to strong surpluses and a wave of interest in insurance transactions, could be ending soon.

Neale agrees that "significant economic challenges remain" through high inflation and short-term rate hikes. "Trustees should be alive to the risk this poses to their portfolios which extend far beyond a recurrence of these specific issues within the banking sector," he adds.

The roots of the US banking collapses may have been far removed from UK pension schemes, but the knock-on effects are being felt much closer to home. Continued vigilance and proper diversification will be vital to keeping these effects at bay.

Written by Nick Reeve, a freelance journalist

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Pensions Age Northern Conference

DB funding, VFM, dashboards, data and sustainable investing were just some of the hot topics on the agenda at this year's Pensions Age Northern Conference in Leeds

The Leeds Park Plaza was home again to this year's Pensions Age Northern Conference, which brought together regulators, industry bodies, pension trustees and many more pension professionals to discuss the key issues front of mind when it comes to running pension schemes in the UK today.

Experienced trustee and Stamford Associates chair, Roger Cobley, the moderator for the day, opened proceedings by welcoming the delegates and inviting the opening keynote speaker, The Pensions Regulator (TPR), interim director of regulatory policy, analysis and advice, Louise Davey, to the podium.

Davey presented on some of the key priorities for TPR, including the draft Defined Benefit (DB) Funding Code of Practice, pensions dashboards and the regulator's work on value for money (VFM) and decumulation.

On the DB code specifically, she acknowledged that it had taken "a lot longer than expected", but, she said, "the benefit is we can be really confident that the code and final regulations will work well".

She added: "We have been working closely with the DWP to make sure that the final regulations reflect industry feedback and that they have the flexibility required to underpin the DB code and our regulatory approach. We are working through these issues so we can all be ready for the regime to go live in April 2024."

On the topic of pensions dashboards, Davey emphasised that, despite the delays with the project, TPR expects trustees and managers to continue preparing for dashboards. "We are keen to see continued engagement with administrators, ISP providers and other supportive parties and it remains crucial for trustees to plan alongside these third parties to make sure they can comply with these duties under the new timeline and we will continue to support schemes through this – we will be providing communication and education to support trustees and scheme managers."

On VFM, she hoped the new framework would "stimulate competition in the defined contribution (DC) market, help good schemes get better, and get poorly performing schemes out of the market".

Next, she acknowledged the importance of supporting savers at the decumulation phase of DC saving: "As the DC market matures and savers approach retirement, the next big challenge is how to turn those pots into retirement income and how to make sure savers are supported to make the right decisions, as this is the point at which savers can find themselves vulnerable to poor advice, loss or even fraud."

Finally, she focused on the current debate around the way in which pension funds invest and the role they play in supporting growth in the UK, and their ability to invest in UK Plc. "As a regulator, we don't and we wouldn't direct scheme investment, but we will check and challenge that trustees are acting in members' interests and are considering

the fullest range of opportunities that are available."

Next, delegates were offered a pension fund manager's view, as West Yorkshire Pension Fund assistant director (finance, administration and governance), Yunus Gajra, who has responsibility for providing pensions administration services to over 500,000 local government and fire scheme members, gave attendees an insight into his role, and the key issues at the top of his agenda.

Gajra talked about the challenges he faces in the role, such as the increase in workloads, the legal and fund timescales that need to be met, legislative complexities, and the rising costs of administration; and outlined the work they are doing to improve data quality and communication; how they are tackling cyber-security, as well as addressing issues with recruitment and retention.

"While we have challenges, our aim is to deliver the best outcome for our members. By addressing some of those challenges, we can be more confident that we're delivering the right service for our members, because it's the members that are important to us, and it's making sure that we deliver what the members want too, not what we think is important."

Finally, he looked at some of the opportunities that the future will bring, related to digitalisation, and member self-service.

A professional trustee's view was next, as BESTrustees director, Ann Rigby, presented on effective communication strategies for trustees, how to implement them, what practical tools are available and how one might measure their success.

With the world moving away from paper-based communications, she looked at what steps trustees can take to embrace electronic communications to improve member awareness and understand and protect them from scams.

"Whilst we are all moving forwards, the generation gap on how to communicate is getting wider and that risks some of our members who are reliant on paper and face-to-face interactions getting left behind."

She looked at what trustees should be talking about at the moment – to include GMP equalisation (GMPe), buy-ins, the gilts crisis and related investment strategies, tax changes, state pension age changes and dashboards – and how schemes should be communicating, emphasising the importance of having a strategy for future communications.

"Communication with our members is more important than ever, but at the same time, more challenging, as we need to use different ways of communicating for different groups of members."

Rigby then talked through a case study based on a scheme she had worked with, where they followed a three-stage process to make the move from paper based comms to electronic comms, "to reduce costs but, more importantly, to speed up the process of getting messages out to members and also for environmental reasons".

"If you haven't already, you should set up a strategy for future comms: It doesn't need to be complicated or challenging, if you keep your strategy 'SMART' – specific, measurable, achievable, realistic and set yourself a timeframe."

How to make the biggest splash with your data was the theme of the next presentation, as ITM sales and marketing director, Mark Adamson, and head of technical research, Rebecca Morgan, highlighted why, with so many pension projects running in parallel, such as GMP, de-risking and pensions dashboards, it is vital that momentum is not lost – an underlying and consistent theme to these activities being member data, which can be used to drive forward these projects.

Adamson commented: "If we have decent data, if it is doing what it needs to do, it can enhance member experience, which for most of us in the industry ought to be what we are thinking about, because the member is after all what we are here to focus on; it provides the basis for swift and effective administration, in particular through digitalising data where we possibly can; and, if all of that comes together, it enables the member to also self-serve if they want to.

"Getting data into a good place really does help us fulfil these requirements, but also helps us reduce administration costs and generally make life better for everyone in the industry."

Adamson went on to highlight the ways in which data, conversely, can hold us back if not addressed in the right way; for example, in relation to three key obligations including paying the members the right amount; addressing the risk of the scheme; and adhering to government initiatives and regulations, and how these all interact. "The point here is that data is not just about GMP corrections, or dashboards, it is about everything and that's where the industry needs to try and focus on the biggest splash, trying to get the best money it can

from the data work it does by thinking much more widely than an individual objective and by having more joined-up data thinking."

Morgan then looked in more detail at GMP equalisation, the data one needs for the process and reiterated the importance of more joined-up thinking – understanding how not to lose momentum on your GMPe; and how the requirements for GMPe overlap with other projects and how you can get the "biggest splash" for your data.

"You need to understand your data requirements and what's important for GMPe; but don't just think about GMPe in isolation, consider the wider ripples and splashes so you can come up with a pragmatic and proportionate plan."

Adamson ended with a deep dive into the topic of de-risking, and what insurers are looking for, which led well into the next session which was from Entrust trustee director, Tom Neale, who focused on DB consolidation, discussing the proven options available now, the benefits they offer to schemes and sponsors and what the future might hold.

He looked at what consolidation means today, why schemes consolidate and which schemes can consolidate. He also debunked some consolidation myths and outlined various consolidation options other than just superfunds (which he acknowledged were always in the spotlight), such as platforms and master trusts. "We find understanding and awareness of the different offerings – what makes them different, what the strengths and weaknesses are – is an area where we need to do more to educate people.

He added: "Consolidation is well established, there are established players out there. You get a benefit in this area by having scale, and there are a significant number of players in this market who have that scale already and are offering these services, that have been around for a long time with a proven track record, and are delivering benefits now for schemes, sponsors and members. We need to capture that, raise awareness of that. The new things get the headlines and the airtime, yet the other options risk being under the radar even though they are producing good outcomes for schemes today."

The conversation then moved to investment, as Aviva portfolio manager real assets, Zoe Austin, looked at the role "real assets can play in providing investors with a hedge, not only to protect against future carbon prices, but also to provide financial returns, as well as wider ESG benefits, which are increasingly coming into the fore".

She talked about the Aviva Investors Climate Transition Real Assets Fund, which has a multi-asset approach, investing in pan-European infrastructure, real estate, forestry and private equity, the multi-asset approach offering "real flexibility because different assets will contribute different things to the net-zero journey".

Austin focused on nature-based investor solutions, and why they are important: "No matter how much infrastructure you invest in, real estate you convert and so on, you are always going to have a carbon footprint in real assets, it is unavoidable, so how do you remove that residual carbon footprint in your portfolio? We feel the best way at the moment is to directly own forestry."

Following this, she walked the delegates through a fascinating and engaging case study – Glen Dye Moor – showcasing how nature-based investments, such as forestry and peatland, can work alongside infrastructure and real estate to align real asset strategies with an investor's climate transition ambitions.

"If you hold real assets, you are always going to have emissions so how do you get rid of them to achieve your net-zero target? The key point is you need to take action on your real estate, you need to invest in infrastructure, so that it all comes together; but the right fund structure can provide investors with a great opportunity to get good risk-adjusted returns as well as meet broader climate and ESG objectives."

Investing in real assets, she concluded, really can provide DC investors with attractive financial returns, as well as helping deliver the climate transition by avoiding, reducing and then removing emissions.

Pension Protection Fund (PPF) executive director, David Taylor, put DB savings back in the spotlight, and gave an update on current priorities for the PPF, and how it is adapting to new challenges and opportunities. He outlined how the PPF was in a strong financial position, with reserves of £11.7 billion and a funding ratio of 137.9 per cent (as at 31 March 2022). "These are clearly comforting numbers and the risks we face have changed in the past few years, but they haven't gone away entirely. While recent years have seen a welcome

improvement in overall scheme funding, and a reduction in overall investment risk, this is not true across all schemes, and beneath the headline numbers there are some schemes whose investment profiles means they could be in the future subject to funding volatility. Some schemes are also still accruing benefits; and others might be reducing their deficit reduction contributions. So even though the outlook has improved, which is welcome, we are always alert to the risk that scheme funding could deteriorate."

He touched on the PPF's recent review of its approach to funding, how the scheme is entering a new funding phase, a 'maturing phase', a subsequent re-definition of its funding objective – to 'maintain financial resilience' – and its funding priorities off the back of that. He commented on the levy estimates, highlighting the good news that 98 per cent of schemes are expected to pay less levy in 2023/24 than this year. "Our hope is that a much reduced PPF levy this year and beyond will provide an opportunity for schemes and their sponsors to accelerate their progress towards their funding goals".

Taylor highlighted the PPF's intention to develop a holistic sustainability strategy which will be published in the coming months, with responsible investing always "having been at the core of how we invest at the PPF"; and concluded with a look at the other hats the PPF wears, "having developed a unique set of capabilities and skills" that he hopes will be able to benefit the DB universe in the future.

Tackling the pensions adequacy crisis was the next topic of the day, as PLSA deputy director of policy, Joe Dabrowski, set out the industry body's proposals for reform that aim to deliver the improvement savers need.

He began with a reflection on the current cost-of-living crisis, and what this could mean for pension saving, then moved on to looking at the future, highlighting how individuals are not saving enough, and demonstrating figures that show only a small percentage of the population will meet the minimum retirement living standard. He highlighted some of the reasons for this, to include lack of objectives and goals, lack of extra help for certain groups, the low state pension, and the incorrect contribution levels.

Dabrowski then talked about the PLSA's five steps to better pensions: Setting an objective of 'adequate, affordable and fair' pensions; making sure the state pension prevents pensioner poverty; getting more people saving, with higher contributions; extra help for those with low pensions; and finally the need to do lots more across the industry to help savers.

To conclude, he stressed the need to keep improving auto-enrolment: "It has been an incredible success, but we cannot rest on our laurels and we are slightly in danger of doing that unless we get a move on with some of the these changes. There will always be immediate pressures, some problem that will get in the way of making changes that are going to help for the long term, but we need to get over that hump and make some differences. We need to start planning now."

Pensions Dashboards Programme principal, Chris Curry, was the last but certainly not least speaker of the day, providing an update on the programme and next steps for connection following the recent reset. He reflected on DWP's recent written ministerial statement, which outlined that the previous connection staging timeline would be replaced with one connection deadline of 31 October 2026, and that the deadline will be complemented by guidance, which will set out when schemes will be expected to connect. Alongside this, PDP is currently working with DWP through a reset period.

"The purpose of the reset is to do the due diligence that happens on major government programmes from time-to-time; to ensure that where we are is where we need to be; to ensure we have got the right plans going forward; and to ensure we have got the right resources going forward."

He looked at what work PDP will be doing alongside industry in the coming months (such as updating standards, working on connections and testing materials, and the development of the guidance) and importantly what schemes can be doing to prepare, starting with data which is "key to the success of pensions dashboards – it needs to be accessible, clean and accurate, and able to be found by the system".

He also focused on recent consent comprehension research, which explored current pensions knowledge and awareness and checked initial reactions to the concept of dashboards with respondents asked to provide feedback on draft versions of consent and authorisation wording that could appear on dashboards.

"Ultimately dashboards will only be made available to the public when we are convinced they are providing something which the public needs, can understand, and will use otherwise there is no point in us providing them."

Written by Francesca Fabrizi

Summary
- The IFS is conducting a crucial review of UK pension savings.
- It is hoped the review will provide realistic changes the government can implement.
- Savings inadequacy must be a key component of the review, say industry commentators.
- A strategic approach with less regulatory change is needed for long-term success.

The tortoise and the hare

Can slow-moving DC reform finally catch up with financial reality and futureproof pension saving? Marek Handzel finds out

The UK's 21st century pension system has been under constant refinement for the past decade or so. From auto-enrolment to pension freedoms, continual efforts have been made to improve the accumulation and decumulation stages of retirement savings as the defined contribution (DC) model has emerged as the UK's main retirement savings vehicle.

Nevertheless, the measures taken so far have not been enough, as proven by the Institute for Fiscal Studies' (IFS) announcement in April that it was to conduct the latest in a long line of pensions reviews, in partnership with the Abrdn Financial Fairness Trust, after its research raised concerns around the "substantial risks" facing future generations of pensioners.

The review, due to conclude in the summer of 2025, will be centred around three key questions. Firstly, it will ask if workers are saving appropriately for retirement. Secondly, it will examine how the state supports people from late working life into and through retirement. Thirdly, it will consider if people require more assistance to use their wealth appropriately through retirement and, if so, then in what manner.

The study, however, faces two major foes: Time and industry fragmentation.

"The core questions asked by the review are vital to providing the population with the right support for retirement," says WTW DC consulting director, Stuart Arnold. "The challenge will be ensuring that this review has an impact on policymakers. The review is due to take 2.5 years and so the outcome will not be shared until nearly a decade after the DWP's review into auto-enrolment — this could be too late for many."

My Pension Expert's policy director, Lily Megson, hopes the review will provide some "realistic and sustainable" changes that the government can implement, "as opposed to what we've seen in previous years, which are just sticking plasters".

The Investing and Saving Alliance (TISA) head of retirement, Renny Biggins, stresses that the proposals that emerge from the review must garner the backing of the whole industry. "This can be hard to achieve if decision-makers are hearing disconnected proposals from different sections of industry," he says. "But even with proposals fully supported by industry, successful progress is dependent on parliamentary time, which has understandably been very tight in recent times.

"Nonetheless, ongoing discussions with relevant bodies and individuals can help this stay on the radar for when a gap in the legislative schedule becomes available."

Saving in a financial fog

According to several commentators, the review's first port of call has to be the widespread inadequacy of current saving levels.

Generally speaking, contributions are not high enough. According to the Office for National Statistics (ONS), the median pension pot for the cohort aged between 35 and 44 is £30,600. And as PPI head of policy research, Daniela Silcock, stated in June when writing for *Pensions Age*, the typical woman's private pension income in 2022 was 64 per cent that of the already too-low average amount. Ethnic minority retirement incomes, meanwhile, sat at 62 per cent of the UK average, with little sign of improvement in the future, based on current contribution rates.

"The mechanisms in place to help people maintain their savings habits need reviewing," says Standard Life managing director for workplace, Gail Izat. "Over the past couple of decades, we've seen a shift from the responsibility for retirement saving move from employers and the state to the individual, and the pensions system needs to adjust to support this. The scale of under-saving is stark and there's a real risk future generations will fall way short of their anticipated standard of living in retirement. There's also the question of pensions for the self-employed, who aren't eligible for auto-enrolment at all, and a huge gender pension gap to deal with."

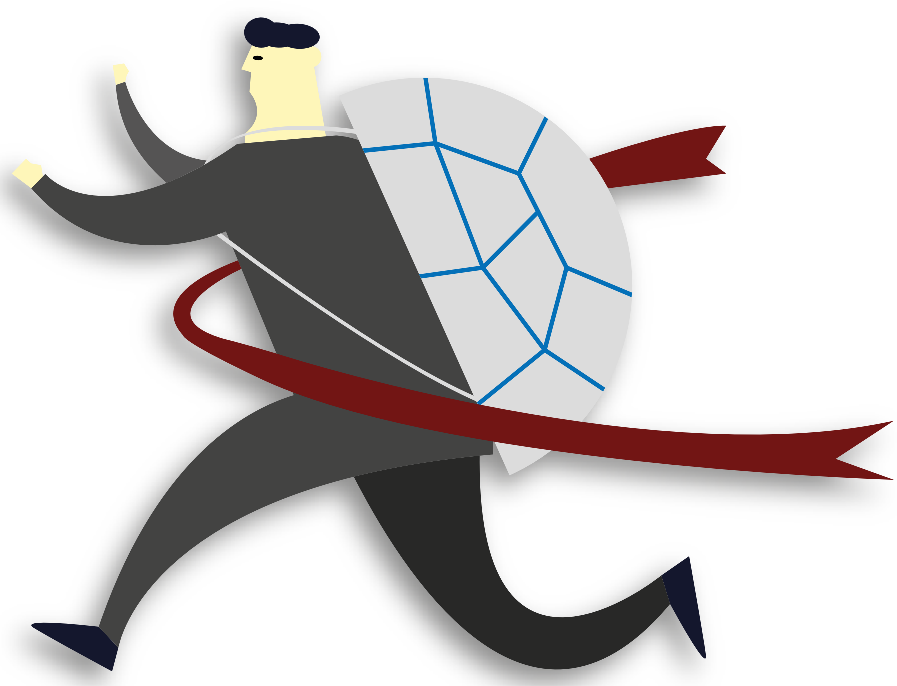
As Arnold points out, back in 2017, the DWP's own auto-enrolment review identified insufficient savings as a major threat to retirement saving outcomes, but little has changed since then.

In order to avert a major pension savings gap, Arnold advocates a swift implementation of an extension to auto-enrolment, as laid out in a Private Member's Bill by Conservative MP Jonathan Gullis. This would see the abolishment of the lower earnings limit for contributions and reduce the age of auto-enrolment from 22 to 18. Izat also supports the Bill and would also like to see minimum contributions rise to 12 per cent further down the line.

"This might seem modest, but could add up to a much bigger pot as the years go by," says Izat. "Small tweaks could really help people grow their pension savings."

Arnold also argues that further consideration should be given to a structure whereby auto-enrolment contributions change as a worker progresses through their career – linked either to age, service, income or a combination of all three.

This tendency to recommend further behavioural economics-based nudging techniques is predicated on the continued lack of interest many people still display towards their pension pots. "The main



crux of the problem does need to seem to be engagement," says Megson. "My Pension Expert's own research has found that 62 per cent of Britons in full-time employment don't actually know how much they have saved into their pension."

This situation could pose some massive problems later down the line, she warns, including under-saving, inappropriate investments, and even completely losing tracking of pensions built up under different employers. Currently, says Megson, the UK has some £90 billion of unclaimed pension pots languishing in the system.

This is why, she says, the government must stick to the new deadline for the pension dashboards. "It could transform the way people interact with their pension," claims Megson.

"More support and appropriate, easy to access vehicles need to be put in place to help savers"

The need for advice

Raising contribution rates, however, is only the first step, says Arnold.

"I wish pensions were as simple as 'save as much as you can' but, unfortunately, it is far more complex," he says. "The Organisation for Economic Co-operation and Development (OECD)'s research suggests that only 67 per cent of adults are being assessed as financially literate in the UK. Without improving this, it's difficult to get individuals to understand how much they can save and, importantly, take action."

Regardless of how much people pay into their DC pot, there is also a question of how those savings are used at retirement that are appropriate for their own personal circumstances. Unfortunately, says Arnold, default funds are partly to blame for this situation, as they have meant that people are not used to having to make decisions around their pension until this is thrust on them at the point of retirement. Without advice or even using Pension Wise, therefore, individuals are making sub-optimal decisions. The implications of such behaviour is clear, says Arnold, who cites data from the FCA that routinely shows that over 85 per cent of people buying an annuity at retirement choose to buy a non-increasing annuity, which provides no inflation protection over their retirement.

"Pension savers are presented with a range of options and uncertainties at the point of turning their hard-saved money into a retirement income and they are often ill-equipped to make these decisions," says Arnold. "More support and appropriate, easy to access vehicles need to be put in place to help savers."

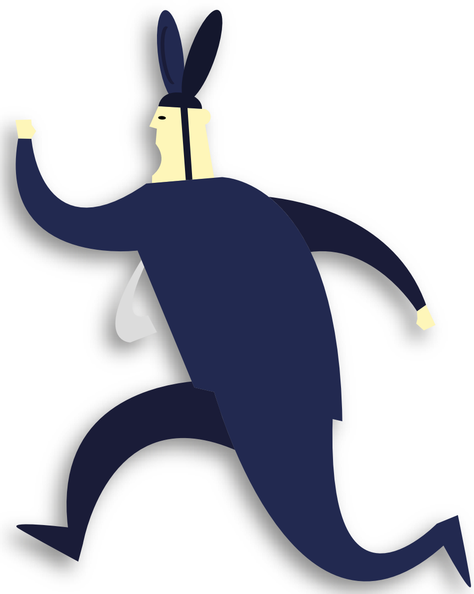
To this end, he supports the DWP's suggestion that all DC schemes will be required to help members access the full range of options post-retirement, even if these are not offered in a scheme.

These proposals, along with the extension of auto-enrolment, are more short- to medium-term actions. Longer term, the need for greater financial education and providing access to support are vital for the long-term success of pension savings. "Financial education, guidance and high-quality advice are needed to empower savers to make the right decisions," argues Arnold.

In Megson's opinion, the government should be focusing on granting access to affordable advice as opposed to just guidance. In her view, guidance is too limited by its very nature as it is unable to arm a saver with a tailored route to retirement.

A more strategic approach

Whatever course the IFS review recommends and subsequent government pursues, speed and firm widespread action are of the essence, stresses Biggins.



He says the UK's pension landscape is in a prolonged period of almost constant regulatory change, which is piecemeal and reactive. The challenge policymakers have with incremental change, however, is that there are no areas of pensions which can be completely isolated and focused on. "There is always a knock-on impact with another area and sometimes we see open consultations addressing connected areas," he says. "It makes it difficult to respond to one consultation without understanding what the outcome of another will be, for example the interaction between the stronger nudge and scams guidance."

Constant incremental change only serves to confuse consumers, says Biggins, and often adds to the negative perception individuals have towards pension saving.

"In an ideal world," he says, "we would like to see a more strategic approach taken to regulatory change, that considers the main drivers and creates a framework that has cross-party agreement, delivers consistency, equality, and value for money for all savers."

Written by Marek Handzel, a freelance journalist

Falling behind

Summary
- Many nations' pension assets were found to have decreased overall in 2022 amid global economic uncertainty.
- The UK suffered the largest fall in estimated pension assets of all the countries included in the study.
- Asset allocations have shifted significantly over the past decade, with equity and bond allocations losing ground on alternatives.

Jack Gray reports on the latest *Global Pensions Assets Study* and the findings that make for grim reading for the UK pension market

The most recent *Global Pension Assets Study* by WTW and the Thinking Ahead Institute (TAI) highlighted how difficult 2022 was for pension asset owners. Covering 22 of the world's largest pension markets (P22), the research found they held $47.9trn of assets, as at the end of 2022.

Within the P22, the study included a deeper analysis of seven pension markets (P7), which hold 92 per cent of the assets of all the 22 markets covered. These seven, Australia, Canada, Japan, the Netherlands, Switzerland, the UK and the US, have assets totaling $43.8trn. Outside of the 22 markets in the study, WTW and the TAI estimated that there were an additional $3trn-$5trn of pension assets across 195 pensions markets.

The US was again found to be by far the largest pensions market, with a share of 63.6 per cent of P22 assets, followed by Japan (6.5 per cent) and Canada (6 per cent). However, when assets were measured in relation to GDP, the Netherlands came out on top with a ratio of 165.6 per cent, followed by Switzerland (133 per cent), Canada (130.9 per cent), Australia (123.9 per cent) and the US (121.6 per cent).

Downward trend

Global pension assets took a hit in 2022, with assets in the P22 falling by 16.7 per cent from $57.5trn to $47.9trn. Pension markets such as the US, Japan and Canada saw estimated asset growth rates of -16.8 per cent, -16 per cent and -12.5 per cent respectively during the year.

However, these falls paled in comparison to the loss of asset value in the UK pension market. After

leapfrogging Japan to become the second-largest pension market in 2021, the UK fell two places to fourth in 2022. According to the study, the UK's asset growth rate in US dollar terms was -30.4 per cent last year, the worst rate of any of the countries included in the analysis. Its estimated five-year and 10-year asset growth rates were -3.4 per cent and -1.1 per cent respectively. In British pounds, the UK's asset growth rate was -22.2 per cent last year, as the pound depreciated against the dollar by 10.6 per cent.

Furthermore, it was not only in the past year that the UK experienced pension asset reductions. Pension assets under management in the UK have fallen over the past decade, from \$2.88trn in 2012 to \$2.57trn in 2022. The only other P7 country to experience negative asset growth during this period was Japan. And while Japan's total pension assets to GDP ratio rose by 22 percentage points over the past 10 years, the UK's ratio fell by 26 percentage points, the largest fall in the P22.

Dominant themes

It will come as no surprise that the wider economic landscape was a key reason for declining global pension assets last year. WTW and the TAI highlighted uncertainty in the investment industry, heightened geopolitical tension and slower economic growth as dominant themes. They also warned that asset owners may find the next period "uncomfortable" and should expect to face the possibility of lower returns for longer. WTW and TAI warned that, in the coming years, the investment industry would face macro uncertainty and systemic risk, a need to reset strategies and to give greater consideration to ESG factors.

Commenting on the report at the time of publication, TAI head, Marisa Hall, suggested that pension organisations will need to adjust their strategies amid the changing landscape, warning that these short-term challenges "cannot be ignored".

She stated: "Last year we experienced, to an extent, a global polycrisis where various risks combined, were amplified as a result, and manifested in significant asset falls.

"It is our view that these systemic risks will increase in future and will emanate predominantly from environmental, societal and geo-political sources.

"While many pension funds are focused on the long term, this situation presents short-term challenges which cannot be ignored.

"The main challenge is that accurate pricing of these risks is near impossible, as they have high uncertainty and low tractability, but their impact is likely to be broad and significant and will test organisational resilience.

"Our work with investors points to transition pathways focused on cleaner energy, fairer societies and greater accountability. As this landscape evolves, pension organisations will need to adjust their strategies and use adaptive capital to navigate these changes and build in future resilience."

Asset allocation

With dramatic changes in the investment landscape, pension organisations have been adapting their asset allocations. A traditional 60/40 equity/bond reference portfolio used for the study returned -17.4 per cent in 2022, highlighting the potential need for change. The average global asset allocation of the P7 was 42 per cent in equities, 32 per cent in bonds, 23 per cent in 'other' and 3 per cent in cash. Between 2002 and 2022, equity allocations have declined from 50 per cent to 42 per cent, while bond allocations decreased from 38 per cent to 32 per cent. Allocations to 'other' assets, such as real estate and other alternatives, rose from 9 per cent to 23 per cent over the same period. Cash remained at around 3 per cent.

According to WTW and TAI, facing lower returns for longer has raised solvency concerns and prompted funds to increase allocations to alternative assets. "With their low correlation to traditional asset classes, alternatives may help asset owners to lessen inflation-induced volatility," the study stated. "As funds attempt to define and access the asset classes of tomorrow, alternatives will play an important role in future portfolios."

DB/DC split

Over the past 10 years, defined contribution (DC) assets have increased by an average of 6.5 per cent a year, while DB assets have seen a slower pace of growth of 2.1 per cent a year over the same period. The pace of growth appears to have slowed, as the rate of growth for DB and DC assets were 7.2 per cent and 4.4 per cent a year, respectively, over the past 20 years.

As at the end of 2022, the Australian and US pension markets were dominated by DC assets, at 87 per cent and 65 per cent respectively, while the UK, Netherlands and Japan were dominated by DB assets, with 81 per cent, 95 per cent and 95 per cent respectively.

However, the UK and Netherlands are likely to see a shift towards DC, as auto-enrolment in the UK continues to bring more people into DC pensions and the upcoming pension reforms in the Netherlands aim to shift focus from DB to DC.

This shift may help pensions become more sustainable, but pension asset owners will have to overcome short-term challenges before feeling the benefits.

Written by Jack Gray

Forcing it through

Summary
• Like many European countries, France is experiencing pension affordability issues due to an ageing population.
• President Emmanuel Macron and his government have pushed through pension reforms aimed at reducing the pension system's forecast deficit.
• However, the changes, especially raising the state pension age, have proved extremely unpopular with unions and the public, sparking nationwide protests.

Amid widespread protests, the French government has pushed through pension reforms, including a particularly unpopular increase in the state pension age. Jack Gray discusses the story so far

While a longer life expectancy is a hallmark for a prospering nation, it necessitates longer working lives for its people. Many European countries have been trying to find a balance as their populations age and birth rates fall, and France is no different. It currently has one of the lowest state pension ages in Europe at 62 years old, despite having a median citizen age higher than the UK, Norway and Sweden, to name a few.

It seemed as if something had to give way, and it did this spring in the form of long-awaited pension reforms. Plans for pension reform began before the pandemic, with protests taking place at the end of 2019 after President, Emmanual Macron, announced he was planning to overhaul the system.

However, these proposals were put on hold due to the outbreak of Covid-19. There were plans for discussions with the government on the reforms in July 2020, but these were paused once the pandemic began.

Commenting in June 2021, when announcing the plans were to be scrapped, Macron said: "It was very ambitious and extremely complex and that is why it generated anxiety, we must admit that. Doing it right now would mean ignoring the fact that there are already a lot of worries."

Resurrection

However, Macron was not going to give up on his desire to reform the pension system and, in the run up to the next election in March 2022, he announced that he would increase the state pension age from 62 to 65 if he was re-elected. He told MPs at the time: "We have to accept that we must work for longer to continue to have a social model that can be maintained and correspond to rising life expectancy."

A month later, he softened his stance as he entered the final round of the general election, stating that he was "ready to change the timeline" on his

planned pension reforms and that he was prepared to "open the door" on raising the state pension age to 64, rather than 65 as he initially proposed.

Less than a year and one election victory later, Macron's planned reforms were presented to parliament. On 10 January 2023, French Prime Minister, Elisabeth Borne, announced the proposals in parliament, acknowledging that the increase in state pension age was likely to raise "questions and fears" amongst the French people.

However, she warned that not doing anything about the forecast deficits in the pension system would be "irresponsible".

"It would lead inevitably to a massive increase in taxes, a reduction in pensions and would pose a threat to our pensions system," Borne stated. Trade unions were quick to voice their disapproval of the increase in the state pension age and announced the first of many strikes for 19 January.

The proposals

The initial reforms presented to parliament included several proposals to the French pension system. The main, and most controversial, one being the raising of the state pension age. Macron's government proposed raising the state pension age from 62 to 64 by 2030. This increase would be gradual at a rate of three months a year. The process was to start in September 2023, reaching 63 years and three months by 2027 and hitting the target age of 64 in 2030.

Alongside the raising of the retirement age, several other proposals were presented as part of the reforms. The amount of time working needed to receive a full pension will rise from 42 to 43 years and a guaranteed minimum pension income will be introduced. This income level will be set at no less than 85 per cent of minimum wage for new retirees.

Public sector workers in mentally or physically demanding jobs will keep the right to retire earlier than the wider workforce, but their retirement age will rise at the same rate. Borne also announced that differing retirement ages and pension benefits for certain workforces, such as rail workers, would end. "We offer today a project to balance our pension system, a project that is fair," Borne said at the time.

Taking to the streets

Following the announcement of the planned reforms, a nationwide day of strike action across key working sectors, including education and transport, took place on 19 January. For the first time in 12 years, all eight of France's main trade unions, CFDT, CGT, CFE-CGC, CFTC, FO, FSU, Unsa, and Solidaires, agreed to hold a day of strike action. They called for the immediate withdrawal of the reforms, which they have described as unnecessary and unfair, with left-leaning parties in France voicing their support for the strike. More than two million people took to the streets nationwide, according to unions, while the French Interior Ministry estimated the number was just over 1.1 million.

Despite the huge turnout, Macron and his government refused to back down, with Borne stating the plan to increase the state pension age was "now non-negotiable". Following this, trade unions announced another day of strike action for 31 January, with the turnout again exceeding one million even by the lowest estimates.

Amid the strikes, debate began in parliament on 6 February, with industrial action continuing during the entire process of the reforms passing through parliament. Protests reached a crescendo in late March as Macron forced the reforms through parliament, with more than a million people turning out again. Bordeaux town hall was set on fire amid the protests and approximately 80 people were arrested across the country. Despite the continued and intensifying protests, Macron showed no sign of backing down.

Forcing it through

Amid the strikes in March, the pension reform bill eased through the conservative-dominated Senate after the final draft of the bill was agreed upon. It moved on to the vote in the National Assembly, which proved to be more resistant to the changes than the Senate. Once it became clear that the National Assembly would likely not vote in favour of the bill, Macron invoked his constitutional power through Article 49:3. Article 49:3 allows the sitting French government to pass legislation without a vote in the National Assembly.

The use of Article 49:3 sparked chaotic scenes in the parliament, with opposition MPs jeering and singing the national anthem. Despite their opposition, the government forced the bill through the National Assembly.

Invoking Article 49:3 opened the government up to a no-confidence vote, with the deputies of the opposition filing a motion of no-confidence in the government almost immediately after the bill was pushed through. However, the government narrowly survived the vote, which saw 278 votes in favour of the no-confidence motion, with opposition parties needing 287 votes for the motion to pass.

One final hurdle had to be overcome before the bill became law: The Constitutional Council. The council is the highest constitutional authority in France and would decide on whether the reforms were constitutional. The key aspects of the bill, including raising the state pension age, were approved, and Macron signed the pension reforms into law on 14 April.

Pension protests have continued in France, with trade unions still organising strikes, but these have seen much lower turnouts. Despite much pushback, Macron successfully passed his pension reforms, but their impact on his popularity is yet to be fully seen.

Written by Jack Gray

Aiming high

West Yorkshire Pension Fund assistant director of finance, administration and governance, Yunus Gajra, reflects on how best to manage the challenges that come with administering billions of pounds of pension fund savings

Please tell us about your role at the pension fund.
I am assistant director (finance, administration and governance) at the West Yorkshire Pension Fund (WYPF), where I am responsible for providing pensions administration services to members spread across the UK. We provide pensions administration to WYPF and also three other local government pension scheme (LGPS) funds and 23 fire authorities.

We have over 900 employers participating in those schemes, with membership in excess of 500,000, and our fund alone is worth in excess of £18 billion. The services we provide are not on a third-party basis but a shared service. The partner schemes work with us and we give them a say in how we run the services, so it's a true collaboration rather than a third-party administration arrangement.

What are the challenges in providing good pensions administration today?
Some years ago, pensions administration may have been seen as something simple, but that's certainly not the case today – we do more than just process transactions!

LGPS funds in particular are facing an unprecedented period of pressure. Major projects have to be delivered alongside each other, while we of course have the day-to-day services to provide as well.

Workloads have increased dramatically over the past few years. For example, five years ago, we processed in one of our quarters just over 500 refund quotes. Most recent figures for the quarter were 2,400. That's a massive increase. Similarly, for retirements, we had 444 retirements in one of our quarters five years ago. In the last quarter, that was over 2,000. So, you can imagine the rise in the workloads across the other work areas.

Pensions dashboards is another area that will have a big impact on pension funds. Needless to say, a lot of schemes will have welcomed the delay to the staging dates but that does not mean we can sit back and do nothing. We still have to continue to work on securing an ISP provision, and internally work on data cleansing and data management to ensure that we can meet our legal obligations in providing timely and accurate information to members.

What we also anticipate is that when the pensions dashboards do go live, the work is not going to stop there. The impact will then transfer onto our administration teams because there will be much more engagement with members at that stage, dealing with partial matches, and increased member engagement as members explore the options of what they can do with their benefits.

Have these challenges had a dramatic impact on costs?
Inevitably, if you get complexities, you get increasing costs of administration. Costs have risen over the years, but the LGPS is still very low cost and competitive against other sectors. And while cost is of course a major factor, there is no point being the cheapest if it's at the expense of the standard of service that members expect and should get. Our goal is to provide the best service for the lowest cost.

What other challenges come with working with so many employers?
Five years ago, we had 400 employers in our scheme. We now have over 900. So, it's important that we monitor our employers because the risk is to the fund if those employers were to go bust or were not able to meet their liabilities. We need to protect the fund, and we need to monitor and manage the employers that might have potential issues in payment of future contributions.

Employers are also crucial to what we do as a fund because we rely on them to provide us with timely, accurate information. If they don't, that impacts on the service we provide to our members. So engaging with employers and training them is a key role for us.

We provide regular employer training, hold workshops, and provide them with the up-to-date information, knowledge and skills they need to be able to do their job efficiently.

How much work goes into keeping your data quality in order?
Data impacts everything that we do. Within LGPS we have a number of data sources – we hold large volumes of data

from the member, from the employer, third parties, HMRC and DWP and it can come in various formats – in writing, via the telephone, electronically. So, there will be issues with missing or inaccurate data from time to time.

We moved from annual returns to monthly returns a number of years ago. Most LGPS funds have now moved to monthly returns as well. That has meant we get data on a more regular basis, which has ensured that data is more up-to-date, more accurate, but it does take more time and resource to process the returns with the number of members that are part of the scheme.

TPR also requires pension schemes to review their data, at least on an annual basis, and calculate their common scores and scheme specific scores. So, having a data improvement plan is key to ensuring that we monitor our data, and ensure that we have a plan in place to increase the quality of our data on a regular basis.

How important is communication in your role?

We do a lot of communication with employers as we rely on them to provide us with timely and accurate data. So we attend employer forums and employer meetings. We produce factsheets, employer guides, and we make sure that we spend time with our employers and provide them with the knowledge and skills for them to be able to effectively undertake their duties and their responsibilities. We also have what we call a 'pensions administration strategy' that clarifies exactly what we expect of our employers and what they can expect from us as an administrator.

Communication with scheme members has also increased over the years. Members have become more savvy about their pensions, and that is partly to do with all the engagement at a national and local level. Our communication efforts include signposting information about the scheme when members join, and when members leave, providing regular newsletters, annual benefit statements, and having a good website where members can get information, which ultimately reduces the calls we get to our call centre. Then having regular drop-in sessions, surgeries, etc, as well as undertaking surveys with our members to ensure that we are providing the service that our members are expecting.

Communication with our pension board and committees is also key, because they play an important role in the oversight of our administration. Providing regular reports to our pension committees and our boards is crucial.

How much of a worry are pension scams for you?

TPR has placed extra responsibilities on funds to safeguard members' pensions by introducing additional checks that funds have to carry out before paying out transfers. The threat of pension scams has increased particularly since the pandemic and since remote working because these scammers will continue to exploit any weaknesses.

TPR has introduced new powers for schemes and introduced a traffic light system. Pension schemes can now refuse transfers, where we identify any issues or any red flags; that does sometimes delay legitimate transfers which can frustrate members because they may believe we are deliberately withholding the transfers or we're not processing their transfers efficiently.

Recruitment and retention is a growing area of concern across the industry. What are you doing to address this at the fund?

This is a big issue within the public sector, and within the LGPS at the moment. Not many people deliberately go out and say, "I want a career in pensions!" Some young people still think pensions are run by old people. Public sector pay is also an issue, having traditionally been lower than in the private sector. We don't have bonuses or incentive schemes. We do have other benefits such as a good pension scheme and flexible working and this is something we need to promote better when we are recruiting.

There are lots of opportunities in pensions, in lots of different roles as well. We have a roles in IT, communications, finance, accountancy, investment, and customer services, to name a few. But some funds do have difficulty demonstrating a viable career to young people, and demonstrating structured career paths.

One solution here is apprentice or graduate programmes. Local authorities and funds are very slow at exploring these options. Many private sector schemes have good graduate schemes, take on apprentices. That's something we're currently exploring.

To conclude, while we have challenges, our aim is to deliver the best outcome for our members. By addressing some of those challenges, we can be more confident that we're delivering the right service for our members, because it's the members that are important to us, and it's making sure that we deliver what the members want, not just what we think is important.

Written by Francesca Fabrizi

Thinking differently

Pensions Age asks the industry for its tips for tailoring pensions communications to neurodiverse people

Ensuring that pension communications are inclusive and meet the needs of people who are neurodivergent is, and always has been, essential. The Pensions Regulator expects trustee boards to consider member communications from an equity, diversity and inclusion (EDI) perspective (both in their EDI guidance and in the General Code). This will be even more important for DC master trust schemes after the introduction of the Consumer Duty. If they're not already, managers and trustees really need to start considering how to make their communications more inclusive.

To make communications more inclusive, you need to understand the needs of your audience – this includes the attitudes to and behaviours of people who are neurodivergent in relation to saving for the future, as well as their needs when it comes to communications. This understanding can be used to shape the communications and broader engagement proposition.

Our hope is that by stripping out technical language and unnecessary words, and making pensions communications more accessible, everyone benefits and has a better understanding of their pension and what it means for them.

Like Minds managing consultant - insight and thought leadership, Danii Pout

Neurodiverse awareness begins with recruitment and project governance so that a team is diverse and inclusive from the outset.

Best practice will then be embedded at every step from planning, design and build, through to user testing.

We believe all users should receive the same experience. This means making any tool, interactivity, functionality, or content available to every audience group. Using the latest technology on websites will not necessarily endear you to those who have ADHD.

Users who have a learning disability may find it difficult when their access to content is presented in a way that requires a high level of literacy.

Pensions are often complex, so use simple, straightforward and unambiguous language. It's best to avoid idioms and ambiguous phrasing.

The design of a site should be well structured with a clear hierarchy. The most important elements on a page should be easily identified by their position, shape and colour alone.

Landscape creates websites and portals that are independently interrogated and tested by users on different devices with various conditions such as blindness, dyslexia, mobility impairments or Autism Spectrum Disorder.

These real-life experiences will highlight any challenges so that they can be resolved as early as possible, ideally before launch.

Proactivity is always preferable but providing feedback channels on every web page will allow users to highlight specific issues and propose possible solutions.

Many leading employers and trustees now work with employee engagement and digital communications specialists to create inclusive and accessible pension communications to improve member engagement. However, increasing diversity within the pensions industry would also be a step in the right direction.

Landscape creative and delivery director, Ryan Sales

Neurodiversity is an umbrella term, covering many conditions, from autism to dyslexia to ADHD, and many more. But although it can be a useful shorthand to talk about these conditions, everyone they apply to is an individual with individual needs.

The good news is that there are a number of techniques that can make your content easier for any neurodiverse thinker to understand. The even better news is that they make it easier for everyone, too. Here, I've focused on written communication and listed 10 ways you can reduce the mental load on readers.

1. Use familiar words wherever you can.

2. Write in short sentences – don't force your reader to cling on to multiple ideas at once.

3. Use the active voice – be explicit about who's doing what.

4. Give clear instructions – don't leave your reader in doubt as to what they need to do.

5. Do the maths for your reader – and make numbers feel less daunting by using comparisons that are concrete and familiar.

6. Avoid metaphors – some people on the autistic spectrum, for example, find metaphors difficult. It's better to stick to straightforward language.

And don't forget the importance of layout.

7. Break up your text so it's not too dense.

8. Use headings to avoid large chunks of text and to signpost key messages.

9. Use white space to make text look less intimidating.

10. Consider using graphics to make concepts and processes easier to understand.

Quietroom director, Claire Harcup

Chris Curry

Maintaining momentum

Pensions Dashboards Programme (PDP) principal, Chris Curry, sits down with Sophie Smith in the first interview since the dashboards reset to discuss the recent ministerial update and respond to industry concerns

Following news of a dashboards 'reset' in March, Pensions Minister, Laura Trott, recently shared an update on the Pensions Dashboards Programme, confirming plans to include in legislation a connection deadline of 31 October 2026, while the remaining staging timeline in legislation will instead be set out in guidance.

Following this update, Sophie Smith sat down with PDP principal, Chris Curry, to hear more about the progress of the dashboards reset, and address some of the industry concerns around capacity constraints and user testing.

So Chris, can you share your thoughts on the recent ministerial update on the PDP and the progress of the reset so far?

The PDP is a very important programme that is likely to transform the way people do their retirement planning. It's also a very big, very complex digital programme, and it's really important that we get this right, and that we ensure it is safe and secure.

We had the original announcement back in March, which made it clear that we needed a bit more time to deliver the technical solution for pensions dashboards and that was what initiated the reset. The minister's announcement really builds on top of that, and there's some really important aspects to it.

Firstly, the timing that the statement was made, which was key in order to make sure that the regulations that were in place can be replaced because those would have been effective from August had they not.

And of course those are being replaced with just a single connection deadline, which is again a big change in how we're operating, and that single deadline is the 31 October 2026.

But that's not the date that we're expecting people to connect. That really is the end of the period and the legal date by which all of the things within the scope of the regulations will have to be completed by.

Guidance will be also produced, and within that guidance there will be a staging timeline, which is really where we expect the scheme to have regard to that timeline going forward.

And we will expect the industry to demonstrate how it is having regard to that timeline going forward.

Given the key role of IT skills and resources in the decision for a dashboards reset, how has PDP since addressed this skill shortage?

The reset is going as we expected, which is good, and positive progress is being made.

We're still looking at some of the planning and for some of those resources. What has been important is that DWP is giving us some very clear support as we go through this process and we are expected to be able to use their resources as well going forward.

We're still building plans in that space, but we don't really have concerns that we won't be able to find those resources.

The new guidance-based staging timeline has been an area of concern for some people in the industry. Are you able to share further insight on how the guidance will be used in practice to avoid schemes and providers from leaving work until the single date, in 2026?

The first thing to say is that we'll be working very collaboratively with the industry over the next few weeks and months to work on that guidance and the timeline itself, so they'll have some involvement from the industry in how that looks before it's announced.

That's really important because we want to ensure that the timeline is feasible and achievable, but also strikes the right balance between us wanting to make sure that dashboards are available for the public without them having to wait too long.

We will also be working very closely with our regulatory partners and also with the DWP, alongside the industry.

It's in everyone's interest for there

to be a managed, staged approach to connection, and it simply isn't in anyone's interest to either take the risk that there will be capacity if you leave it until the last minute and that you'll be able to be connected in time or to delay access to the dashboards.

And what do you expect that industry collaboration to look like in practice?
It will be a combination of things, and to be honest we are still working through the details of what that will look like.

But we have already seen extensive collaboration with industry through for example working groups, which we are looking to build on.

We know there are ideas out there in the industry and we'll be talking to other industry organisations to find out what might be the best way to go about this, and we will be having some events on this in summer.

We also have to be mindful of the limits of how we can collaborate; we're still spending public money, and we also have to make sure that we're not giving any parts of the industry a commercial advantage.

Industry experts have also raised concerns around a potential capacity crunch in preparing for the dashboards. Is this a concern for the dashboards' progress?
Even without dashboards, there have been concerns over the amount of work that schemes are being asked to do. But all of the work they're being asked to do is really important and while it might not be the easy thing to do, it's a very important thing to do.

I think dashboards will be a little bit different than some of the others as there is that legislative date in place.

But it's very important that people don't assume that the guidance is just something that they can choose to follow if they want to. We're very much looking at this as a strong expectation from the Minister for Pensions and DWP.

The regulators will also be keeping a close eye on who will be meeting that guidance and who won't, and potentially why schemes aren't meeting the guidance.

And if we get towards the 2026 connection deadline and schemes haven't yet completed their connection and it looks like that they might not be able to make their connection, they'll need to have a very strong rationale as to why.

Another issue that was raised ahead of the reset was concerns over the lack of user testing. Are you able to share any updates on the role of user testing and where that could fit into this new timeline?
Testing has been and will continue to be really important as part of pensions dashboards, and in fact one of the preconditions with dashboards being made available to the public is that there's good user experience.

So user testing will continue to play an important role, and I think that lends itself to the importance of the staging guidance. Because if teams are connecting in the same way that we are expecting them to and go through in an ordered managed fashion, that will give us a window to undertake user testing using real data, as well as testing on dummy data and mock dashboards, which is already underway.

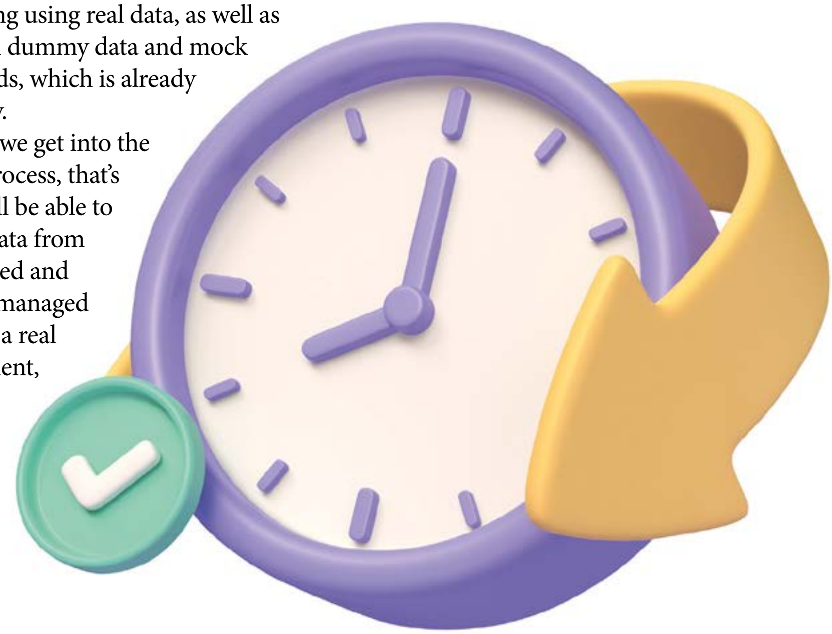
Once we get into the staging process, that's when we'll be able to use real data from pre-selected and carefully managed people in a real environment, in order to get insight into how well dashboards work and whether there is anything we need to do to increase understanding.

Given the focus on continuing dashboards preparation, what in particular should pension schemes and providers be doing?
It's really, really important that the momentum that's been built continues, and I think that there was a lot of work that we've done in advance of connection – you don't need to connect, for example, to be making sure that your data is clean, that you have confidence in the personal information that you hold and in particular in the data that you will be using for matching.

That's as well as working out, for example, how you might deal with partial matches, how you might want to handle the calculations that are going to have to be made, or how you might want to deal with the queries that might be coming in once dashboards are live.

So there's a lot of preparation work that can still be going on right now that doesn't need that connection to happen.

Written by Sophie Smith



Dashboards – learning lessons

Summary
• Countries including Denmark and Sweden have long-standing dashboards that are now a fundamental part of retirement planning.
• Most dashboards in other countries have taken an iterative approach, rather than launching everything at once.
• Government involvement and commitment is key – and in many cases supports a single, centralised dashboard.

As the UK's pensions dashboards project continues to slowly gestate, there are plenty of lessons to be learned from other countries, finds Maggie Williams

"We in the UK are behind the curve in making dashboards available to savers, despite the evidence showing that it's the right thing to do for consumers," asserts Hymans Robertson client manager, third party management, Karl Lidgely.

With further delays and scope changes putting the UK's rollout back until around 2026, Lidgely makes a contrast with other countries: "There are eight national pensions dashboards already in operation in Europe, and a further six countries with dashboards in development. Some of these dashboards have been active for over a decade."

Tor financial director, David Harris, believes that coherence between government, industry bodies and private sector providers has helped to instigate and drive other projects forward. "In

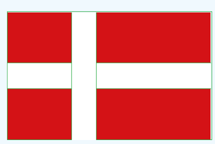
countries such as Norway, Denmark and Sweden, the dashboards have been driven by government, through tax or social welfare. But our UK model is fragmented."

Harris also points out that in most other countries, there is a single dashboard with government involvement, rather than multiple provider-driven options that is likely to evolve in the UK. "Globally there are different approaches, but the common link is that there is one dashboard," he adds.

Despite the UK's delays, dashboards will eventually go live. When that happens, Standard Life managing director for workplace, Gail Izat, says that clear expectation management is also important: "Central to adoption and engagement in other countries has been managing expectations around functionality and meeting the needs of different user groups. Our UK industry needs to think about how the initial launch will be positioned and be clear about what's going to be available at the outset as a poor initial experience has the potential to set the project back."

PLSA pensions dashboard consultant and independent pensions professional, Richard Smith, has been exploring international pension dashboards, including an in-depth tour of five European countries where dashboards are well established. He concludes that there are fundamental learnings to take from all of the countries he visited: "Getting dashboards in place in the first instance is vital, as it's the right thing to do for consumers. That was very clear from Belgium in particular." Smith adds that iterative testing and development, enhancing functionality and user experience over time, as well as linking data up to commercial apps are all important common factors.

Here are some examples of well-established dashboards from Europe and further afield.



Denmark – PensionsInfo.dk

Introduced in 1999, PensionsInfo.dk has a strong claim to being the world's oldest pensions dashboard. It's a centralised service run by Forsikring & Pension (F&P), the Danish trade association for pension funds and insurers, and provides information on the risk products that users hold, as well as their pensions.

As might be expected from a dashboard with such a long history, PensionsInfo is sophisticated, helping users to see how much they have across different pension savings accounts, modelling tools to understand their income with different retirement ages, as well as death and ill health benefits. Danish providers work to consistent data standards, which enables information to be shown in common formats.

Lessons for the UK: PensionsInfo did not arrive fully formed – there have been different launches and iterative developments. F&P head of department, Michael Rasch, recommends starting small, then learning and iterating from previous versions, rather than trying to launch too much in one go.

Sweden – minPension

Introduced in 2004, Sweden's minPension is another long-standing dashboard. Like Pensionsinfo.dk, it has evolved over time, with some substantial redesigns and updates especially in its early days. Izat says that Standard Life spoke with minPension chief executive, Anders Lundström, last year, to find out about Sweden's dashboard development.

She says they found that understanding users, segmenting communications and putting pension savings in context were important criteria, as well as evolving functionality based on real-life experience: "In Sweden, *[early]* uptake was from wealthier, advised savers and not the less engaged savers it was targeted at and so it was considered too simplistic by its initial users. This led to a rebuild within two years."

She adds: "This is why the dashboard shouldn't be viewed as static. The quality of data and the nature of its design will be important to facilitating quick and iterative changes, as the user experience is monitored and reviewed."

Lessons for the UK: "Delays and replans are not unique to the UK, with Sweden having a not-too-dissimilar experience when it launched its dashboard in 2004," says Izat. "In Sweden, they also found that people reacted better when they saw examples of 'people like me' and understood how their pension compared to others at similar life stages and income levels."

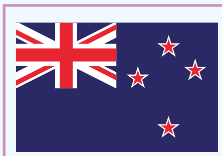
Netherlands – MijnPensioenOverzicht.nl (MPO)

Introduced in 2011, MPO ('My Pensions Overview' in English) now sees over eight million logins a year, according to Stichting Pensioenregister (SPR) director, Stefan Taubert, which runs MPO with legal authority from the Dutch government.

The service is a joint initiative between government and industry bodies, then delivered through private sector contracts. The groundwork for MPO was laid from 2008 onwards, when Dutch pension funds were all required to issue standardised annual statements, including future pension projections. That approach meant that when MPO was introduced, data was already in a standardised format.

The service has evolved over time, with a design upgrade in 2021, and ongoing work to make sure that there is a comprehensive picture of all first and second pillar pensions.

Lessons for the UK: "The lesson from the Netherlands is 'never stop,'" says Smith. "Whatever you do, there will always be more and future needs, such as better design for example. One of the learnings from the Netherlands is the importance of simple, functional design – people want clear information on what their monthly income will be, but don't want to read or scroll through lots of information."



New Zealand: My KiwiSaver

KiwiSaver is New Zealand's answer to auto-enrolment, introduced in 2007. Keeping track of savings information is centrally managed by the New Zealand Inland Revenue, which helps members keep track of how much they have saved, who their provider is and how much is in their fund through a My KiwiSaver account.

"KiwiSaver doesn't have the dashboard angle, but it is a single centralised point where people can trace and keep track of their savings", says Harris. New Zealanders also have access to the sorted.org.nz service, which is a government-funded initiative to help people manage money matters and save for retirement.

Lessons for the UK: It's centralised and simple – even if the functionality is limited to pensions tracing rather than managing many different sources of information online.

..and there's more

Space has only allowed us to cover a selection of international dashboards here, but there are also many others. Belgium (mypension.be) and Norway (NorskPensjon.no) both have well-established dashboards, and Germany's Digitale Rentenübersicht is a newer addition, currently in pilot. Ireland is also exploring dashboards in tandem with auto-enrolment rollout plans, including provider Centric's PensionsVault.

There are also plans for a Europe-wide pensions tracking dashboard, with rollout financed by the European Commission. Completion is planned for 2027.

Further afield, Australia's government-run MyGov service enables savers to see all of their super accounts in one place; Israel's Pension Clearing House service dates back to 2012; and in the US, the SECURE 2.0 Act passed in 2022 requires the Department of Labor to set up a national online searchable lost and found database for Americans' retirement plans. It is hoped this tracing function will serve as a first step towards a dashboard.

Written by Maggie Williams, a freelance journalist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In depth: The lasting effects of 'pension liberation'

Laura Blows hears the devastating impact the Ark pensions scandal continues to have on Sue Flood, and how this experience has motivated her to work with the government and the pensions industry to become a 'victims' champion'

"I look back and think, how the hell did this happen? You do all your research, you get a regulated adviser, you do all you can and you still end up losing everything and living this nightmare."

Moving from the UK to Spain should have been the start of an exciting new life for Sue Flood and her family. To help fund this, she and her partner sought FCA-regulated financial advice about her BBC DB pension savings and her partner's Standard Life personal pension.

When looking for an adviser, "we wanted cover of the FSA, now FCA, and having seen an advert in a newspaper about an 'award-winning company', we thought they fitted the bill", she says.

Following conversations with the advisers, one of whom Sue noted had been a government adviser, Sue and her partner believed they could have some of their pension money early, "with no adverse risk or consequences, with no downside to it at all. It was a no-brainer for us". She was not aware or informed of the minimum age for pensions access rising from 50 to 55 in 2010, she adds.

Initially, they were advised to transfer to a QROPs but "we refused because we hadn't been out of the UK for five years, so we would not be allowed to do so", Sue explains.

"The advisers then discussed transferring to a UK personal plan, which we thought, okay, fine. We had no wish to transfer our pensions, we had no wish to get involved at all, but this was at the suggestion of the advisers."

Being reassured by its registration by HMRC and The Pensions Regulator (TPR), Sue and her partner agreed for their pensions to be transferred into a personal UK pension scheme, at a combined figure of around £230,000.

The transfer into Ark

However, "it turned out to be an occupational Ark scheme and not the personal plan that I had thought I was entering into", she states.

Set up in 2010, the six Ark pension schemes promised its members the ability to access up to 50 per cent of their pensions before the age of 55 as a cash lump sum, through maximising pensions value arrangements (MPVAs) structures. This allowed members to make loans to members of other pension schemes, known as pension reciprocation plans (PRPs), which is then paid back to the PRP provider when the scheme member is eligible to claim their benefits.

The members were told that the rest of their money was to be invested in 'land-based investments'.

"Early on in this process, I had some concerns," Sue states, describing it as a "gut feeling that something was wrong".

"I started to feel greatly uneasy and it made me extremely ill. I was getting stressed because it's our life savings, it's life changing, and we began to worry that we were the victims of fraud," she explains.

Sue had requested the paperwork for the transfers, but, after weeks with no success, "this led me to think, 'God, there's something seriously wrong here'". Therefore, she employed the services of a lawyer to rescind the contract.

The lawyer's letter to Sue highlighted the lawyer's concerns. Their difficulty contacting Ark staff, along with Ark's website only having been registered in the previous year and not being active, made them consider this to be potentially a case of pensions fraud.

"That is really what tipped the balance for me and made me ill because I thought, this is definitely gone, this money, £230,000 approximately, has gone down the pan," Sue states.

The lawyer suggested Sue call Action Fraud, and involve BBC and Standard Life's administrators, which she duly did, as well as informing TPR.

Sue found that the BBC pension scheme's administrators had even looked into the legitimacy of the Ark scheme.

According to Sue, the BBC pension scheme's administrators contacted Ark's administrators, who gave their HMRC registration number. The BBC's pension scheme's administrators then rang the HMRC pension service helpline to query

Ark's legitimacy, who confirmed the scheme was registered.

Despite this, Sue and her partner still wanted to rescind on the transfer. According to Sue, this was agreed with Ark's trustees, at a cost of 5 per cent, Ark's administration fee.

However, before this could occur, it transpired that TPR was concerned that the Ark schemes were an example of a 'pension liberation' – which typically offers the saver access to their pension money before age 55, usually through a loan arrangement, without mention of the possible tax bill that may arise from this unauthorised access, and placing the rest of the money in risky investments with high charges.

As a result, in May 2011 Dalriada Trustees were appointed by TPR to take over the running of the Ark schemes, and in December 2011 the High Court ruled the Ark schemes as "fraud on the power of investment".

The High Court determined that the PRPs between the Ark pension schemes' members were 'unauthorised payments' under the Finance Act 2004 and cannot be a way of obtaining early access to pensions money before age 55. As such, members, and the schemes themselves (by way of Scheme Sanction Charges), were liable for tax charges.

Under HMRC rules, these 'unauthorised payments' are taxable at a rate of 55 per cent, in addition to the fees already charged by the PRP.

This meant that despite trying to return the money they had received, Sue and her partner were now subject to a significant tax bill.

"I'm trapped by a system that takes me to the tax tribunal, even though the Ark schemes had been recognised as 'fraud on the power of investment', which is what my lawyers told me from the start and we tried to resolve straight away," Sue says.

Financial and emotional impact

Considering the consequences of Ark's 'fraud on the power of investment' and subsequent tax charge, "the biggest thing that made me feel sick was the life-changing amount of money that was lost, because we'd never been dependent on anything or anyone for money before," Sue says.

"I'd worked since I was 16 and I'd never, ever claimed benefits. Not that I'm being disrespectful to people that do, I just haven't. I've always worked. Those 12-hour days at the BBC studios, etc., it was hard graft.

"I tried to take as much overtime as I could when I was working on the shows. I was diligently saving. That's the thing, I was trying my best to not rely on the state. I think when I was left in this situation, that's what I couldn't cope with. That is why I got very ill because I couldn't envisage coping on benefits.

"I had always tried to do everything 'right' and all of a sudden it all went drastically wrong. I think that's what I couldn't cope with," she explains.

The impact was not purely financial. Sue sadly had a nervous breakdown as a result of the stress.

"The hardest part of it is the effects it had on my family," Sue states, through tears. "It's something I can never take away for them, those awful memories of that time. They saw a very strong individual, someone who was a career person at the BBC for 17 years, they saw that person gone in an instant."

The stress caused many intense family arguments, "which was extremely difficult for my two children in their teens".

The result was Sue separating from her partner and returning to the UK.

"When I returned from Spain, I was frightened to spend money on anything, even for basic things like putting the lights on or spending money on food. My kids couldn't work out what was going on, and nobody was really there to help us," she explains.

Thankfully, she and her partner have since reconciled. Upon them both returning to the UK, instead of planning their future retirement, they had to start again by building up a business selling recycled hardwood pallets to local companies.

"My partner works extremely hard, 12-hour days, every day of the week," Sue says. "We're at an older age now, he's 60 odd and I'm nearly 65. We've both worked extremely hard but some days you don't even want to get up; you just want to hide under the duvet."

However, we have "got ourselves back into the swing of things" she adds. Yet the Ark situation still looms over them. As Sue says: "Its 12 years on and we still do not have this resolved – it just is like a living nightmare."

In March this year, Dalriada Trustees' appeals against tax charges levied by HMRC for members of Ark Pension Schemes were unsuccessful. HMRC and Dalriada disagreed on how the tax charges following the High Court's 2011 ruling should be calculated, with the tax tribunal ruling resulting in "significant tax consequences for both the members personally and the schemes themselves", the trustee firm stated at the time.

In its letter informing members of the Ark Pension Schemes, Dalriada highlighted that the tribunal's decision centred on the application of the law as it stands and "the judge recognised that, in applying the law, this resulted in unfavourable (and, in some cases, unfair) outcomes for members".

The tribunal has left it to HMRC and Dalriada to attempt to agree the amount of unauthorised payments attributable to each member matched with the recipient of an MPVA loan.

The tribunal also concluded that it was also possible for tax to arise in accordance with Dalriada's proposed approach, so on the payment a member received, resulting in members potentially being taxed twice.

"As somebody who tried to do everything to avoid being in this situation prior to TPR's intervention and even while they were investigating these individuals, and as someone who was concerned before the government woke up *[to the potential for the Ark schemes to be pension liberation]*, I found it abhorrent that I should even be in the tax tribunal," Sue says.

However, she appreciates HMRC's viewpoint, that "they are justified in applying the law".

"You can understand that they see that people obtained monies and they are due to pay taxes. Nobody would disagree with that, albeit that we were all advised to do that by this highly qualified professional," Sue says.

"I had always tried to do everything 'right' and all of a sudden it all went drastically wrong. I think that's what I couldn't cope with… The hardest part of it is the effects it had on my family"

"Nobody disputes that. I just think it's extremely unjust to levy such horrendous, unauthorised payments, penalties, scheme sanction charges, and additionally the interest, which has been accruing now for 12 years."

Sue is still unaware of what her and her partner's final tax bill will be, as Dalriada is still determining this with HMRC, she says.

A victims' champion

However, she is keen to focus on the positives, she says, having become a 'victims' champion' to highlight the distress caused by pension scams.

To that end, she has spoken with TPR, the FCA and various MPs about the impact of pension scams, has given evidence to the Work and Pension Committee and is working with the All Party Parliamentary Group on Fair Business Banking. Sue is also providing evidence to the independent parliamentary group on investment fraud.

Within the pensions industry, Sue sings the praises of both Pension Scams Industry Group chair, Margaret Snowdon, "who is absolutely brilliant, a wonderful lady who has championed our cause" and Transparency Task Force founder, Andy Agathangelou, of whom she works with, "who understands the situation and has given us a voice in the darkness".

Sue highlights the amount of work that stills needs to be done in the fight against pension scams, particularly, she says, HMRC's tax treatment and the ease in which companies and pension schemes – legitimate or not – can become registered and therefore seem 'official', along with the need for greater scam warnings with pension communications and better victim support.

She is pleased to hear of the regulations that mean suspicious transfers can now be blocked by pension scheme trustees and managers, using a 'red flag' prevent a transfer request, and an 'amber flag' to pause a transfer until the member can prove they have taken specific scam guidance from the Money and Pensions Service.

"That's absolutely what everybody needs, that the onus shouldn't just be on consumer awareness," she says.

As her experience "was possibly one of the first instances of pension liberation", Sue says that she did not receive the level of sympathy from those within the pensions industry, and its regulators, "that I think I would've received today".

"We're a long way from 2011," she adds, "but still there's just no end to pension scams and the lasting effects they have on people. I think that's the cruellest treatment of all."

Written by Laura Blows

Summary
• Defined benefit (DB) funding levels could present an opportunity to boost defined contribution (DC) pensions and in turn improve the expected retirement outcomes for younger savers.
• Practical challenges remain in accessing DB surpluses, but campaigns and efforts to change this are underway, particularly given the potential benefits for the broader economy.
• Appetite and practical take-up for this option is yet to be proven, although anecdotal evidence reveals growing interest.

Sharing is caring

As DB funding levels remain strong, Sophie Smith considers how employers and trustees can unlock the benefits of current surpluses and potentially boost DC savings

It is no secret that DB pension schemes have seen significant funding improvements recently, with many industry experts suggesting that most DB schemes are in their healthiest state in a long time.

Conversations around DB surpluses, which had been consigned to the past, have re-emerged, as trustees and sponsors consider 'what next'.

And whilst the bulk purchase annuity market is expected to see record activity, conversations are rapidly broadening.

The Pensions Regulator (TPR), for instance, recently emphasised in its response to the Work and Pensions Committee's (WPC) DB inquiry that "buyout is not the only option".

There has also been increasing discussion as to how best to utilise these new DB surpluses. Surpluses that WTW head of UK retirement business, Rash Bhabra, says should be viewed as "very much an opportunity for as wide a group of beneficiaries as possible", including employers, and both DB and DC savers.

And with concerns around DC adequacy remaining high, one option highlighted by a number of recent reports is utilising DB surpluses to improve DC contributions, and share recent gains with younger savers.

A win/win

LCP partner, Jonathan Griffith, agrees that DB pension surpluses could be one option to reduce the "huge gulf" between DB and DC savings at retirement, arguing that this would also give schemes an incentive to invest for the long term.

In fact, according to Griffith, sponsors may even be able to reduce their pension spend whilst still improving contributions, presenting an attractive financial opportunity and provide a competitive advantage.

Mercer partner and UK wealth strategy leader, Tess Page, agrees that "everyone loves the idea that we could take this excess and give it to generation DC, who have never been in DB".

The cost-of-living crisis could also

make the intergenerational sharing of pensions wealth a more attractive option, as Page notes that while some employers are on the "dash for cash", others are keen to demonstrate their social credentials and support for employees.

However, Zedra Governance client director, Dan Richards, argues that whilst a shift of DB pension wealth to DC could be seen as a proxy for intergenerational gaps, given the direction of retirement provision in the past three decades, most trustees are not thinking about this in terms of an intergenerational perspective.

"Our duty is to our current members and the benefits they have accrued to date – future benefit provision is the domain of the sponsor," he stresses.

Despite this concern, Griffith clarifies that the pension benefits a DB member will not directly change as a result of using any available surplus to finance/improve DC pension benefits.

"Indeed, for members that have both DB and DC pensions, their overall pension position can be improved," he says. "Furthermore, it is possible in some circumstances that, as part of the process, the scheme may be able to use some of the surpluses to improve DB benefits leading to a win-win for all parties."

For employers with a DB and DC scheme in the same trust, the transfer of pension wealth seems particularly well suited. Yet despite the potential benefits, Page warns that, in practice, it's not always very easy structurally.

"It's very dependent on your individual scheme rules," she explains, "and even then, it might be a bit woolly in the rules. There could be talk about discretion or employer consultation."

The devil in the details

"It's totally dependent on scheme rules – in particular, whether the surplus goes to augment existing DB members' benefits, or back to the employer," agrees Gowling pensions partner, Chris Stiles, clarifying that often, but not always, trustees have some discretion over this.

"If the surplus is payable to the employer, the employer could use it to fund DC benefits for younger employees, if it chose, as an alternative to taking cash out of the scheme," he explains. "This could be attractive as taking surplus out as cash attracts a 35 per cent tax charge."

However, Stiles confirms that if the rules require surpluses to go to existing DB members, there is less room for manoeuvre, even though this would exacerbate the DB/DC divide.

Bhabra also admits that, in reality, most employers don't have their schemes in the same trust, creating an even more difficult situation. Agreeing, Page warns that, even where there is a shared employer, there could be practical issues in moving the surplus between schemes.

TPR also says that unless a DC scheme is part of the same trust, this is unlikely to be an option without the surplus first going back to the employer (with any associated tax charges) who may then distribute as they please, which could include funding DC contributions.

Campaigning for change

However, there are some changes that could make it easier for employers and trustees to get the best bang for their buck from DB surpluses.

WTW's recent whitepaper, for instance, encouraged the government to provide a straightforward legal route by which DB surpluses can finance contributions to a DC scheme used by the same employer, provided that the DB scheme remains fully funded on a cautious 'low dependency' basis.

In addition to this, Bhabra suggests the government consider revising TPR's statutory objectives to take account of members' wider interests or the adequacy of workplace pension provision.

"If we made TPR's objectives broader, the steer it provides to the pensions industry would likely make trustees feel less nervous about spending surplus in any shape or form," he argues.

LCP is also calling for change, as Griffith argues that the significant costs and administration attached to making it possible to use DB surpluses to improve outcomes for DC savers is "not efficient".

"In our view, the ability to use a DB pension surplus to pay DC contributions should be an option available to all scheme sponsors and trustees," he says. "We are campaigning, and our 'Powering Possibilities' proposal sets out our vision for how we believe we can make better use of DB pension assets to drive growth and generate value to share between DB members, DC savers, and UK plc."

However, TPR says further consideration is needed, stating: "As we understand one proposal in particular (from LCP) this approach would be limited to well-funded schemes and any surplus distributions limited to particular funding levels and 100 per cent Pension Protection Fund (PPF) protection for members. More consideration is needed on whether additional safeguards would be needed in legislation, but these changes would materially alter the nature of the risks and incentives involved."

Getting the timing right

Timing is everything, and these reports were purposefully shared ahead of the Chancellor's Mansion House speech *[see page 10],* which unveiled a package of reforms designed to boost pensions and increase investment in UK businesses. Indeed, Page says that getting money back into the economy "obviously presents a great argument" for change.

In line with this, commentators have been quick to highlight the benefits for the UK economy, arguing that better use of DB surpluses could be a win/win/win.

In fact, Bhabra says not making better use of current DB surpluses could be a "wasted opportunity", not only in terms of the boost for DB and DC members, but also the wider economy.

"DB surpluses are currently trapped capital that could be put back in the economy," he says, arguing that enabling employers to get value from their

surpluses would give them an incentive to do something other than simply cut risk.

TPR also acknowledges the possible benefits for the UK economy, given the potential financial and societal benefits from schemes being able to invest in a wider pool of investment options. However, the regulator says there are risks involved from running a DB scheme on generally; namely that funding could deteriorate, putting pressure on the sponsor.

Running on to allow surplus distributions can also present specific risks, according to TPR, the nature of which will depend on the future framework put around any surplus distribution model.

Griffith, however, says that while sponsors still need to consider the risks of such an approach compared to a buy-in or buyout, LCP's analysis shows that significant surpluses can be extracted whilst still maintaining a low-risk, well-matched investment strategy.

A missed opportunity?

Whether this work will be relegated to the 'too difficult' box remains to be seen.

And even where sponsors are looking to make use of the surplus, it might be for their own benefit, rather than the member, as Page notes that some employers are instead looking to use these funds to subsidise their costs, which wouldn't have intergenerational benefits.

"That's just the employer having their costs reduced," she adds, arguing that while employers often say they "would love to do more for DC if it wasn't for all those pesky DB contributions", there is no evidence it would happen in reality.

Despite industry cynicism, Bhabra says the response to WTW's paper on unlocking the benefits of DB surpluses has been "overwhelmingly positive", with some discussions with clients underway.

"As schemes have got better funded, appetite has definitely increased," he says, noting that whilst it is a "small number of cases" currently, it has the potential to become mainstream.

Increased scrutiny could also force employers to be more engaged, particularly amid the cost-of-living crisis.

Although some experts are dubious as to whether members are engaged enough to scrutinise schemes' use of surpluses, concerns are already emerging.

The WPC, for example, wrote to the Water Companies' Pension Scheme, after members raised concerns that the trustees had transferred the remaining surplus to the employer "without adequate consultation or explanation".

Queries on using DB surpluses for DC savers were also raised at the first hearing in WPC's DB inquiry in June.

Scrutiny could be faced on the other side though, as Richards warns that if something goes catastrophically wrong after such a change, there will be serious questions about how and why any surplus was eroded to the point of failure. This could be a particular concern as debates around the true state of DB funding continue.

Written by Sophie Smith

One piece of a bigger puzzle

The potential use of DB surpluses to boost DC savings, whilst well-intentioned, also raises broader questions about where this drive for change should be coming from, as PLSA deputy director of policy, Joe Dabrowski, argues that, rather than using DB surpluses to boost DC contributions, more holistic reforms are needed.

"If you're thinking that your DC savers are in need of a boost, then you should really be thinking about that for the long-term, rather than just focusing on a temporary solution by boosting contributions through DB surpluses," he says.

However, Dabrowski says that recent DB funding improvements could make this easier, as many employers won't have to be as concerned about DB contributions or PPF levies, meaning they might have more flexibility in their overall employee benefits package. "For my part, I think people should look at the simpler choices, which are less about a redistribution of DB surpluses and more about how you improve DC in a ring-fenced way," he says.

Page also queries whether it is the private pension system's duty to fix intergenerational wealth concerns, arguing that if the government had a clear economic policy, inflation was managed, and auto-enrolment rules were adequate, "we wouldn't have this problem".

"It's putting the pressure on trustees to look after pensioners, who might be struggling, look after DC savers, who are not really getting enough, all while employers are snapping at their heels asking for some of their money back, since it was their contributions that have led to this surplus," she says.

However, Page clarifies that whilst more consistent UK economic policy growth would be helpful, "this is where we are", arguing that using DB surpluses to boost DC savings would be "one way to put a pound in the pocket of younger people".

Pension Equity Group – tackling the gender pensions gap

PEG communications and campaign lead, Sam Gould, outlines the group's aims and priorities

In May 2023 we launched the Pensions Equity Group (PEG), a new coalition of over 20 leading pensions companies and organisations, working together to tackle pensions inequalities in the UK.

The group was launched in recognition of the retirement savings crisis facing many in our society and the role that large companies and pension scheme providers can play in supporting their members and colleagues.

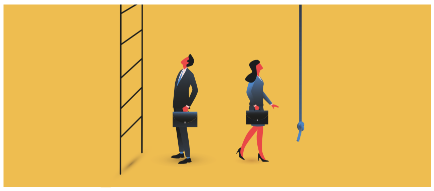
The group aims to achieve the following objectives:

1. Developing a way of consistently measuring pensions inequalities, beginning with the gender pensions gap before expanding to other pensions inequalities;
2. Working with government and policymakers to achieve positive change;
3. Sharing best practice approaches to help employers address inequalities;
4. Finding practical tools to empower individuals, such as planning tools and guidance;
5. Highlighting potential product developments across the industry that will help to drive greater equity.

To meet these ambitions, PEG has been structured into four workstreams, covering data & research, government & policy, communications & awareness and product changes, with representatives from across the industry meeting on a monthly basis to deliver for each workstream.

Why did we start this group?

There are still record numbers of people who reach their retirement years in



what is effectively pensioner poverty. In particular, single female pensioners are at greater risk of poverty than other retirees. Tackling pensions inequality requires us to come together as an industry, bringing our shared expertise to bear on the systemic barriers that disproportionately impact many across our society

Many individuals in the PEG have long campaigned on behalf of women and other under-pensioned groups, collectively playing our part in helping to promote greater pensions equity to tackle some of the biggest issues perpetuating the current pension savings gaps.

Pensioner poverty is on the rise

One in four pensioners are currently living in poverty; 23 per cent of males and 27 per cent of females, and it is a number that is increasing every year.

It is unsurprising when we consider that women have taken on the burden of childcare in a household and are only relative newcomers to the world of work. When we look at employment figures of women, in 1985, 19 per cent of women in the UK were working full time, which compares to 72 per cent in 2021.

The number of working women might have been aided by the launch of Statutory Maternity Pay in 1987, allowing women the opportunity to remain in the workplace, after having children.

Flexible working has been a key driver in getting record numbers of women working full time than ever before. However, the gender pay gap means that we still have less money coming in, and thus, less money coming out on the other side.

Pension saving can be difficult for women. Not only are women paid less, on average, but they are much more likely to work part time or take time out of the workforce to care for children or elderly relatives. In fact, 75 per cent of part-time workers are women and as a result, almost two million women are currently 'locked out' of workplace pensions.

Consequently, women in the UK are reaching retirement age with just one-third of the pension savings compared to men (almost £150,000 less) but some women, such as single mothers, carers and divorced women have just a fraction of the average woman.

How can we help women to avoid a retirement in poverty?

It is so important that all of us in the industry can signpost the excellent resources available for people who are not currently saving or would like to start saving but are unsure of the steps they need to take. Being at a statistical and practical disadvantage means that it is absolutely vital for women to prioritise their financial health as soon as possible.

Our work with the wider PEG group will actively look to work with government and policymakers to help equalise the retirement prospects between men and women, but we need to ensure that women feel empowered by their financial decisions and confident to take the important steps to shape their own futures.

Written by PEG communications and campaign lead, Samantha Gould

Summary
• Pension funds' allocation to emerging markets has been low in recent years, but sustainable investment in these regions will likely be vital in the fight against climate change.
• An investment barrier is the perception that ESG discipline is poorer in emerging markets relative to developed markets, and that emerging markets feature a number of carbon-intensive industries. However, a key reason for this is that developed markets have shifted their manufacturing to developing economies.
• There have been significant improvements in data availability and quality when monitoring ESG consideration within emerging markets.
• Investors' engagement with issuers and companies is key to bringing a change in behaviour across EM.
• A bottom-up, active management approach to sustainable investing in EM is suggested. Meanwhile, looking at the MSCI EM index versus the MSCI EM ESG index, the latter returned +14.2 per cent over three years, outperforming the former by 4.9 per cent, as of end May 2023.
• Pension funds' interest in sustainable investing within emerging markets is expected to increase.

ESG and emerging markets: Not so incompatible?

Laura Blows considers why, and how, pension schemes should overcome concerns about sustainable investing within emerging markets, and how to factor ESG considerations within EM investments

"It is well established that many of the worst consequences of global warming are felt in emerging markets (EM), despite most of the emissions resulting from developed markets' activities," Ashmore Group head of research, Gustavo Medeiros, states. "It is essential that these markets receive international finance assistance to mitigate and adapt to climate change. However, such public financing has been limited and there are now calls for private finance to be actively redirected to developing economies to fund the low-carbon transition."

Meanwhile, the Church of England Pensions Board chief responsible investment officer, Adam Matthews, warned recently at the PLSA Investment Conference: "If we do not support the transition *[to sustainable investing]* in EM, we will all, every pension fund *[…]* have a more disruptive climate transition, which will have a greater negative impact on your future horizons and the landscape to which you invest in. So, you actually have a financial interest in seeing EM transition *[…]* We need to be much more innovative and roll up our sleeves to get on with it."

So, as Matthews and Medeiros say, the need is there, but is the willingness for pension funds to invest sustainably within EM, and what developments have occurred to be able to do so in these arguably more challenging regions?

EM performance

EM performance over the past five years may have dampened investor desire, averaging around 1 per cent, WTW director, head of emerging markets equity and sustainable investment manager research, Amandeep Shihn, reveals.

"But investors can sometimes forget that the term EM is a slightly clumsy catch-all term for a number of very different markets. Over the past five years the dispersion between returns between different emerging markets has been around 20 per cent, and around 40 per cent over the past three years, so there have been some opportunities for active managers to generate good returns," he adds.

"If long-term asset allocators, such as pension funds, invest more capital in ESG EM mandates, the demand for better corporate practices and EM sovereign debt issuance linked to environmental, social and/or sustainability targets will increase"

However, Premier Miton emerging markets sustainable fund manager, Fiona Manning, notes that at the start of the year "we heard a lot of optimism amongst emerging market equity managers that 2023 would be a time for EM to shine after a decade of underperformance against broader global indices".

"Whilst we have seen a better showing from EM this year, EM has not yet outperformed world markets in a sustained way. Investors have been frustrated by a weak recovery in China following the relaxation of the zero Covid policy and destabilised by persistent inflation and greater geopolitical and trade-related tensions, amid ongoing monetary tightening in developed economies," she adds.

This, coupled with UK DB pension funds' de-risking trend to reduce equity exposure, has resulted in low allocations to EM, "often sub-10 per cent, if at all", Manning states.

However, those not investing in EM miss out on "faster GDP growth, portfolio diversification and innovation. In terms of real world – as opposed to portfolio – outcomes, it also means that we risk not allocating capital in markets that will likely determine the success or failure of our climate transition", she adds.

ESG concerns

Jupiter Asset Management head of equities, Kiran Nandra-Koehrer, notes that an investment barrier is the perception that ESG discipline is poorer in EM relative to developed markets.

"Specifically, for potential reputational issues from violation of United Nations Global Compact on Human Rights (UNGC) norms, and the perceived incompatibility with pension funds meeting their own net-zero goals. We believe both of these concerns are surmountable through discerning active management," she says.

Another issue is the alignment with investors' net-zero ambitions. "While it is true that there are a large number of carbon intensive, commodity-based businesses in EM, there are also a large number of businesses that have committed or are looking to commit to a net-zero target," Nandra-Koehrer adds.

Focusing on net-zero targets, Manning notes that "there are a couple of issues to unpick" with EM indices typically having a substantially higher carbon footprint than developed market indices.

"The first of these centres around the differences in the relative stage of economic development and how we work historic carbon emissions into the equation. Fundamentally linked to this is the fact that per-capita carbon emissions in emerging economies are at levels materially below those seen in developed economies. China's per-capita emissions are half that of the US. And India's are one quarter of China's.

"Furthermore, the globalisation of supply chains that we have seen over the past two decades means that we, in developed markets, have effectively outsourced a high proportion of our carbon emissions into developing

economies as the products we consume and the inputs for those are manufactured elsewhere, predominantly in Asia," she explains.

A nuanced view is also needed when considering ESG ratings, as "it is important for investors to understand that third-party ESG ratings providers take a developed-markets-based view on ESG and governance structures when assessing ESG information published by EM companies, and so do not take local market context into consideration when applying ESG ratings to companies, such as state control or founder-led and owned businesses, which are more typical of developing markets", Shihn says.

"This lack of context will often mean that EM companies appear to be poorer on ESG metrics compared to developed market counterparts."

These differences can cause complications, Nandra-Koehrer finds. She gives the example of a Brazilian company that was making a transition from the original owners to professional management with a 10-year remuneration glidepath, "which we thought was excellent, but we were asked to vote against that because it was too long".

"Similarly, we have been asked to vote against directors in India who have been on a board of a well-run company for 15 years because that is out of alignment with the UK, whereas this is not unusual in India," she adds.

Despite the "historical false narrative" around the difficulties with ESG investing and EM, "we believe we are in the midst of a paradigm shift, with a significant improvement in data availability and quality, as well as the rise in best-in-progress, i.e. investing in companies that have been under a pall from a sustainability perspective but are key to us transitioning to a more sustainable future economy", American Century Investment head of sustainable investing, Sarah Bratton Hughes, states.

While there is still caution around sustainable EM investing, conversations are turning more positive, Redington manager research team, senior vice president, Tom Baird, agrees.

"There have been plenty of concerns around the geopolitical risks, regulatory burdens, governance issues and lack of transparency surrounding China, and amid the wider trend of de-risking from equities, the EM allocation has been often in the cross hairs. However, investors still see the diversification potential, long-term growth prospects and compelling valuations," he explains.

Investors' engagement with issuers and companies is key to bring a change in behaviour across EM, Medeiros predicts. "If long-term asset allocators, such as pension funds, invest more capital in ESG EM mandates, the demand for better corporate practices and EM sovereign debt issuance linked to environmental, social and/or sustainability targets will increase," he explains.

Implementation

Historically, sustainability reporting focused more on the philanthropic CSR activities of businesses, something that has been viewed favourably in local markets, Manning says. "However, companies are now seeing the value of demonstrating how they manage their operational ESG risks and the positive impacts that their products and services can deliver."

Within ESG, governance is the most widely looked at within EM investing, Baird says, looking at areas such as unusual corporate structures, Variable Interest Entities, related party transactions and government ownership.

"However, EM stands to be impacted the most by climate change and will also play a huge part in any solutions, so this is becoming an increasing focus for investors too.

"Social aspects are more often overlooked, but with several key issues being particularly pertinent in these regions – workers' rights, labour standards, product quality and community relations – the best investors have a close handle on these considerations too," he adds.

When investing sustainably in EM, Premier Miton implements a bottom-up approach that does not rely on ESG ratings. "Instead, we talk regularly to the company management and look at key data points versus peers where that is possible, encouraging companies to disclose targets and progress against those targets," Manning says.

"In terms of industries and business activities, we use the UN Sustainable Development Goals (SDGs) as our guide. This works well for us because the SDGs serve as an independent, universally agreed framework for global priorities and provide great context for the assessment of each company's exposure to sustainable business opportunities," she adds.

Nandra-Koehrer highlights the use of the United Nations Global Compact on Human Rights (UNGC).

"If a company becomes a UNGC violator during our ownership, we engage with a view to understanding the nature of the violation, its validity, and practical steps the company can take to remediate it. We believe in engaging to encourage change and would only divest if there was no probable path to remediation," she explains.

When considering the path to net zero, Jupiter categorises companies based on their disclosures and targets into five

Case study: A pension fund's view of sustainable EM investment

While EM hasn't been an area of focus for its investment strategy lately, no longer having holdings in emerging market debt, and just having some exposure through listed equities portfolios, Railpen head of sustainable ownership, Michael Marshall, states that ESG is fully integrated into the investment process at Railpen, regardless of region.

"So, there's no delay between our developed and our emerging market programmes in terms of starting to consider ESG. Railpen traces its sustainable ownership origins back to the 1990s with the publication of its first proxy voting policy in 1992," he explains.

For Marshall, the most difficult challenge when incorporating ESG into EM investment is cultural.

"How do you engage a company on a topic that is of concern to you as a Western investor but might not be a top five issue locally? How do you balance developing a long-term, trust-based relationship with a company with using your stewardship rights to hold companies to account and set a high bar? What standards do you expect in a market where corporate governance might be less established?" he asks.

Marshall expects that in the near future investors will get serious about applying frameworks (such as net-zero frameworks) to EM and will determine that middle income and frontier markets require different treatment to DM. "I also expect there to be more interest in the idea of transition finance in emerging markets," he adds.

buckets, from 'not aligned' to 'achieving net zero by 2050'.

"We've found that some of our companies that appear to be 'not aligned' are either not reporting data, not reporting in the correct format, or not aware of the need to make certain commitments. Our engagements can sometimes be the first time they have had these conversations with an investor. This low general knowledge of net zero provides significant opportunities for our active investment approach to seek better outcomes for investors seeking alignment with net zero," she says.

Benefits

Focusing on ESG matters within EM can result in significant benefits. As Manning says, "research has shown that quality and ESG quality as factors have been two of the most successful investment styles for delivering risk-adjusted returns in emerging markets".

For instance, in 2019, Jupiter's concern about the direction of travel for property rights and sanctions between Russia and the West led to it selling down its positions in Russia, fully exiting in 2020.

"We were one of 8 per cent of emerging market managers globally that had a zero weighting in Russia going into the Ukraine invasion. While we don't claim to have predicted the invasion, the consideration of material ESG issues helped the strategy avoid this permanent loss of capital; a core risk to all investors," Nandra-Koehrer says.

The Ukraine invasion is just one of numerous 'ESG incidents' that have hit asset managers in recent years, Baird notes, such as the crackdown on education companies in China and increased regulatory burdens on technology companies.

"It is no coincidence that the managers who take ESG seriously did a better job of avoiding these headwinds," he says.

The figures back this up: According to Nandra-Koehrer, looking solely at the MSCI EM index versus the MSCI EM ESG index, the latter has returned +14.2 per cent over three years, outperforming the former by 4.9 per cent, as of end May 2023.

Looking ahead

It is little wonder then that sustainable investing within EM is expected to increase.

Manning acknowledges that whilst it is true that many emerging markets, particularly in Asia, have been slower to adopt formal ESG frameworks, she says that this is now changing rapidly.

"Significant markets like China and India have announced new reporting standards, whereas markets like Brazil, which have been active in this space for many years, are seeing a resurgence in interest. Local investors, including local institutional investors, are becoming more engaged in the subject and companies are responding to this," she states.

Back in the UK, Nandra-Koehrer is starting to see a shift in pension funds' consideration of ESG issues in EM.

Indeed, a poll at the recent PLSA Investment Conference found that, while 52 per cent of the poll's respondents did not invest in sustainable assets within EM, 76 per cent responded that they intend to increase their exposure to sustainable asset classes in EM, with 10 per cent stating that they were keeping their allocation the same, and 14 per cent unsure.

It seems that when it comes to investing sustainably within EM, UK pension fund investors may now be starting to roll their sleeves up.

Written by Laura Blows

Summary
• Social bonds are issued by governments and companies aiming to raise finance for projects that will have a positive social impact.
• The pandemic helped to push the agenda on social bonds – the number issued in 2020 was four times those issued in the previous year.
• Social bond funds have twin aims – positive social impact and adequate returns.
• These double aims are a good fit with pension funds' long-term objectives.
• A new area, there is some ironing out to be done – particularly when it comes to avoiding 'social washing' and ensuring the closure of any loopholes that allow bonds to be labelled as 'social' when they do not really fit the criteria.
• The future looks promising – 65 per cent of investors were actively interested in social bonds, according to a GSAM survey.

Looking at social bonds

Sandra Haurant considers the growing appeal of social bonds and the role they can play within pension fund portfolios

According to Goldman Sachs Asset Management (GSAM), social bonds have begun to come into their own in recent years, moving out of the niche and into the mainstream. The shift is partly due to the pandemic, when governments began issuing more bonds aimed at protecting public health and squaring up to other social challenges, and in 2020, 227 social bonds were issued – compared with 50 in 2019.

By the end of 2022, social bonds had grown into a €464 billion market, and investors are increasingly seeing the attraction. The findings of a GSAM survey, published in May 2023, showed that 65 per cent of investors expressed an 'active interest' in investing in social bonds, while 29 per cent said they were already investing. But what's in it for pensions?

Back to bond basics
Bonds, in general, have traditionally formed part of the bedrock of pension funds' investment portfolios; effectively loans made to governments or companies, they usually allow the bond issuer to raise funds and the investor to receive an income on that loan, and recover their capital on maturity.

But with social bonds, also known as social impact bonds, the benefits are twofold; here, the social aims of the bond's issuer are as important as its potential to deliver financial gains.

Tammie Tang is the portfolio manager of Columbia Threadneedle's CT UK Social Bond Fund, set up in 2014. She says: "The CT UK Social Bond Fund was created nearly a decade ago to deliver socially beneficial outcomes to people in the UK, through investment in the public bond market." Its mission, then, is clear: "The fund was incepted on the belief that the public bond market has great potential to deliver better outcomes for society, in light of the large scale of capital provided by the bond market and noting the growing social issues and inequality affecting our society," says Tang.

What lies beneath
Typical underlying assets held within a social bond fund, says Tang, include a diverse range taking in the likes of social housing, infrastructure and the delivery of healthcare or education.

And, AXA IM senior portfolio manager, fixed income, Johann Plé, explains: "We invest at least 75 per cent of our social strategies in social and sustainability bonds. Within our portfolios we will find several banks with social issuances that tend to support employment through loan to SMEs, for example, or affordable housing."

He adds: "We also tend to like agencies that can cover a broader range of projects, including access to basic needs or health services. On the corporate side, the lack of social issuances makes us favour companies with activities that positively contribute to the society, favouring access to education, healthcare or addressing mobility issues for disabled people for example."

What's in it for pensions?

Pension funds have been paying increased attention to social bonds, with good reason. "Pension funds are long-term investors. Social bonds not only offer them the highest level of transparency with regards to what they are financing but they also provide them an opportunity to mitigate risk related to social issues while benefiting from an exposure to issuers that are a better fit to thrive in a transition towards a more sustainable economy," says Plé. "Indeed, we believe credible social bonds are issued by issuers that are less likely to be impacted by social movements, but that also anticipate the potential shift in demand driven by consumers' broader awareness of social issues and appetite for more sustainable products and practices."

While Tang adds: "Our social bond strategy delivers impact investment via the bond market. Impact investments should appeal to pension funds, because they target twin objectives of positive social impact alongside financial return."

Like Plé, Tang asserts that delivering social impact allows pension funds to contribute long-term capital to social solutions, and in so doing help to tackle issues such as deprivation, high cost of living and the widening inequality gap. "We are strong believers that in targeting populations more deprived, and in delivering better social outcomes, such as in health, housing, education and access to services, we seek to benefit all of society," Tang says.

Reaping rewards

There is, then, a balance to be attained here: Doing social good and achieving the returns that pension schemes very much need. So how do social bonds compare to their conventional counterparts?

Tang says social aims don't have a negative impact on returns; indeed, the opposite can be true: "Our social impact funds have the track record to evidence that financial return can be achieved alongside social alpha. Our financial performance compares well with non-impact fixed income funds. For example, the CT UK Social Bond Fund references the one 10-year non-gilt index and has delivered both financial alpha and social alpha."

"We do not see any significant pricing difference between social bonds and equivalent conventional bonds," says Plé. "Performance differences at universe level have been more driven by the key characteristics differences such as geographical or sector breakdowns."

Sitting, as they do, in an adjacent category to so-called 'green bonds', it's also interesting to see how social and green bond indices compare, says Plé.

"When comparing social bonds index with a green bond index or a global aggregate index, one can observe that social bond and green bonds performed relatively the same since the end of 2021, underperforming a conventional aggregate universe," Plé explains.

Much of this is down to the increase in interest rates, and a greater exposure to euro and US rates, and, he adds: "In the meantime, the higher exposure to credit and quasi-sovereign has made social and green bond universe more exposed to the widening of spreads observed over the period." But Plé argues that these can be reasons for optimism – they will, he says, stand to benefit if or when inflation slows and central banks eventually relax rates.

What next for social bonds?

This is, says Plé, a "nascent market", and some of its momentum has slowed since the highs of 2020 and 2022. But, he says, it "has still a lot to offer," particularly since "social issues are becoming more and more crucial".

Corporate issuance, he argues, holds particularly high potential. "Some real estate companies, as well as utilities, have already issued social bonds, and we expect to see more of these issuers finance their investment in affordable housing or access to electricity or water for example," he says.

"The telecom or healthcare sectors could be the next to join this market. In the meantime, supply chain management comes under more scrutiny and could bring additional issuers. Eventually, one cannot turn a blind eye to the social impact of transitioning to a low carbon economy. This transition needs to be a just transition, and we believe social bonds will be the perfect instrument to accompany this effort and grow hand in hand with green bonds."

Inevitably, many analysts insist that there is scope for refinement and improved clarity in social bond arena. Investors are increasingly alert to unscrupulous greenwashing tactics in the environmental investment sphere, and similar concerns have been raised about social investment. Issuers will need to be clear on their aims, and investors should expect reporting to be robust.

But many argue this growing area of social investment is, nonetheless, promising, for issuers and investors alike. Commenting on its survey, GSAM global head of green, social and impact bonds, Bram Bos, said: "At present, only a small number of managers offer a dedicated social bond fund, but we believe the market is now large and diverse enough to make social bonds a viable complement to investors' existing fixed income exposure."

But, he added, the future is looking bright: "The market's growth potential will make social bonds increasingly attractive to a wider range of investors over time. The opportunities offered by social bonds should earn them a place in any well-diversified portfolio."

Written by Sandra Haurant, a freelance journalist

Pension funds and investors: A call for more conscientious investing

Federation of Small Businesses (FSB) national chair, Martin McTague, encourages pension funds to consider payment habits of companies before they invest, in order to best align with the principles of environmental, social and governance (ESG)

Pension funds need to view their investments through a wider lens. Given the growing emphasis on environmental, social and governance (ESG) investing, pension funds have been increasingly tasked with expanding their investment perspectives. Now the spotlight is on the 'S' in ESG – the social factors. It's now essential that pension funds not just acknowledge, but meaningfully address, the seismic issue of late payments as a key aspect of their social impact investment strategy. Late payments need to be viewed as an integral part of the broader social impact conversation, and they deserve the same attention as critical, social issues.

Most of the people with workplace pensions in the UK work for small employers, so in holding the large businesses they invest in to account, pension funds will also be supporting the interests of their members.

Investing in companies notorious for late payments without advocating for change indirectly supports a practice that threatens the livelihood of small businesses. It's important to be vigilant of the 'S' when it comes to ESG investing. With nearly £2 trillion in assets, equivalent to 85 per cent of the UK's GDP, UK occupational pension schemes wield considerable financial power. This immense clout comes with an increased responsibility.

But why focus on pension fund investors?

Investors, undoubtedly, have a significant role in promoting social responsibility. While they have made strides in various social areas, late payments remain overlooked.

The 'S' in ESG should represent more than just ticking the boxes for social standards, it should signify active participation in fostering a better economy.

By investing in companies that delay payments to small suppliers, pension funds are inadvertently endorsing a practice that undermines small businesses nationwide. Encouraging audit committees to report on late payments and prompting the Financial Reporting Council to include these practices in their annual guidance can improve transparency. This would allow pension funds to measure, track and showcase their progress on this key social impact issue, effectively enhancing their investment strategy. This win-win solution would create a fairer, more sustainable business environment that ultimately safeguards investments as companies that pay on time often boast healthier supplier chains.

Timely payments empower small businesses to meet financial commitments, invest in growth, and build robust business relationships, in turn driving the entire economy towards greater productivity and competitiveness. That's why pension fund investors must elevate social responsibility to the top of their investment criteria, particularly when assessing companies with a history of late payments to suppliers.

Written by Federation of Small Businesses (FSB) national chair, Martin McTague

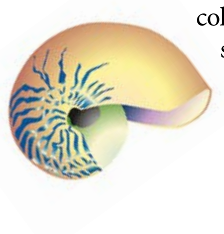
Biodiversity in the spotlight

Summary
• Pension funds are under pressure to increase investment in protecting biodiversity.
• Investing for impact can be highly compatible with fiduciary duty.
• The financial industry is innovating to make it easier to measure biodiversity risk and to invest for positive impact.

Gill Wadsworth reflects on the important role pension funds have in protecting biodiversity and why it matters today and into the future

"Without significant policy change or investment, the interplay between climate change impacts, biodiversity loss, food security and natural resource consumption will accelerate ecosystem collapse, threaten food supplies and livelihoods in climate-vulnerable economies, amplify the impacts of natural disasters, and limit further progress on climate mitigation."

This is the stark assessment from The World Economic Forum's *Global Risk Report 2023,* which places biodiversity and ecosystem collapse as the fourth most significant global risk over the next 10 years.



And given that the UN says more than half of the world's gross domestic product – which amounts to $44 trillion – is moderately or highly dependent on the services nature provides, the need for urgent action is clear.

Governments and policymakers are responding. The UN COP15 biodiversity summit in Montreal last December established the Kunming-Montreal Global Biodiversity Framework (GBF) which includes the '30x30 pledge' – an agreement to safeguard 30 per cent of land and water by 2030 to halt and prevent biodiversity loss. This means finding at least $200 billion per year by 2030 in biodiversity-related funding and raise international flows towards developing countries to at least $20 billion per year by 2025.

Analysis provided by the Paulson Institute shows that while investment in reversing biodiversity decline is increasing – in 2019 financial flows were between $124 billion and $143 billion – these are far short of the estimated $722 billion and $967 billion needed over the next 10 years.

Taking responsibility

Pension funds are seen as pivotal in ensuring the requisite finance reaches projects that will both limit further decimation of the natural world and contribute to preserving and restoring it.

This June the Zoological Society of London (ZSL) and Caceis Investor Services published a guide to biodiversity and nature for pension funds, in which ZSL senior sustainable finance specialist, James Pilkington, said: "Instead of passing the responsibility of these issues on to their asset managers, pension funds must start to understand and take ownership over the risks and impacts of their portfolios, and put clear policies and actions in place."

This view is shared widely across the pensions industry.

Scottish Widows head of responsible investments and stewardship, Maria Nazarova-Doyle, says: "It is imperative that pension fund investors seek alternatives that preserve and enhance our planet's natural capital. Given the size of their portfolios, pension funds hold considerable sway as asset owners and shareholders to promote positive corporate action on reversing nature degradation."

Meanwhile, Cardano co-head of

sustainability, Will Martindale, says that without action on biodiversity it will be impossible for pension funds to meet their carbon reduction targets.

"We see biodiversity as the other side of the coin to climate change and so it matters because we're going to be unable to achieve our climate change targets without addressing biodiversity loss. And biodiversity loss, as an issue in its own right, is as serious if not more serious than climate change; the implications of that for societies and economies are profound."

A report from Pension for Purpose and Gresham House, which assessed UK asset owners on their approach to natural capital and biodiversity, found that most pension funds consider biodiversity in relation to climate change, and found that "the level of interest in biodiversity and natural capital solutions has mainly been driven by pension funds implementing climate mitigation strategies. For most funds, natural capital investment is seen as part of their journey towards net zero".

That said, 62 per cent of pension funds surveyed held no natural capital investments, a figure that Pictet Asset Management head of business development, Kate Rickards, says reflects the levels of knowledge and understanding of biodiversity issues.

"When we are talking to our UK client base and the consultants that advise them, there is a top-level understanding that we have this crucial need to halt biodiversity loss. That message is starting to climb up the agenda rapidly, to the point where it's as important as bringing down global warming. But it is still early days and many pension funds haven't worked out what actions they want to take," Rickards says.

Investment consultants are central to informing that action, and the Pensions for Purpose/Gresham House report finds "some investment consultants are better informed on biodiversity than they were at a similar stage when pension funds first started considering climate action".

It notes that advisers have invested "significant resources" to develop expertise on ESG, sustainable and impact investment, and they are "well placed to help pension funds embed biodiversity into an investment strategy".

But the challenge, according to Pensions for Purpose founder, Karen Shackleton, is the "limited universe of natural capital investment managers" in which to invest.

However she adds: "*[Natural capital asset management]* is a really fast-moving space and asset managers are piling in to areas such as sustainable forestry and agriculture."

Fiduciary duty

Integrating ESG issues into

What does it all mean – defining the terms

Biodiversity: The natural world around us, and the variety of plants, animals, insects and microorganisms that can work together in ecosystems to maintain and support life on earth, and exist in delicate balance.

Natural capital: The world's stocks of natural assets, which include geology, soil, air, water and all living things. It is from this natural capital that humans derive a wide range of services, often called ecosystem services, which make human life possible.

Source: ClientEarth and Convention on Biological Diversity

investment practice and decision making is becoming a standard part of the regulatory and legal requirements for institutional investors, but concerns persist over the possibility that trustees may be accused of pursuing social causes over financial return.

Pictet client portfolio manager, thematic equities, Yi Shi, who runs an Article 9 classified fund under the Sustainable Finance Disclosure Regulations, says investing for impact can be highly compatible with fiduciary duty.

"The fundamental thesis that drives the creation of this fund is that the true value of nature, natural and social capital is not properly priced in to a company's stock price today, but the action they take will be reflected later on."

He adds: "High quality companies that have acted on climate change and are providing solutions to reducing environmental footprint have seen their multiples improved, as they could capture the underlying secular growth in the environmental solutions market, vis-à-vis those of companies that didn't. The same principle applies to biodiversity."

Pensions for Purpose is attempting to tackle some of the concerns investors may have about jeopardising returns by looking at performance of impact funds.

"Although there is much less fear from trustees about losing return *[from investing sustainably]*, it is still there. There is no definitive evidence on how impact funds contribute to positive performance, so we're hoping to try and address that for UK pension schemes," Shackleton says.

Establishing metrics

A major challenge for proponents of biodiversity investment is measuring a company's impact, but there are notable advances in overcoming this obstacle.

The Taskforce for Nature-related Financial Disclosures (TNFD) is, like its carbon-related predecessor, focused on "developing and delivering a risk management and disclosure framework for organisations to report and act on evolving nature-related risks".

At the same time, the Science Based Targets Network – a global coalition of more than 80 environmental non-profits and mission-driven organisations – has released the first corporate science-based targets for nature.

These initiatives are complemented by industry efforts including a joint sponsorship between Cardano, Fidelity International and Nomura Asset Management of Green PRAXIS, a nature-based solution provider, to conduct a bioacoustics study.

Martindale says the study, which monitors and measures biodiversity levels associated with varying land use intensities at a palm oil concession and conservation areas, produced "encouraging and clear results".

"As an investor we're waiting for a company disclosure, which may be incomplete or inaccurate, or a company may file one or two years in arrears from when the activity then took place, and so we're getting data that's really stale."

Martindale continues: "Bioacoustics tools measure the noises associated with the variability of species in those areas, which in theory is going to provide datasets that allow us to have much richer conversations with those companies about their ability to reforest and manage biodiversity issues within the land for which they're responsible."

Written by Gill Wadsworth, a freelance journalist

A helping (artificial) hand

Speaking at the recent PSLA Investment Conference, Rory Stewart suggested that most attendees would replace all call centres with artificial intelligence (AI) and robo-support. *Pensions Age* asks: Where do you see AI playing a role in pensions customer support?

AI could analyse vast amounts of data to identify patterns and predict future trends. This would enable pension providers to anticipate member needs, such as predicting changing retirement dates or suggesting a review of contribution rates.

AI-powered chatbots can already understand and respond to customer inquiries in natural language, providing a more conversational and user-friendly experience. This technology can handle complex queries and would improve customer satisfaction.

Another area where AI can make a positive contribution is in fraud detection. AI algorithms could detect unusual account activity, identify potential fraud attempts, and alert both members and administrators. This proactive approach would both enhance security and improve member confidence.

By leveraging AI technology, providers can streamline customer support processes, deliver personalised assistance, and improve overall member experience. However, one crucial area where AI cannot replace human intervention is in the provision of regulated advice. It seems unlikely that the FCA would ever sanction regulated advice that was not provided by a suitably qualified and experienced pensions professional. Whilst we can be excited by the potential offered by AI, we should also recognise its limitations.

PMI director of policy and external affairs, Tim Middleton

AI already plays a role in our industry and I see this getting bigger. Think about a chatbot that is able to manage more process-driven requests received by helplines. This kind of intervention would free up time for member support teams to answer more complex questions.

Also think about the predictive power of these tools. AI can anticipate a member's next move, and nudge them to act in a certain way.

AI could help savers interact with their savings. If you provide a saver with very personalised messages, based on their behaviour over time, they will receive relevant content at the most appropriate times – just like on social media. Ultimately, the industry needs to get smarter about the tools at its disposal so that our members make smarter decisions that benefit them in the future.

SEI DC and solutions managing director, institutional group EMEA and Asia, Steve Charlton

Whether we like it or not most industries will take advantage of AI to streamline operations, maximise profit and increase productivity. I see the pension industry being no different.

I believe AI can improve member service and can automate repetitive tasks such as data entry whilst offering greater accuracy. This in theory should mean a reduction in member complaints. While online portals and virtual pension assistants will provide immediate responses.

Call centre staff will benefit from AI voice recognition; assessing if a caller is unhappy and diverting the call to someone most experienced for the conversation.

By removing these time-consuming tasks from human workloads, pension administrators will have more time to provide focused customer support requiring human skills and knowledge.

However, like anything, it comes at a cost. As AI replaces humans, the role of technical pension administrators is at risk; a resource we know is already in limited supply.

AI also brings many security risks. For example, the use of AI for scamming. Perhaps the most important of all.

Cartwright director of pensions administration, Julie Yates

Humans or AI? Why not both?

Rory Stewart's assertion at the PSLA Investment Conference aligns with the evident trend of integrating AI in pensions customer support, particularly in call centres. AI's capabilities to handle the vast majority of routine queries make it a reliable tool, especially in our increasingly digital world.

AI is not merely limited to call centres, though. With the proliferation of various communication channels like WhatsApp, other chat services, and even advanced technologies like virtual reality glasses and augmented reality, AI's presence can be magnified. It's a step towards making customer support more accessible, interactive, and efficient.

However, the integration of AI doesn't eclipse the importance of human interaction. Complex issues and nuanced questions often require human judgement, empathy, and in-depth understanding, an area where AI might currently fall short. Therefore, a combination of AI and human interaction would present the ideal scenario.

We must see the AI-human dynamic not as a competition but as a collaboration. AI can handle routine issues, thus freeing humans to focus on intricate problems. This synergistic approach ensures superior service and enhances the overall customer experience. AI isn't a complete replacement, rather a complement that enhances the existing system.

PensionSmith CEO, Jaco Wasserfall

AI has an important role in pension customer support, to ignore it would be a mistake. It is physically impossible to deal with every aspect of customer support to the level and quality everyone would want with humans alone, but we are not ready for everything to be handled by a robot, nor should we.

We need to think of customer needs and preferences, the level of complexity of a query as well as the availability of real data on which to respond. If data is poor, then AI will not help much with answers unless it can be used proactively to improve that data.

Routine queries can easily be dealt with online, using straightforward information, straight to the member's ear or screen. However, some members do not always feel comfortable speaking to a representative, so accurate information pushed or pulled at the right time should be available. AI can release valuable time for member contact when it is needed and wanted. Members should have a choice, but AI can help identify where human help would be better, for example, where a member may show certain vulnerabilities.

The use of AI could be of benefit in giving warnings to members about the risks of scams at the right time and can also be used to 'learn' member behaviour and thereby spot anything out of the ordinary and help prevent scams. It is also useful to bridge the 'advice gap' in retirement planning. It can also recognise many trigger points where useful and timely nudges can be sent to members to prompt them to act.

There has been much reporting on the existential threats of AI. We are nowhere near that in pensions, where our biggest threat could be reluctance to innovate through fear of GDPR requirements.

PSIG chair, Margaret Snowdon

Mr Stewart may well be looking to a future in which he can replace his staff with AI with enthusiasm, however, I don't agree that AI will replace human interaction throughout the pension industry, nor even take a dominant position within it.

Taking self-driving vehicles as an example, these vehicles are proven to be safer and yet many would not feel safe giving up control. Why should this be any different when dealing with their financial future?

Given TPR's strict rules on communication with pension savers and their right to opt into paper communication, it's unlikely they would completely turn this policy on its head and allow the pension industry to use only AI, rather than the right to talk to an actual person.

If the pension member is unsure of precisely what they need to ask, is AI likely to pick up that it is not acting in their best interest? Is the member going to be able to ask precisely the right question to get the answer they are looking for? Possible but unlikely. So, whilst AI can and will be a part of the future member experience (particularly with more online support being offered) whether this is an enhancement for the individual remains to be seen.

Quantum Advisory senior pensions administrator, James Turner

Pensions history

Matters military

The first day of the battle of the Somme, one of the bloodiest of the First World War, was on 1 July 1916. The pension treatment of servicemen and dependants in that and other conflicts is an interesting topic, and the Pensions Archive Trust with other national collections contains much relevant material, ranging from lists of employees on war service and correspondence regarding their pension contributions to much earlier attempts to support those who needed help.

In 1590, the Chatham Chest was established to provide pensions to wounded seamen of the Royal Navy, named for the chest where the scheme assets were stored. Possibly the first funded occupational pension scheme, 5 per cent of seamen's wages were deducted each month and paid into the chest. Pensions were payable for life on a fixed scale depending on the level of injury but were regularly reviewed and could be reduced or terminated if the pensioner were found to have recovered sufficiently to be capable of work. The Chest was merged with the Royal Greenwich Hospital in 1803.

The modern approach is to be found in The Pensions Regulator's Code of Practice published in July 2014, to be superseded by a revised code, anticipated in April 2024. There has been prolonged consultation but concerns about the increased compliance burden and its additional costs remain. One expects funding to be more complex than it was in 1590, but whether the changes will stand the test of time is another matter.

www.pensionsarchivetrust.org.uk/our collections

Pensions Archive Trust director, Jane Marshall

Fun and games

Wordsearch

S	U	S	T	A	I	N	A	B	L	E	G	E	S	S
S	T	U	K	R	R	D	E	S	K	L	J	D	T	N
R	A	E	L	P	O	I	J	O	T	F	R	K	E	O
O	G	K	K	Z	X	F	S	T	X	A	A	U	Z	Y
V	E	I	D	R	W	A	A	P	O	R	R	H	T	N
E	N	I	Y	W	A	A	A	B	R	O	G	M	R	I
R	E	B	N	U	R	M	H	A	D	I	T	W	S	L
H	R	R	A	I	S	S	G	I	I	P	H	P	E	C
A	A	U	R	T	A	Y	V	N	Z	T	F	A	K	C
U	T	X	Q	D	C	E	A	L	I	K	D	S	I	W
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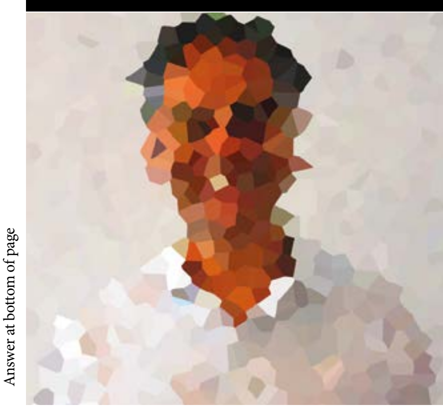
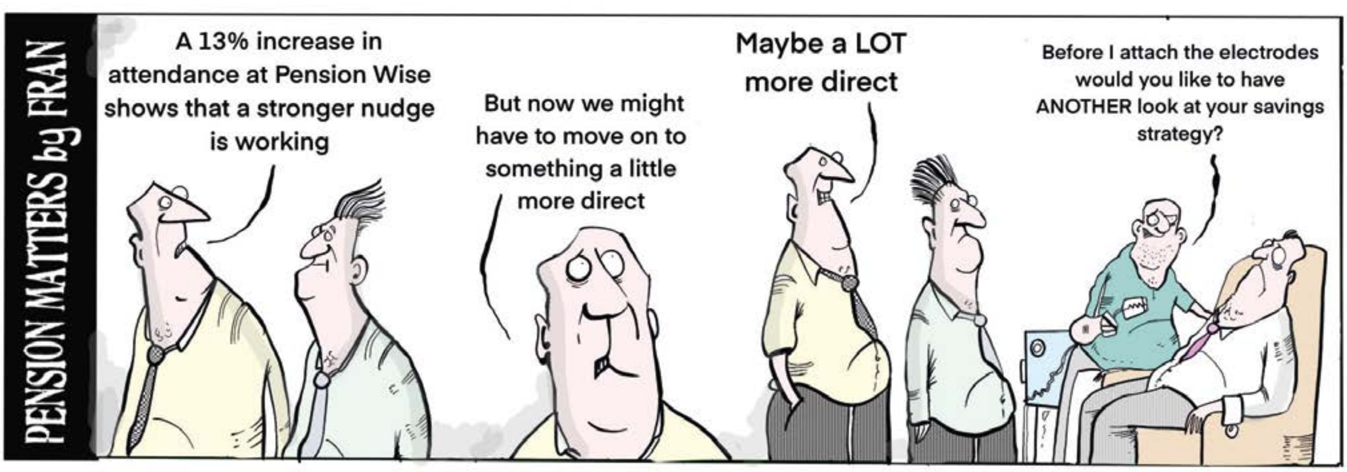
U	S	R	L	A	B	O	L	G	E	L	Z	O	M	V
Y	B	I	O	D	I	V	E	R	S	I	T	Y	S	E

BIODIVERSITY
DASHBOARDS
EMERGING MARKETS
GENERATIONS
GLOBAL
NEURODIVERSE
OVERHAUL
SOCIAL
STRIKES
SUSTAINABLE

I know that face...

Answer at bottom of page





I know that face... Answer: Hymans Robertson strategic capital advisor, Abhishek Srivastav

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INDEPENDENT CHAIR TO THE PENSION BOARD – MEMBERS OF THE SENEDD PENSION SCHEME
Location: Wales

ASSISTANT TREASURY MANAGER
Location: Based at Aldermanbury House
Salary: 44,539 to £47,573 pa

PAYROLL & PENSION LIAISON MANAGER – REVENUES, BENEFITS & PAYROLL
Location: Based at Britannia House, Bradford City Centre/ Hybrid working
Salary: 44,539 to £49,590 pa

DIRECTOR OF MRC PENSIONS
Location: London, UK
Salary: 77,453 - £87,304 plus London allowance (£3,727 + £1,402)

LEAD ACTUARY
Salary: circa £90k + benefits

PENSION ADMINISTRATION MANAGER
Location: Berkshire/hybrid
Salary: 40,000 - £50,000 pa

ASSISTANT PENSIONS MANAGER FOR EMEA PENSIONS
Location: Central Birmingham or London (City) office
Salary: based on experience

IN-HOUSE PENSIONS GOVERNANCE MANAGER
Location: Glasgow/Hybrid c.2 days office based per week
Salary: Attractive base & total compensation

TEAM LEADERS
Location: Office 2 days (Leeds or Birmingham) / 3 days Home
Salary: Dependent on experience

SENIOR TRUSTEE CONSULTANT / SCHEME SECRETARY
Location: London/ Hybrid working
Salary: Excellent

PENSIONS ADMINISTRATION MANAGER, IN-HOUSE PENSION SCHEME, 4 OR 5-DAY WEEK CHOICE, HYBRID WORKING
Location: Mix of Home and Office (London)
Salary: Up to £70,000 per annum depending on experience + super pension scheme

PENSIONS CLIENT SOLUTION ANALYST
Location: Birmingham/South Yorkshire/Hybrid
Salary: Excellent