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July/August 2020

PENSIONS Age

The leading pensions magazine

Longevity
How the recent spike in mortality numbers is affecting pension schemes

Anti-correlated assets
Understanding how the assets in a portfolio relate to one another

Unintended consequences
The unforeseen negative impacts that can occur in policy changes

Pensions Publication of the Year 2019!*

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Overseas response: *How the major global pension markets responded to the coronavirus pandemic*

Retirement income: *What percentage of income do occupational pension schemes provide for retirees?*

Building a better future

Infrastructure is 'vital' to the post-Covid recovery; what will this mean for pension investments?

LPFA: Its relationship with the LPP, how it deals with climate issues, and listening to members


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Editorial Comment

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

It's what we've all been waiting for. Spas, tanning salons and nail bars have finally been allowed to open. Rejoice!

Did you snort derisively at the above? Did you think how you hadn't been waiting for them to open, and that their slower lockdown easing was fair enough, as there were far more vital industries that urgently needed starting up again? Important work, like… football?

Now, did you have the same response when barbers opened? Or was men's hair growing out of control during lockdown a far more serious matter than frivolous female concerns about their nails? Or of their areas of hirsuteness that, for reasons of common decency, were not as publicly seen as men's wild locks? Out of sight, out of mind, so to speak.

That appeared to be the attitude of government's prioritising of when which sectors could emerge from lockdown.

Of course, this is talking in generalisations. I'm sure there were plenty of men who anxiously waited to get their professional spray tan, and many women who just as eagerly counted the days for the Premier League to restart.

But it seems obtuse to deny a broad gender divide in which sectors were eased out of lockdown first. For instance, beard trimming can now occur, but eyebrow threading cannot. Is there that much difference in the facial positioning of eyebrows and beards that means one is more likely to spread coronavirus than the other? Or are they only allowed to work on beards that are at least one metre in length, to maintain social distancing?

According to the British Beauty Council, around 90 per cent of the beauty industry workforce is female, with the industry contributing £30 billion to Britain's GDP, "more than motor vehicle manufacturing, but you wouldn't see MPs laughing out loud at the mention of this sector during PMQs", *[laughing recently occurred at PMQs over the suggestion of lockdown sexism]* says the council's chief executive in *The Guardian.*

It's very unlike me, but to give Boris and co the benefit of the doubt, I think it unlikely that they explicitly intended women to face an unequal share of the burden of lockdown.

But that's the problem of unintended consequences. Their impact, once finally realised, can be difficult to easily resolve.

One such unintended consequence within the industry was that of pension freedoms *[see p58]*. It was unexpectedly announced five years ago to a fanfare of joy, but the result of giving savers autonomy over their retirement money has been a rise of pension liberation scams – a difficult challenge to fight against, where we can only ever win battles, never the war.

The amount being fought over can vary greatly too. Our feature on page 56 finds that the average woman's pension savings stood at £51,000, around a third of mens' £156,500.

Last year Scottish Widows found that lower to middle female earners (perhaps in jobs within nail bars and beauty salons for instance) saw the smallest improvements in savings rates over the past decade, with just 47 per cent of women earning £10,000-£20,000 saving enough for retirement.

As well as potentially working in sectors that faced a longer shutdown, and facing smaller retirement incomes, a greater number of those in lower socio-economic groups have also tragically died of Covid-19, due to entering the pandemic with a higher mortality rate, as our feature on page 36 explores.

Our cover story focuses on the government's post-Covid focus on infrastructure; the role pension funds as investors can play in helping to 'build back better'.

Those governing the pensions industry are also coming out of lockdown with renewed vigour towards rebuilding the sector. As you can read in news pages 8-16, the past month has seen giant steps towards the launch of superfunds and the pensions dashboard, along with DWP calls for evidence on the DC charge cap.

Another area that is once again being predicted to change is that of pensions tax relief.

The ABI's column on page 24 notes that basic-rate taxpayers make up 42 per cent of total DC contributions, but only receive 26 per cent of the relevant pensions tax relief. The current pensions taxation system disproportionally favours those needing the extra benefit the least, while providing less of an incentive to those that most need to save for retirement.

Now unintended consequences are just that, unintended. But not necessarily unforeseen. Therefore, when responding to proposed industry changes, I urge you to truly consider the knock-on effects for all types of savers. Through this action, the pensions industry can too 'build back better' to make retirement saving equally beneficial for all.

Laura Blows, Editor

COVER FEATURE

Theme: The bigger picture

42

Building a better future

As the government highlights infrastructure as key to the UK's post-Covid recovery, Sophie Smith explores what this could mean for pension schemes and what role they can play in 'building back better'

Highlighted features

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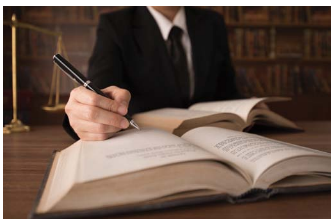
Dateline - June 2020

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

3 June The number of dormant pension pots in the UK is set to rise by 32 per cent and exceed 20 million in 2020, according to **PensionBee**. The provider estimates that the Covid-19 crisis will increase the number of dormant pensions left behind by savers from an estimated 16.3 million in 2019 to 21.5 million in 2020.



4 June The Pension Schemes Bill remains "very much a priority" despite delays amid the Covid-19 pandemic, the **Department for Work and Pensions (DWP)** says. Speaking on a webinar hosted by the Association of Member Nominated Trustees (AMNT), DWP director of private pensions and arm's length bodies, Pete Searle, emphasises that the bill continues to be a priority for both the Pensions Minister, Guy Opperman, and the Minister for Lords, Baroness Williams.

5 June The Financial Conduct Authority (FCA) is moving ahead with a ban on contingent charging for defined benefit (DB) pension transfers in most circumstances. The ban on contingent charging, where financial advisers only get paid if a transfer goes ahead, will take effect on DB transfers from 1 October 2020. However there will be 'carve-outs' in the rules, which mean that contingent charging will still be allowed for those whose health means they are not expected to live until they are 75 or people who are in "serious financial difficulty". The ban has been agreed following a consultation.

9 June The combined deficit of UK DB pension schemes in the **Pension Protection Fund (PPF)** 7800 Index increased by 37 per cent to £176.3bn at the end of May 2020 (£128.5bn in April). The deficit of schemes in the index has risen month-on-month since the start of the year, apart from in April when it saw its first decrease of 2020. The overall DB deficit remains around £100bn higher than at the start of the year.

12 June The Pensions Regulator (TPR) publishes a scaled back Compliance and Enforcement update, revealing a slight dip in its use of automatic enrolment (AE) enforcement powers. The figures show TPR used its AE powers 7.4 per cent less (35,174 times) in the first three months of 2020 than in the previous quarter, when it reported using these powers 37,990 times. However, this represents a 39.6 per cent increase compared to the same period in 2019 (25,198).

16 June TPR publishes its interim regulatory regime for prospective DB pension consolidation vehicles ahead of future government legislation. The guidance, which comes into force immediately, aims to ensure that savers in DB schemes that move to 'superfunds' are protected in the period prior to government legislation being passed. TPR describes its interim regime as "tough" and claims that it sets a "high bar" for emerging superfunds to meet. It has been published for those setting up and running a superfund, and explains how they will be assessed and regulated. Under the regulatory regime, DB consolidators must show that they are well-governed, run by fit and proper people, and have the necessary funding.

16 June TPR publishes updated Covid-19 guidance asking trustees to resume reporting on "certain key information" from 1 July. The update, which also confirms an extension to deficit reduction contribution easements, emphasises that resuming reporting would ensure risks are being managed and savers protected. It states that this would allow TPR to "horizon-scan effectively" and act to protect members.

18 June Pensions Minister, Guy Opperman, writes to pension schemes to gather evidence on how ready they are to submit good quality data for the future introduction of the pensions dashboard. In a letter seen by *Pensions Age*, Opperman states that he wants to try and "galvanise the approach of the industry", emphasising that "the need for pensions dashboards is stronger than ever".

19 June Amendments to the **Corporate Insolvency and Governance Bill** are laid out to address industry concerns over the potential impact of the bill on pension schemes. The amendments aim to ensure that

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

both the PPF and TPR take a "key role" following an insolvency, and that the interests of a pension scheme are represented in any company recovery plans.

22 June The **Money and Pensions Service (Maps)** announces that the delayed Pensions Dashboards Programme (PDP) consultation on pensions dashboards' data standards will open on 6 July 2020. The consultation was initially scheduled for earlier this year but was delayed by the coronavirus. It will seek industry input on the data scope and data definitions working papers that were published alongside the PDP's dashboards progress report in April.

23 June The PPF compensation cap for those below normal pension age is unlawful discrimination on the grounds of age, the High Court states. In the court's judgment, Justice Lewis notes that the differential treatment between those above pension age and those below it was "not objectively justifiable". The case centres around a claim by 25 claimants who received reduced pension benefits, after their employer went insolvent and its scheme entered the PPF, due to being below normal pension age and therefore having their compensation capped. Members below pension age of schemes that enter the PPF receive 90 per cent of the compensation cap, not 90 per cent of their accrued pension benefits.

23 June The Univar Company Pension Scheme wins its case at the High Court and has been granted permission to change the index it uses to calculate its pension payment increases. The court rules that the trustees had not intended the pension increase indexation cited in its scheme rules, the Retail Prices Index (RPI), to have the legal effect that it did. It has now been given court permission to switch its indexation method to the Consumer Prices Index (CPI).

25 June Norton Motorcycles former director and scheme trustee, Stuart Garner, is ordered to repay all the money that he invested into his own firm from the company pension schemes. The Pensions Ombudsman upholds the complaints from affected members and Dalriada Trustees, who lost out following Garner's pensions liberation scam. He used the funds from the pension schemes to purchase preference shares in his own company after individuals were encouraged by certain 'advisers' to make pension transfers into the schemes.

25 June The DWP announces a call for evidence on how effective pension costs, charges and transparency measures are in protecting member outcomes. It is seeking industry views on the "level and scope" of the charge cap applicable to default arrangements within defined contribution (DC) schemes used for AE. The cap is set at 0.75 per cent of funds under management and has applied since April 2015.

29 June Around £127bn has been transferred out of UK funded occupational pension schemes since 2015, with £36.9bn-worth of transfers out in 2017 alone, according to figures from the **Office for National Statistics.** Its *Financial Survey of Pension Schemes* finds that transfers into occupational schemes bounced back the following year, rising from £2.2bn in 2017 to £9.6bn in 2018, driven by a sharp rise on transfers into DC schemes, which made up £3.8bn, or 40 per cent, of the total amount.

30 June The government is defeated in four Pension Schemes Bill amendment votes in the House of Lords (HoL). The four defeats all add amendments to the bill in the report stage of its passage through the HoL. The amendments specify that financial transcations will not be allowed on the dashboard, a publicly-owned model will have to be in operation for a year, collective DC schemes will have to be "fair" to all members and protections are added for open DB schemes.

News focus

TPR launches interim regulatory framework for DB consolidators

TPR has launched an interim regulatory framework for DB pension consolidators that are looking to enter the market. The regime, which looks to protect DB scheme members that are moved into superfunds, was broadly welcomed by the pensions industry but further clarity was requested

The Pensions Regulator (TPR) has published its interim regulatory regime for prospective defined benefit (DB) pension consolidation vehicles ahead of future government legislation.

The guidance, which comes into force immediately, aims to ensure that savers in DB schemes moving into 'superfunds' are protected in the period prior to government legislation being passed.

TPR described its interim regime as "tough" and claimed that it sets a "high bar" for emerging superfunds to meet.

It has been published for those setting up and running a superfund, and explains how they will be assessed and regulated.

Under the regulatory regime, DB consolidators must show that they are well-governed, run by fit and proper people, and have the necessary funding.

The regulator stressed the importance of adequate capital, as under the DB superfund model there will be no employer covenant.

Consolidators will be required to prove they hold sufficient assets to meet benefit payments "with a high degree of certainty", including the scheme's liabilities and additional assets as a capital buffer.

Furthermore, DB pension trustees will be required to be "certain" that transferring their scheme to a consolidator is in their members' interests before doing so and should only consider using one once TPR has completed its assessment.

The regulator added that it would be providing more information for trustees and employers "in the coming months".

TPR stated that it thinks DB superfunds "have the potential to offer benefits for pension savers and sponsoring employers", including economies of scale and good governance.

Pensions Minister, Guy Opperman, added that the publication of the interim regulations "is a big step towards a healthier and stronger pensions landscape".

"Well-run superfunds have the potential to deliver more secure retirement incomes for workers, while allowing employers to concentrate on what they do best – running their businesses," he continued.

"I look forward to learning from the experiences from the interim regime, which will provide valuable insights as we develop and finalise our plans for a longer-term legislative solution."

TPR said that it believed the interim regime would ensure that savers and the Pension Protection Fund (PPF) were protected, while also providing employers and trustees with more choice during "this period of uncertainty caused by Covid-19".

"Our priority is the protection of savers," said TPR chief executive, Charles Counsell. "We have set a high bar to ensure savers can have confidence in superfunds, should their pension be transferred into one in the future.

"We have taken bold action now to ensure that the market develops in the best interests of savers, particularly as the impact of the Covid-19 crisis may prompt some sponsoring employers and pension trustees to consider what they can do to meet DB pension promises in the future."

The regulator added that it was prepared to take regulatory action against those who fall foul of the guidelines.

Two DB consolidators have already entered the market – Clara-Pensions and The Pension Superfund.

They both have transactions already in the pipeline but operate differently.

Both transfer a scheme's assets and liabilities to a new DB scheme backed by additional capital from external investors, with the sponsor support replaced by the covenant of the external investors.

However, Clara-Pensions manages each entering scheme's assets and liabilities as individual parts, then transfers them into the insurance market when they are sufficiently funded to move to buyout sooner, while The Pension Superfund combines all incoming liabilities and assets and runs them off in a single trust, sharing any outperformance by improving benefits.

Speaking to *Pensions Age*, The Pension Superfund co-founder and CEO, Luke Webster, said: "It looks like it's a tough but overall sensible and sustainable framework. We think it will work for us and we will be able to start accepting the transfer of schemes.

"We're keen to get going as soon as possible. We've been having conversations with a wide number of schemes and there are a couple of transactions we think we can execute very quickly, so clarity with this framework is very welcome indeed. The next milestone for us would be the inclusion of the authorisation process that they're also going through."

Commenting on the new regime, Clara-Pensions CEO, Adam Saron, said: "This is a significant and positive step for pension scheme members and the companies that have supported them. We look forward to being fully approved under this new guidance and to welcoming the first members into Clara later this year.

"We are keen to progress with our first transactions and are looking forward to providing members with safer pensions as soon as possible."

The pensions industry has broadly welcomed the introduction of the regulatory regime, although further clarity was called for.

Dalriada Trustees trustee, Charles Ward, said: "As trustees, the security of our own members' benefits is front and centre of all we do.

"It is encouraging to see governance requirements and financial standards being put in place, both of which suggest that these funds will need to be committed for the long term and managed in a prudent way.

"However, the range of schemes for which a superfund is appropriate is likely to be narrow given the prohibition on transfers for well-funded schemes (within five years of the 'gold standard' insurance company buyout) and the difficulty that weaker employers will have in finding collateral to contribute to their scheme, even if this is less than the buyout deficit."

PMI president, Lesley Carline, also warned that whilst TPR has made "no secret of its concerns about the standards of governance associated with small legacy DB schemes", it should avoid thwarting its own objectives by creating a regulatory culture that could "disincentivise the creation of consolidators".

She added: "Whilst safeguarding members' benefits is an obvious priority, this should not be allowed to prevent commercial organisations from being sufficiently profitable.

"Consolidators should be able to remunerate investors without undue regulatory restriction if the superfund concept is to succeed. We believe this aspect of today's announcement requires further clarification."

The Pension Superfund announced its official registration as an occupational pension scheme by HMRC in late June, describing it as a "major step" towards completing its first transaction.

Written by Jack Gray and Sophie Smith

NEWS IN BRIEF

The accounting deficit of DB pension schemes for the UK's 350 largest listed companies rose from £72bn to £90bn in June, according to **Mercer**. Data from the firm's *Pensions Risk Survey* found the £18bn increase in deficit, which left the deficit at its highest point since 2016, was driven by a £24bn rise in liabilities during the month, climbing from £933bn to £957bn. This liability increase outpaced asset value growth, which came in at £6bn as asset values increased to £867bn.

The average self-employed workers' tax year-end pension contribution declined by 30 per cent amid lockdown pressures on personal finances, according to data from **PensionBee**. The provider found that the average monthly pension contribution made by its self-employed savers had fallen from £3,427 in April 2019 to £2,383 in April 2020, while the overall number of contributions declined by 11 per cent.

Participation in workplace pension schemes has increased from 55 per cent to 88 per cent of eligible workers since auto-enrolment began in 2012, according to figures from the **DWP**. A report from the government department showed that 19.2 million people, or 88 per cent of eligible employees, were participating in a workplace pension in 2019, up from 87 per cent in 2018.

TPR has published its 2020/21 Corporate Plan, which sets out its priorities for the year ahead. Its publication was delayed due to the coronavirus pandemic. TPR highlighted six priorities in the update, including supporting pension schemes to ensure benefits are delivered through the "significant change" driven by the pandemic.

VIEW FROM THE AMNT

The lure of easy money will always tempt people into making rash decisions; the three-card trick, the shell game or that 'sure thing' at the Epsom races. Each designed to make the choice easy, the risk minimal and the reward great. The same is regrettably true of the lure of transferring from a defined benefit (DB) scheme.

The Financial Conduct Authority (FCA) has recently launched 30 enforcement investigations arising from concerns identified while investigating DB pension transfers. It also launched a package of measures; including further support for customers who are considering whether to transfer out of a DB scheme, or who have already transferred out.

The Guardian newspaper reported that in some circumstances financial advisers were receiving about £6,000 for each case they convinced to transfer out. Contingent charging is to be banned in October.

Members of pension funds need financial advice when considering making what is often one of their most important financial decisions. Many turn to independent financial advisers for assistance, particularly given the statutory requirements on certain transfers. However, upfront fees may limit the numbers of advisers available and deter members from seeking sound advice. Pension funds need to consider helping members by providing and paying for independent advice, while the regulators need to ensure pension funds are protected from potential liability for providing such advice services.

AMNT member, Stephen Fallowell

The Pensions Regulator
Making workplace pensions work

Govt defeated on four Pension Schemes Bill amendment votes

Following the votes, amendments on how the dashboards will operate, regulations around intergenerational fairness within CDC schemes and the treatment of open DB schemes will all be added to the bill before it moves on to the House of Commons

The government has been defeated in four Pension Schemes Bill amendment votes in the House of Lords (HoL), including on the way pensions dashboards will operate.

The four defeats all added amendments to the Pensions Schemes Bill in the report stage of the bill's passage through the HoL.

Now the HoL has completed its consideration of the bill, it will be sent to the House of Commons where the government can either accept the amendments in full, offer alternative amendments, or reject the amendments and send the bill back to the HoL.

Peers in the HoL voted in favour of amendment 52, with 281 votes to 244, which stated that pensions dashboards will not include a provision for financial transaction activities, including transfers and consolidation.

Amendment 63, which was passed with 270 votes to 236, ensures that the publicly-owned dashboard service will have to be operational for at least a year before commercial dashboard services can operate, if the bill becomes legislation in its current form.

Furthermore, this amendment stipulates that the government will have to have reported to parliament on the dashboard's operation and effectiveness before commercial services can be authorised by the Financial Conduct Authority (FCA) to enter the market.

"As we saw from the debate in the HoL, there is a lot of support for the idea of a pensions dashboard but there are still key unanswered questions about how to protect consumers in this new online environment," commented The People's Pension head of policy, Tim Gosling.

"These concerns are legitimate, given the £3trn in assets managed in the UK pensions sector and past failings in the regulation of DB and DC pensions."

HoL peers also voted in favour of amendment 32, which requires collective defined contribution (CDC) scheme trustees to make an assessment of the extent to which the scheme is operating "in a manner fair to all members". Peers voted in favour with 270 votes to 246.

The fourth defeat for the government came with amendment 71, which relates to a separate regulatory approach for open DB schemes.

These regulations included not acting in a way that would accelerate their closure, that affordability of contributions to employers and members was maintained, and that open DB schemes are not treated differently to other schemes.

LCP partner and former Pensions Minister, Steve Webb, said it was "unusual" for the government to be defeated so many times on "what has until now been seen as a largely non-controversial piece of legislation".

Written by Jack Gray

DWP calls for evidence on AE charge cap and cost transparency

The government department is looking for industry views on the charge cap on default arrangements in DC schemes to try and ensure that members receive value for money

The Department for Work and Pensions (DWP) has announced a call for evidence on how effective pension costs, charges and transparency measures are in protecting member outcomes.

It is seeking industry views on the "level and scope" of the charge cap applicable to default arrangements within defined contribution (DC) schemes used for auto-enrolment (AE).

The cap is set at 0.75 per cent of funds under management and has applied since April 2015.

The government had reviewed the cap in 2017 and decided at the time to not make any changes but to re-review in 2020.

It is also seeking views on the appropriateness of permitted charging structures and the extent to which they should be limited.

Furthermore, it wants to gather evidence on the options available to assess take up and increase the usage of standardised cost disclosure templates.

Pensions Minister, Guy Opperman, described the consultation as an important step towards ensuring charging structures are fair, transparent and effective for the long term, that deliver value for money for DC pension scheme members.

"I look forward to hearing constructive feedback from industry and other key stakeholders over the next six months, and to working closely together to secure retirement incomes," he added.

In the consultation, the government asks for industry views on whether transaction costs and other costs associated with life assurance products should be included in the 0.75 per cent charge cap.

It also warned that there is a risk in significantly reducing the cap as it may discourage schemes from considering certain asset classes or force them to sell investments they already hold.

The call for evidence closes on 20 August 2020.

Written by Jack Gray

VIEW FROM THE PLSA

The coronavirus crisis has been a hugely testing time for us all. I'm conscious that we, the pensions industry, are, generally, really lucky. While the demands on us have continued, as a tech-based business, we have a set-up that allows us to work from home.

Compared to, say, the hospitality sector, our jobs feel safe and our future fairly assured. If you take, for instance, NHS staff (and I speak as the husband of a nurse) we don't have to put our health – much less our life – on the line to go to work. The worst extents of our crisis has been having to balance a laptop on the ironing board in the spare bedroom.

The industry has done a fantastic job. Despite the personal tragedies we individually have had, the discomfort we've all felt or are feeling, the upheaval of losing our workplaces and proximity to our colleagues, we have cracked on.

The pension payroll has been run every month, providing security to millions of people. We have continued to debate and pay deaths in service benefits, providing, if not comfort at loss, at least some financial reassurance when it's most needed.

We've continued to try and steer DB funding in a sensible, prudent direction despite the unprecedented circumstances. We've debated and executed investment decisions, we've assessed covenants and we've communicated with members.

We have carried on with business as usual with minimum fuss, disruption or drop off in quality.

PLSA chair, Richard Butcher

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

VIEW FROM AMNT

As we continue to meet the challenges of Covid-19, our focus remains firmly on protecting savers now and in the future.

This is the message that runs through our recently published *Corporate Plan 2020/21*, which sets out our priorities for the year ahead.

Our plan outlines our re-aligned priorities and targets in light of Covid-19. But it also highlights we will not be blown off course and that our standards remain crystal clear.

We remain unwavering in our approach and our plan demonstrates our ongoing commitment to tightening our regulatory grip through being clear, quick and tough when necessary. It is this culture that has led us to respond swiftly and pragmatically to the pandemic.

We continue to embrace new powers and forge relationships with schemes to continue to support them and be clear what we expect, while using our powers to tackle those who flout the law.

Our plan makes clear that despite the challenges of Covid-19, our continuing focus will be on safeguarding savings for generations to come.

So that we can respond to developments as they unfold, we are keeping our priorities under review and we may publish revised intentions as necessary. What will not change is our commitment to ensuring high governance standards and that employers continue to meet their responsibilities so savers receive the pensions they are due.

TPR chief executive, Charles Counsell

AMNT Association of Member Nominated Trustees

High Court deems PPF compensation cap unlawful

The High Court ruled that people below normal pension age in a scheme that has entered the PPF receiving 90 per cent of the compensation cap, not 90 per cent of the value of their accrued pension benefits, is unlawful discrimination on the grounds of age

The Pension Protection Fund's (PPF) compensation cap for those below normal pension age is unlawful discrimination on the grounds of age, the High Court ruled.

In the judgment, Justice Lewis noted that the differential treatment between those above pension age and those below it was "not objectively justifiable".

The case centred around 25 claimants who received reduced pension benefits, after their employer went insolvent and its scheme entered the PPF, due to being below normal pension age and therefore having their compensation capped.

Current rules state that the basic level of PPF compensation for members of insolvent employer schemes that are transferred to the lifeboat is 100 per cent of the benefits fixed by the scheme if they are over pension age, and 90 per cent if they are under.

Separately, there is a cap on the compensation payable to those below normal pension age. These members receive 90 per cent of the compensation cap, not 90 per cent of the value of their accrued pension benefits.

The High Court has ruled that this cap is unlawful.

One of the claimants, Mr Hughes, took an early retirement to receive a pension at the age of 57, when the normal retirement age under the scheme was 60.

He received an annual pension on retirement of £66,245. However, his employer became insolvent two years later, when he was still below 60, and the cap on his compensation was applied.

Alongside a change in indexation and a removal of its protection, this resulted in his pension being reduced to £17,481, a reduction of almost 75 per cent.

The court has ordered that the claimants receive compensation or benefits without any reduction due to the application of the cap and they can seek to recover arrears of compensation from the PPF by a period of up to six years.

Former Pensions Minister and LCP partner, Steve Webb, said that the court's judgment could have a "much wider knock-on effect".

"If it is discrimination to cap compensation on larger pensions only for those under pension age, there could be further legal challenge to the whole principle of only paying 90 per cent compensation across the board for those under pension age," he added.

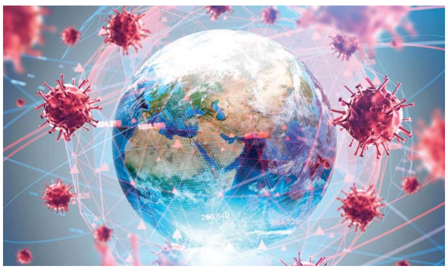
"This could have much more far-reaching implications for the overall size of the PPF levy and for the levy payable by individual schemes and employers."

Commenting on the case, a PPF spokesperson said: "We're studying the detail of the judgment carefully to decide our next steps, and we will work closely with the Department for Work and Pensions to understand how the UK government will respond."

Written by Jack Gray

Trustees to resume reporting as DRC easements continue - TPR

In updated Covid-19 guidance, TPR has asked trustees to begin reporting on certain key areas so that it can "horizon-scan effectively". It also confirmed that easements around DRCs will continue as schemes look to mitigate the financial impacts of the pandemic



The Pensions Regulator (TPR) has published updated Covid-19 guidance asking trustees to resume reporting on "certain key information" from 1 July.

The update, which has also confirmed an extension to deficit reduction contribution (DRC) easements, emphasised that resuming reporting would ensure risks are being managed and savers protected.

It stated that this would allow TPR to "horizon-scan effectively" and act as necessary to protect members.

Trustees are expected to resume reporting on suspended or reduced contributions, with a revised recovery plan or a report of missed contributions expected alongside this.

It will also include late valuations and recovery plans not agreed, as well as any delays in cash equivalent transfer quotations and payments.

Master trusts will be expected to return to issuing a formal report to notify TPR of all triggering and significant events from 30 June 2020.

The update also outlined further guidance for defined benefit (DB) trustees facing employer requests to agree to suspend or reduce DRCs, stating that trustees may agree where it is necessary to support employers navigating the crisis.

The regulator stated that whilst data shows that around 10 per cent of DB schemes have requested a DRC deferment, and discussions are ongoing for others, there is a "need" for this easement to continue.

It confirmed that trustees of DB schemes should "continue to be open" to requests to delay DRCs from sponsors.

The regulator stressed, however, that trustees should not "unquestioningly" extend original suspension arrangements based on limited information, and risk this becoming the "new normal".

It urged trustees to undertake due diligence on the employer's financial position before agreeing a new suspension or reduction.

TPR explained that discussions with lenders will have likely progressed and employers are now also more likely to have financial projects reviewing the likely impact of Covid-19 on their business, allowing trustees to review "in more detail" the business case for a suspension or reduction in contributions.

Easements around cash equivalent transfer values (CETV), however, will not be extended, with the regulator highlighting that a "normal level" of activities appeared to be resuming.

Trustees were told to continue issuing a letter template to all members requesting a CETV quote, as introduced in April, and "monitor requests for concerning patterns".

Written by Sophie Smith

VIEW FROM THE PMI

The Pensions Regulator, Pasa and the PMI have all produced guidance for schemes during lockdown, services to members have continued to be delivered, and providers have weathered the storm remarkably well.

But household budgets have been squeezed by reduced salaries plus a fear of job losses, meaning pension contributions have become somewhat a luxury item. This is further exacerbated by the fear of the security of pension schemes if an employer is looking fragile. Many members still do not appreciate the separation of pension scheme assets and the company. Those in defined contribution arrangements may have been receiving their annual benefit statements or going online and seeing their pension fund values drop with the recent market turmoil.

The basics of communication are under control, members' benefits are being collected, pensions and death benefits are being paid, but the engagement piece is more important now than ever. Trustees should go back to basics and not assume that members know things because they have been told them before. Developing holistic engagement programmes will help get them through the tough times whilst not losing sight of their future. Schemes will also need to communicate to those members who lose jobs that as deferred members their benefits are safe.

Schemes will also need to ensure they engage properly with members on being able to detect scammers and to avoid transferring out when it may not be in their best interests.

PMI president, Lesley Carline

VIEW FROM THE ACA

Climate risk is an existential threat to us all and poses financial risks to pension savings.

Actuaries have a unique role to play, as professionals specialising in long-term risk, with oversight of trillions of pounds of long-term savings. We will be actively working to make climate risks transparent, helping our clients manage those risks, enabling investors to save in the socially responsible ways they want to, and will work with the government to encourage policies that align economic recovery with a greener future. For savers to do this, climate risks must become transparent in corporate reporting and financial advice.

With this in mind, the ACA have established a working group on climate change. The group will provide a climate risk focus across the ACA's activities, including raising awareness within the membership and the wider pensions industry. The group has recently responded to the Pensions Climate Risk Industry Group's consultation, welcoming their proposals to report and manage climate risks within pension schemes and suggesting ways to improve the likelihood of widespread adoption of the proposals. In particular, we suggest a more graduated scale of actions constituting minimum, expected and leadership standards, perhaps alongside a scoring system, allowing trustees to bring in measures over time and get feedback on what they are doing to increase engagement.

ACA chair, Patrick Bloomfield

ACA

ASSOCIATION OF CONSULTING ACTUARIES

Pension scam complaint upheld against Norton Motorcycles director

The former director and CEO of the now-insolvent Norton Motorcycles has been ordered to repay all the money he used from members' pension savings to buy preference shares in his own company following the ombudsman's decision

Former Norton Motorcycles director and scheme trustee, Stuart Garner, has been ordered to repay all the money that he invested into his own firm from the company pension schemes.

The Pensions Ombudsman (TPO) upheld the complaints from affected members and Dalriada Trustees who lost out following what the Work and Pensions Select Committee has described as Garner's 'pensions liberation scam'.

Garner was director and CEO of the now-insolvent Norton Motorcycles Holdings Limited and trustee of its three pension schemes.

He used the funds from the pension schemes to purchase preference shares in his own company after individuals were encouraged by certain 'advisers' to make pension transfers into the schemes.

The affected members and Dalriada complained to TPO that the manner of investing the schemes' fund did not accord with its purpose, Garner acted under a conflict of interests, he breached his investment duties and committed multiple breaches of trust, and that Garner and the administrative firm, LD Administration, failed to provide an adequate administration process for any of the schemes.

This resulted in members' benefits and rights in the schemes being lost.

TPO found Garner acted dishonestly and in breach of his duty of no conflict, his duty not to profit from pension schemes, and his duty to act with prudence.

Additionally, the investments he made in preference shares of Norton Motorcycles were in breach of his statutory, investment, and trust law duties, and he breached his statutory duties to have in place adequate controls to manage conflicts of interest and ensure the effective administration of the schemes.

Following the ombudsman's decision, Work and Pensions Committee (WPC) chair, Stephen Timms, wrote to The Pensions Regulator (TPR) with further questions on its plan of action.

Garner was replaced by an independent trustee in May 2019 at the behest of TPR, before the firm fell into administration in January 2020.

Timms called the case "shocking", saying that it raises "serious questions" about the "effectiveness of the regulators involved and the protections we have for people who fall victim to pension scams".

In response, a TPR spokesperson said: "We note the letter from the WPC and will be responding in due course.

"Following the company administration, we continue to be in close discussions with Dalriada and the administrators to Norton."

Timms had also written to TPR in March 2020 seeking answers on its response to the scam.

Written by Duncan Ferris and Jack Gray

Appointments


Stephen Budge

Lane Clarke & Peacock (LCP) has hired Stephen Budge as a principal for its defined contribution (DC) team.

Budge has more than two decades of experience working across the DC landscape, with a particular focus on innovative investment strategies for DC schemes. He joins the team from Mercer, where he worked for five years as a principal DC investment consultant, having previously served as head of DC investment at KPMG.

LCP DC team head, Laura Myers, said pension schemes were looking for advice and support "now more than ever" to ensure they are able to deliver for their members, despite the coronavirus pandemic, adding that it was "fantastic to have Steve's expertise and knowledge joining our team at this time".

Budge added: "I have worked in the pensions industry for over 20 years and have worked with some of the leading lights in the industry. I am really excited to be joining LCP's DC team which has a reputation for delivering great client service and being industry innovators."


Andy Howard

Schroders has named Andy Howard as global head of sustainable investment.

Howard joined Schroders in 2016 as head of sustainable research and assisted in the development of the firm's proprietary ESG toolkit. He retains his existing responsibilities in sustainability research, and will now also oversee the team's stewardship activities and further drive active ownership across the company.


Jason Woods

RPMI Railpen has named Jason Woods as chief operations and technology officer.

Woods, who began the role on 1 July, has now joined the Investment Executive Committee, reporting to managing director of investments, Michelle Ostermann. He will be responsible for ensuring the seamless running of Railpen's operating platform, and replaces Paul Nathan, who has now been named RPMI managing director of strategic development.


Gregg McClymont

IFM Investors has announced the appointment of Gregg McClymont as executive director, public affairs (UK).

McClymont, who will be based at IFM's London Office, joins the team from The People's Pension, where he held the role of director of policy and external affairs. Prior to this, McClymont served as a Labour MP from 2010-15 and as Labour's Shadow Minister of State for Pensions between 2011-2015.


Thomas Crawshaw

K3 Advisory has appointed Thomas Crawshaw as a senior actuarial consultant.

Crawshaw is an actuary with over 15 years of experience advising both trustees and companies on their DB schemes. This has included being a scheme actuary to several schemes, PPF levy work, liability management and financial reporting. In recent years, Crawshaw has been heavily involved in numerous bulk annuity transactions.


Tan Suee Chieh

The Institute and Faculty of Actuaries (IFoA) has announced that Tan Suee Chieh has begun his presidential term.

Suee Chieh takes over from John Taylor as president of the organisation, having been president-elect for the past year. He spent 20 years at Prudential, including as CEO of Prudential Singapore. Louise Pryor has also joined the presidential team, having been named the next president-elect.


Danny Firth

Tesco Pension Investment (TPI) announced that Danny Firth will replace Steven Daniels as CEO when he retires in March 2021.

Firth has over 30 years' experience in financial services, having held numerous senior operations and transformation roles at investment managers, such as Legg Mason and Threadneedle Asset Management, and global banks, including J.P. Morgan and BNP Paribas. He will step into the top job in place of Daniels, who has led TPI since it was formed in 2012 and also currently serves as chief investment officer (CIO). Head of private markets, Jenny Buck, has been promoted to deputy CIO and will take on the top investment position following Daniels' retirement. She joined TPI in October 2011 and has previously held positions at Grosvenor, Erste Bank and Schroders.

Nadir Maruf has now also been appointed to replace Buck as head of private markets. Nadir will join TPI in September, after relocating from Singapore.

VIEW FROM THE PPI

The government's six-year review of state pension age (SPA) is to be conducted by July 2023. Consideration of life and healthy life expectancy inequalities are important to ensure that any changes do not unduly disadvantage any particular group.

Although the average probability of reaching SPA has improved for those approaching retirement, differences in healthy life expectancy and life expectancy is growing between the most and least deprived individuals. To illustrate, individuals in the bottom 10 per cent of income can receive £47,000-£59,000 less from the state pension than the average, due to having a lower life expectancy and receiving lower amounts of state pension.

Current policy sets SPA at a national level, which is easy to implement and govern, and is considered feasible. Since increases in longevity are unevenly distributed, the effects of SPA changes will also be unevenly distributed. Consideration is needed for those who suffer more from SPA increases. Examples already mooted, such as varying SPA by area/occupation/earning levels typically raise problems in its management and fairness, or increased cost or funding required from those of working ages, raising intergenerational fairness issues.

And until the drivers of inequality in life and health are addressed across all ages, pension policy will have to continue to patch up their consequences.

PPI deputy director, Sarah Luheshi

PENSIONS POLICY INSTITUTE
PPI

Market commentary: Gross domestic pandemic

The damage wrought on the nation's health by Covid-19 has been disastrous, with over 40,000 deaths and more than 280,000 confirmed cases registered by the end of June.

Further details of the pandemic's destruction have dribbled out this month as the Office for National Statistics (ONS) reported that the UK's gross domestic product (GDP) fell by 2.2 per cent in the first quarter, the largest decline since 1979.

The drop in GDP was driven by a 6.9 per cent month-on-month fall in March, while the Bank of England (BoE) piled on the bad news as it warned that the economy could have shrunk by a staggering 20.4 per cent in April, the nation's first full month of lockdown measures.

Kingswood Holdings chief investment officer, Rupert Thompson, says that the April drop "confirms the UK is likely to be one of the economies worst hit by the pandemic", adding that the Organisation for Economic Co-operation and Development (OECD) had "forecasted the economy would shrink by 11.4 per cent over the year as a whole, a larger decline than any other developed economy".

Kempen Capital Management senior LDI portfolio manager, Rob Scammell, comments: "At this stage, it is difficult to understand the impact of these unprecedented numbers and to contextualise them internationally. It does however put into sharp relief the performance of asset markets with equity indices in particular, having strongly recovered over the past few months.

"Institutional investors with diversified portfolios and high hedges have therefore largely been spared the worst outcomes seen during the global financial crisis and its aftermath."

But there may also be positives on the horizon for the broader economy as consumers have now been given permission to poke their heads out of their front doors for something more substantial than daily exercise and socially-distanced pasta stockpiling forays.

Zurich Insurance Company chief market strategist, Guy Miller, states: "While there is still far to go until the economy fully recovers, there are some indications that the situation is improving. Retail sales rose by more than 10 per cent month-on-month in May as lockdown measures are slowly eased and households increase their spending.

"Business sentiment shows signs of improvement as well, with the Composite PMI rising from 30 to 47.6 in June. To provide ongoing support to both the economy and financial markets, the BoE announced that it will expand its asset purchases by £100bn to a target of £745bn."

Speaking at the end of June, BoE economist Andy Haldane even stated that the UK's economic recovery had arrived "sooner and faster" than had been expected, although he raised concerns about the planned ending of the government's furlough scheme and warned of the risk of "a repeat of the high and long-duration unemployment rates of the 1980s, especially among young people".

Redburn chief economist, Melissa Davies, adds: "Realistically, the government is likely to have to beef up unemployment support as the furlough scheme ends and the Bank will be in the market to help maintain low borrowing costs. The negative interest rate debate will continue to rumble on over the summer."

The overall picture remains a confusing one, muddied by the ongoing and necessary support being offered to workers, as well as the possibility of a 'second wave'. While it looks like the economy might be on the mend, bold pronouncements that we are back on easy street are still likely to be premature.

Written by Duncan Ferris

3i Infrastructure plc

Investing in infrastructure

Laura Blows speaks to James Dawes about how, and why, pension funds should be looking at infrastructure as an investment opportunity

"Good broadband feels like an essential utility at the moment, as much as water and electricity does while we're working from home," 3i Infrastructure chief financial officer, James Dawes says, highlighting how the definition of infrastructure assets occasionally gets additions, in our *Pensions Age* podcast, *Investing in infrastructure.*

Reasonably new entrants aside, when investing in infrastructure assets, you're typically seeking long-term and predictable cashflows. "That's why they're interesting for long-term saving vehicles such as pension funds," Dawes explains.

"As infrastructure investors we are looking for long-term, essential assets that provide sustainable returns to our investors or our shareholders. They are essential assets for businesses that we use every day. So, roads and railways, or water and energy companies, those sorts of assets. More recently communication infrastructure is another good example, particularly during the current pandemic."

During this time of Covid, infrastructure assets are proving their resilience, which can be seen in the share prices of listed infrastructure companies, Dawes adds. "There are some exceptions – airports being the obvious one – where the lockdown will have materially impacted their revenues over the past few months and there's uncertainty as to when and how those revenues will rebuild. But looking at our portfolio, our companies have continued to generate electricity, to treat waste, to provide communication connectivity; those essential activities have continued."

Looking beyond current difficult times is also a benefit to pension funds, as long-term investors.

"Infrastructure assets typically provide a good income yield and that's useful for paying pensions now, and because of the nature of the assets, that yield is long term and predictable, which is useful for paying pensions in the future," Dawes explains.

"Looking further ahead, it's hard to know which businesses will prosper in a few decades time, but if you look at infrastructure assets, they are generally here for the long term. For example, the returns from investing in water companies have come down in recent years, not least driven by the regulator, but if you're a pension fund seeking to match liabilities in 30 years time, you can be pretty sure we'll still all be needing water then."

Infrastructure investors are also able to shape the direction of infrastructure towards a greener future.

For example, 3i's infrastructure portfolio is currently developing new renewable electricity energy projects in France and the UK and building new ships to service offshore wind farms predominately in the North Sea. It has also financed construction of the new Thameslink train fleet and new mobile phone towers in the UK.

"As investors ourselves we are privileged to be able to make a big impact in the area of sustainability," Dawes says.

"We have a wide scope of influence beyond our own organisation into our portfolio companies and their management teams. We are very active and engaged investors. We sit on the boards of our portfolio companies and we work with management teams to set the direction of the businesses and drive operational improvements. We can also share best practice across our wide range of businesses," he adds.

"We think there is a strong link between investors, businesses and management teams that have high ESG standards, and the ability to achieve long-term sustainable returns."

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

VIEW FROM THE SPP

Due to the current situation, remote pension trustee meetings have become commonplace. Face-to-face meetings have many advantages, but has the increase in virtual activities been one of the positives resulting from the pandemic?

Trustee meetings can sometimes go on for longer than they need to and are often reliant on printed document packs. However, this has all changed, and there could be a long-lasting effect on the industry.

Whilst connection issues can be frustrating at times, there now appears to be general recognition that a video call allows for much better interaction and engagement than a traditional conference call, making it easier for those participating to indicate agreement or raise important points.

Remote meetings can also help to focus on key points and decisions. Long meetings are more challenging when held remotely, but if there are too many issues to cover in a short meeting, trustees should think about splitting the content over two separate sessions.

For many, switching to remote working has been a new experience, but we have all adapted and with so many platforms and innovative solutions it's hard to see how we will go back entirely to our previous way of working. Hopefully, trustee boards, and the pensions industry in general, will continue to embrace new technologies.

SPP council member, Steve Hitchiner

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On the Department for Work and Pensions' (DWP) plans to examine how effective pension costs, charges and transparency measures are in protecting member outcomes

"Master trusts have done the bulk of heavy lifting in delivering the government's auto-enrolment policy, but are now experiencing massive increases in the number of deferred members and dormant small pots. The DWP needs to make sure it understands the economics and cross-subsidies that exist within schemes, particularly those with a high number of members with small pots, before making changes to the charge cap or charging structures."

Smart Pension director of policy and comms, Darren Philp

On calls for an overhaul of pension tax relief

"While a universal flat rate might be simpler to understand for some of the public, it is unlikely to make a dramatic difference on public comprehension of the benefit of pension saving. We need more than tweaks to policy to change the perception of pensions and their perceived complexity and open up pensions so that information is accessible, timely and is framed in a way that is easily understood. Financial education is a key part of that and can be greatly helped by pensions dashboards."

Quilter head of retirement policy, Jon Greer

On the impact of the coronavirus pandemic on scheme funding

"The global impact of Covid-19 has been far reaching but it appears that so far it has been market movements that have had a far bigger impact on scheme funding than changes to longevity, although this could all change in the coming months and years."

LCP head of trustee consulting, Michelle Wright

On the news that workplace pension scheme participation rose by a third between 2012 and 2019

"This progress will meet a significant obstacle as the true impact of coronavirus becomes apparent. In the coming months we are likely to see huge job losses and those who remain in work may feel the need to reduce or even stop contributing to a pension. While this is understandable during such uncertain times, we hope it will be relatively short term and people must ensure they resume their pension saving so they don't risk long-term damage to their financial security in retirement."

Royal London pension specialist, Helen Morrissey

On updated guidance from The Pensions Regulator

"Trustees will be put to the test. This is likely to lead to some tough talk at the table as management seeks to justify their rationale for contribution suspensions. Companies themselves are dealing with recovering business damaged by the pandemic. Companies seeking pension payment delays will need to roll up their sleeves for difficult conversations with trustees and their advisers."

Isio partner, Mike Smedley

Pensions positivity

Kevin Martin explains how re-enrolment can be a great opportunity to be positive about pensions

When I talk to friends who don't pay into a workplace pension, we often get on to the discussion of why they don't put money aside to save for later life. I then mention the free money they're giving up and suggest they might as well take money out of their wallet and burn it. That image often gets their attention!

In the pensions industry we're constantly trying to get the message across that saving for the future is a good thing. And there's no doubt that the nudge approach offered by auto-enrolment has helped, with 10 million more people now saving into workplace pensions.

But how do we get those who can afford to save, but aren't doing so, to listen?

Re-enrolment provides a great opportunity to reinforce the positive messages around pension saving. Every three years, the government wants to put employees who've opted out, ceased active membership, or reduced their contributions to below the minimum level, back into a pension scheme.

Essentially, it's another chance for employees to get the free money they're missing out on. Another gentle nudge to take the time to reflect on their current circumstances. Maybe it didn't feel right to join their workplace pension scheme previously, but things might have changed now. After all, a little bit is better than nothing and their employer will add to their contributions, and the government will top that up, so it will grow over time.

Covid-19 has proved how significant a major event like a global pandemic can be for people's income and quality of life, and why it's even more important to plan for the future. But at the same time, we need to be mindful that people's disposable income may have been significantly squeezed. This crisis has left people with a lot of concerns about affordability and having to take some tough decisions about how to balance their budgets.

Throughout the crisis, however, the re-enrolment process has continued unabated, with employers continuing to reassess their entire workforce on the three-year anniversary of their staging/duties start date. This provides a platform to open up the conversation again.

The Pensions Regulator expects employers to continue to fulfil their legal duties to re-enrol eligible staff. And this year is particularly busy for re-enrolment. Lockdown coincided with a surge at The People's Pension, with some 13,000 employers going through re-enrolment in April and May.

We knew this would generate a big increase in the number of customers needing help with submitting files and running the process. Our staff have been working from home by email to manage the re-enrolment numbers.

It's the employer's duty to enrol and re-enrol staff but we're here to hold their hands and guide them along the way if they need it. Over the past couple of years, we've worked hard to learn from experience and address potential bottlenecks. For the re-enrolment process to work effectively, it's essential that employers tell their employees in good time that this is happening and that they'll be re-enrolled in advance so there are no surprises. It's also really important that employers submit their payroll contributions promptly so that we can send joiner information to new members. For those who are still absolutely adamant they can't or don't want to start saving for their future, they can then make the decision that is best for them in good time.

So, we provide communication templates and handy information in our regular emails and on our website – including a five-step process to help employers understand exactly what they need to do. We've developed a whole host of additional materials to support employers with re-enrolment including reminder emails, videos and posters.

Auto-enrolment and re-enrolment are here to stay and pensions are now part of every working person's life. We'll continue to make the case for pensions and to support employers in their interactions with employees who are missing out on free money.

And I'll keep telling people to take the time to find out more, plan for their futures – and stop burning money.

To find out more about how The People's Pension can support you or your clients through re-enrolment, go to: www.thepeoplespension.co.uk/RE/PA or call 0333 230 1310

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

In association with the people's pension

De-risking options for pension schemes

In this latest *Pensions Age* podcast, Linklaters' Sarah Parkin talks to Laura Blows about the wide range of choice available to pensions schemes for the partial, or full, removal of their risks

De-risking can mean different things for different pension schemes. While the focus is generally on the buy-in, buyout and longevity swaps that trustees enter into, there is a far broader range of de-risking options, Linklaters managing associate Sarah Parkin explains in the *Pensions Age* podcast, *De-risking options for pension schemes* and looks at the three main options in detail.

Each of the three main de-risking options offer different protections. For instance a buy-in is an insurance policy, which covers some or all of the scheme's benefits. It's an investment made by the trustees, so it's an asset that the scheme holds, Parkin explains.

"It's the trustees that still face scheme members and as the scheme is still ongoing the employer covenant remains, but you also have the benefit of the insurance policy, often referred to as the double covenant protection."

Meanwhile, a buyout is actually a lot of insurance policies issued in the names of the individual scheme members. "In this case the trustees drop out of the picture and members have a relationship with the insurance company directly and the sponsor is no longer on the hook to fund the benefits," she explains.

Finally, there are longevity swaps, where trustees look to cover the risk of members living longer than expected, which is one of the biggest risks that schemes may still face. It is similar to a buy-in, in that it is still an asset of the scheme, but here you do not pay an upfront premium to the insurer; instead there are ongoing payments to the insurer and claim payments returned back, Parkin says.

Beyond these three options is 'all-risks cover' provided by some insurers. "All-risks cover provides protection for all the risks a traditional buy-in/buyout/longevity swap wouldn't cover. This could include risks such as whether there are some members in the scheme that the trustees don't know about, due to misplaced records for example, so you don't buy out their benefits, or if some benefits had been overlooked, or if the data was not quite right within the scheme," Parkin says.

"It covers residual risks but it will never cover every single risk that a trustee is exposed to, so trustees should really understand what risks still exist. The risks that still remain tend to include defence or litigation costs, or areas that the insurer says they are not willing to cover, such as some ambiguity as to whether the Barber window was shut properly. For this there is run-off insurance in the market, for example, and a number of defences that apply, such as the limitation period."

Which de-risking option to undergo is an individual decision for each scheme, Parkin adds, "and they do not have to go for a de-risking solution, they can run the scheme on if self-sufficient or there are consolidators in the market".

To decide whether one of these deals is the right course of action, Parkin recommends trustees first work out what their end game is and how they plan to get there. The strength of the employer covenant is also a consideration, and what the sponsor thinks, as there may be accounting considerations for the sponsor, she adds.

Having decided to transact, things can be done to prepare for a de-risking deal. This may lead to higher costs initially, eg cleaning scheme data, Parkin advises, but there are also non-cost-intensive things can be done, like finding any missing historic scheme documents at this stage. "Going through the documents can also flush out issues that weren't previously known about. Also, perhaps conduct a liability management exercise at this stage to help reduce insurer pricing, such as transfers out or a pension increase exchange.

"The key is to be prepared so that whenever you want to transact, you're good to go."

Sarah Parkin
Sarah is a managing associate in Linklaters' pensions team and has specialised in pensions law for over 13 years. Sarah advises trustees and corporates on all main areas of pension law practice but with a focus on longevity swaps, buy-ins and buyouts. De-risking transactions that Sarah has worked on recently include: Marks and Spencer Pension Scheme (four transactions with three insurers totalling c.£2.8 billion of liabilities); Aviva Staff Pension Scheme (£1.7 billion buy-in with Aviva Life).

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

VIEW FROM THE ABI

The government will need to pay for Covid-19 at some point and, with £53 billion of gross relief at stake, pensions tax relief reform looks like a low hanging fruit.

Pensions Policy Institute (PPI) analysis of DC schemes found 42 per cent of people who contribute to a DC pension are under 40, but they only receive 27 per cent of the available tax relief. Seventy-one per cent of DC tax relief is granted to men, as they pay 69 per cent of the contributions. Despite the success of auto-enrolment meaning basic rate taxpayers make up 42 per cent of total DC contributions, they only receive 26 per cent of the relevant pensions tax relief.

Could flat-rate relief alleviate some of the issues with the current pensions system of which there are many, with the net-pay anomaly being a well known one? Possibly, but there would be pros and cons to any solution.

DC schemes only cost the government £9.3 billion of pensions income tax relief, with £20+ billion going to DB schemes. Reforming pensions would need to address both if it was to be both fair and achieve any associated funding aims.

There must be meaningful consultation over any proposed changes. It serves no one, least of all savers, for the industry to be on the backfoot of any reform. With an Autumn Budget to come, and pensions changes possible, proactive industry engagement is crucial.

ABI senior policy adviser, Hetty Hughes

ABI

Pensions: We do need some education

Learning can be fun. That's the message that I was taught as a child by Barney the Dinosaur and, although several excruciatingly dull educators appeared to put all their effort into convincing me otherwise in my teenage years, the purple Tyrannosaurus' wholesome message still rings true.

I enjoy learning about ancient history, up-and-comers on the UK punk scene and what exactly Florent Sinama Pongolle has been up to since he left Liverpool FC in 2006. I consider these to be essential topics but am sad to say that knowledge of them appears to be lacking in our society.

But it appears that one other key area with a knowledge deficiency is in pensions know-how. This is potentially key at this particular time, as the impact of Covid-19 has likely scuppered the retirement plans of a good deal of anxious savers.

Worryingly, it is not a difficult task to find examples of savers being unsure of how to tackle their retirement, with research published by Fidelity in February finding that more than a quarter (26 per cent) of people in their 50s did not understand the retirement options that would open up to them at age 55.

Similarly concerning, a Dunstan Thomas study published in January found that more than a fifth (22 per cent) of Generation X had no pension and a further 10 per cent didn't even know what kind of retirement savings they had.

Furthermore, more than 10.2 million dormant pensions are currently gathering dust, having presumably been forgotten about in the process of switching jobs, according to research from PensionBee.

"It might not be the first thing that people think about when leaving or changing jobs, but it should be up there on the list of priorities," said PensionBee chief executive, Romi Savova.

These are just three examples of issues that seem to indicate a lack of understanding or action from savers with their retirement pots, but each one seems like it could be combatted by a minor dose of some fairly painless education.

There are some positive signs on that front, with one notable example being the Money and Pensions Service's ambitions to improve understanding of saving for later life and support increased financial education for young people, as detailed in its *UK Strategy for Financial Wellbeing*.

Strangely, it is also possible that the Covid-19 crisis might have created an opportunity for scheme members to learn a little more about their savings. The Pensions Regulator's coronavirus guidance recommended getting in touch with members to offer reassurance about the safety of their savings.

With continued economic uncertainty and savers understandably concerned, this could provide a chance for schemes to send information to savers that constituted a bit of extra information on top of these reassurances.

While the introduction of pensions dashboards will undoubtedly simplify some of the complexity, like a combat engineer opening up a safe path through a minefield, that does not mean serious efforts to educate should be passed over.

Streamlined presentation and access do not negate the need for savers to understand their retirement options, and besides, thousands of people will be making choices about their later lives before they even have access to the dashboard.

As a footnote for those who were curious, the now 35-year old Sinama Pongolle last took to the field for Jeunesse Sportive Saint Pierroise in 2019, helping the Reunion-based club become the first from Overseas France to reach the last 32 of the Coupe de France for three decades.

Written by Duncan Ferris

Risk transfer opportunities

Laura Blows speaks to Lisa Purdy, head of fiduciary distribution at Legal & General Investment Management and Gavin Smith, pricing and execution director - UK PRT, at Legal & General, about the impact of the recent market volatility on the bulk annuity and risk transfer market and the potential opportunities for the future

The year so far has clearly been different to the last in a number of ways, and the bulk annuity market is no exception.

While Legal and General has had a busy start to the year, with over 20 deals written already (and the vast majority of those written since the start of the Covid-related market volatility), this has been driven by smaller- and medium-sized scheme transactions, compared to the many 'mega-deals' of over £1 billion that took place last year, its pricing and execution director for UK PRT, Gavin Smith, explains in the *Pensions Age* podcast, *Risk transfer opportunities.*

"However, the key thing that they do have in common is that they've had a clear governance process, so that has allowed them to make quick decisions and move quickly to take advantage of some really good pricing in the market," he adds.

Also on the podcast is Legal & General Investment Management head of fiduciary distribution, Lisa Purdy, who gives the example of a fiduciary management client that came to the company a couple of years ago wanting to buyout, but still had a way to go with their funding level.

"Through their growth strategy, market changes and member movements, we then started working closely with Gavin *[Smith]*'s team to get them live, transactable buyout pricing. The scheme managed to hit a price at the start of the year, so we quickly moved the portfolio into price lock, where the investments are moved into a portfolio that moves in perfect alignment to the bulk annuity price. We did this just before the crisis, so even with all that volatility, the client was still able to do the transaction. They transitioned into buyout at the start of April at zero cost," Purdy says.

A key part of that example being so successful was a robust governance process.

"It is important to ensure that everything is joined up, that trustees and employers are working together so that everyone understands the objectives," Smith says. "The Covid-19 situation has been a challenging time for a lot of companies and understandably pension de-risking has not been at the top of their priority list. When trustees have that close working relationship with the company, it helps everyone be in a position to take advantage of opportunities as they arrive."

The crisis and everyone working from home has really brought governance back on the agenda for trustees, Purdy agrees, as it highlights areas that may not be working as well as they should.

She is therefore expecting increased interest in fiduciary management as trustees recognise governance has been an increased challenge. "Outsourcing the implementation, while maintaining control and focusing on the strategic decisions, is a really sensible way to manage things while companies may be under more economic stress," she adds.

Being prepared is important, but so is flexibility. According to Smith, while it is important that schemes' data is of good quality, quite often it is possible to transact at an earlier stage and any final work on data can actually be dealt with after the transaction. "While data has to be good, it doesn't have to be perfect, so don't let waiting for perfection put you off from being ready and moving ahead with a transaction," he explains.

For schemes that can't quite stretch to a buyout right now, Smith highlights the number of insurance solutions Legal & General has to share risk with trustees on the way to securing their full benefits with them. For instance, Legal & General offers a new assured payment policy product, which sees trustees remove all of their investment risks, but still retain some longevity risk for a period of time at a cost around 10 per cent below a traditional bulk annuity product.

"So if you are in a situation where you do want to de-risk further then I would strongly encourage trustees to engage with their advisers or speak to us at Legal & General directly to explore these alternative options," Smith concludes.

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

Football crazy, pensions mad

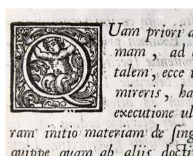
Pension Scams Industry Group (PSIG) deputy chair, Tommy Burns, chats with Sophie Smith about quizzes, music rounds, and the football games he can't wait to get back to after lockdown

What's your employment history (including jobs outside of pensions)?
It's very straightforward I'm afraid! I started work with Standard Life (now part of the Phoenix Group) on 28 January 1980 and I have been there ever since. I have spent all my 40 year career in pensions in various managerial positions, including in document development and project management work.

What's your favourite memory of working in the pensions sector?
I would particularly highlight my time as part of the PSIG where I have had the opportunity to have worked alongside Margaret Snowdon OBE for a number of years now. Margaret's commitment, expertise and energy provides an example to so many, and not just within the pensions industry. Many pension scheme members owe their financial security in retirement to her work and it is an honour for me to be part of the group.

What was your dream job as a child?
Well, it wasn't pensions that's for sure! Like most young boys, my dream was to play professional football and although I was a decent player in my youth, that dream was never to be fulfilled.

What do you like to do in your spare time?
Prior to lockdown, I ran a monthly quiz for the local community, which I very much enjoyed. Of course, it was much easier to ask the questions than to answer them! My Sundays were also spent watching my youngest nephew play football for his boys club team – something which I really enjoyed – but, you've guessed it – that's stopped now as well.



Do you have any hidden skills or talents?
I have a Higher qualification in Latin would you believe, which perhaps betrays both my age and my inability to choose subjects that would actually be of any real benefit to me in later life.

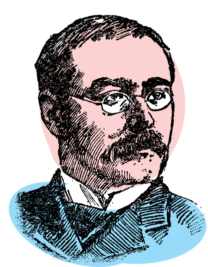
Is there a particular sport/team that you follow?
Yes, I am a season ticket holder at Easter Road and follow Hibs both home and away. All my family are Hibs fans. My late father took me to my first game when I was five years old. He chose that particular game as he was certain that Hibs would win. We lost and I cried…

If you had to choose one favourite book, which would you recommend people read?
Perhaps not a recommendation as it may be a little dated now but I always remember becoming so engrossed in a book at school that I simply didn't hear the teacher almost shouting at me to put my book away. The book was *The Black Tulip* by Alexandre Dumas. I was given the book as a present in later life and I loved it just as much then as I had done when I was a schoolboy.

Editorial credit: A.PAES / Shutterstock.com

Is there any particular music/band that you enjoy?
Bon Jovi are my favourite band. I was lucky enough to be able to see them live a few years ago and I'll never forget the experience. My favourite female singer is Dua Lipa and her songs regularly feature on my playlist in the car and in the music round on the quizzes I do.

Who would be your dream dinner party guests?
Well, it would have to be at Gordon Ramsay's house so that Gordon could do the cooking and then it would be Sir Winston Churchill, Barack Obama, Sir David Attenborough and Nelson Mandela. If there was room at the table, I would love Stephen Fry to be there as well.



Is there an inspirational quote/saying you particularly like?
I'll go for a few lines from the poem *If* by Rudyard Kipling. The entire poem is truly inspirational but the lines "If you can meet with triumph and disaster. And treat those two imposters just the same" always resonated with me.

Written by Sophie Smith

Positioning for post-pandemic world

As the world slowly re-opens, which asset classes will thrive and which will suffer?

As lockdowns are lifted and economies start to revive almost everywhere, we believe there are grounds for cautious investor optimism – at least for those of us who have a long investment horizon.

Our business cycle indicators show that economies across the world have picked themselves off the floor. Daily activity trackers from the likes of Google and Apple show most developed countries are edging towards normality, halving the declines suffered during their March and April lows, while China is already back to January levels.

Our liquidity indicators give very positive readings for riskier asset classes thanks both to the biggest money printing measures ever and the fact that bank balance sheets are robust enough to transmit this through to credit creation – unlike during the 2008-09 crisis. Total public and private liquidity creation is equivalent to 23 per cent of global GDP, compared to 17 per cent at the previous peak in 2016.

There may be more pain to come in the short term, for example in terms of unemployment, but unprecedented injections of stimulus from governments and central banks have paved the way for a global recovery.

Interest rates are going to remain low or even negative for the foreseeable future and, with a long economic expansion ahead of us, the outlook favours risky assets, both in terms of equity and credit. With sovereign bonds offering negative real returns, we see grounds for the equity risk premium (ERP) to decline over the long-term as investors become willing to pay more for the prospect of a positive real return. Currently in the US, the implied ERP is significantly above its long run average of around 5 per cent and is even higher elsewhere, globally ERPs could decline by 2 or 3 per cent over the coming years.

In our own portfolio, we are selectively increasing exposure to parts of the market that are best placed to benefit from the start of a new economic cycle – particularly if they can also tap into long-term secular growth trends.

One example is the European auto sector, where we see a big opportunity from the rising popularity of electric cars. Another bit growth area is tech, with millions of people around the world switching to online working, studying, socialising and shopping during the lockdowns.

However, while we are inclined to be more cyclical, we are not prepared to go into deep value. The companies that require the greatest support from governments will have to bear the cost at some point, and that means their shareholders and bond holders will be at risk of being subordinated.

We also continue to be cautious about the least creditworthy companies (which means avoiding high yield debt), as well as those with a dying business model or product. High street retail was already in trouble before the lockdowns – with around one in 10 UK shops standing empty – and we would now expect that decline to accelerate.

Banks, meanwhile, are likely to suffer as stubbornly low bond yields prove to be a big headwind at a time of rising loan loss provisions.

Regionally, Europe seems to have hit a turning point on fiscal policy, which is clearly supportive for its markets. A new €750 billion rescue programme (a mix of grants and loans), to be funded through a commonly issued bond, is a big first step towards fiscal integration of the single currency region. This represents a great step forward for the single currency region, especially in light of the lack of solidarity among member countries at the start of the crisis. In markets, the news sets the scene for Italian, Spanish and Greek bonds spreads over Germany to narrow, and provides the backdrop for European equities to potentially outperform the US.

Developments in the UK, however, are more mixed. Brexit negotiations are reaching a critical stage, which could lead to renewed market turbulence, particularly as heavyweight energy companies remain in the doldrums. On the flip side, UK stocks are relatively cheap and much of the market has exposure to global growth.

More generally, the complex web of risks and opportunities underscores the benefits of active asset management – seeking out select areas of the market rather than tracking a broad index.

Written by Andrew Cole, head of multi-asset, London, Pictet Asset Management

In association with PICTET 1805 Asset Management

Pensions Age Virtual Conference 2020 review

In these extraordinary times, when pension schemes are faced with a whole plethora of new and unexpected challenges, it's important to reassure trustees that help is at hand. The Pensions Age Virtual Conference was launched to do just that. Francesca Fabrizi reports

Pensions Age held its first ever virtual conference in June, giving delegates the chance to hear first-hand from industry experts about the guidance that is available to them and learn how their peers are managing the Covid-19 crisis.

The online event, which was live-streamed to hundreds of pension scheme managers, trustees, FDs, CIOs and advisers, brought together leading pension professionals and policymakers from across the industry, who presented on a range of key topics and took part in live Q&A sessions, allowing viewers to get their questions answered and their concerns aired.

Pensions Age editor and chair for the event, Laura Blows, did an excellent job of introducing the speakers and managing the influx of live questions which came in thick and fast.

The first keynote speaker was The Pensions Regulator (TPR) executive director of regulatory policy, analysis and advice, David Fairs, who gave delegates an update on the regulator's main priorities, discussed the latest guidance it had issued for schemes having to manage the Covid-19 pandemic, and also offered a longer-term view of the regulator's future aims.

"Our overriding priority is to protect savers and support the delivery of workplace pensions," began Fairs, who acknowledged that Covid-19 had created an environment of uncertainty and anxiety for savers, as well as one that is perfect for pension scammers.

He also recognised the pressure that the recent environment had placed on trustees, administrators, employers and schemes in general, and what help and guidance is at hand to help them navigate these uncharted waters.

Fairs then outlined TPR's new corporate plan and its priorities; adding that the regulator would continue to work closely with the industry and government going forward, and confirmed that it would also be pressing ahead with its defined benefit (DB) consultation, despite the challenging environment.

DB superfunds were also in the spotlight, with TPR having published its interim regulatory regime for prospective DB pension consolidation vehicles that very morning. Fairs recognised that superfunds have the "ability to improve member outcomes and deliver benefits of scale", although warned that they were not without their risks, which needed to be managed.

Next to present was Standard Life head of proposition deployment, Donna Walsh, who tackled the thorny issue of engagement, looking at ways in which the industry can engage and empower employees to take positive steps to a better future.

"Employees have different needs throughout the different stages of their lives, therefore a one-size-fits-all approach to communication will not work. Communication needs to be timely, relevant and we need to truly understand the needs of members. We must also adapt to change," she said.

Walsh offered examples of how Standard Life is already achieving this with its existing and ever-evolving products and services; outlined research that the firm has carried out to help better understand its members, in order to better engage with them; and showcased the innovative ways in which the company is harnessing recent developments in technology to further develop the work it has done in this area.

She also addressed the question of how Covid-19 is impacting engagement levels and how strategies need to adapt going forward. "We have a hugely important role to play in helping people with their life savings, and I am proud that we are helping people save for a better future," she concluded.

Climate risk was the next topic in the spotlight, with Sarasin & Partners institutional and consultant relations, Adam Lees, and its climate change investment analyst, Ben McEwen, sharing their holistic approach to climate change throughout the investment process.

"2019 was a monumental year for integrating sustainability into the pensions landscape; and despite Covid-19 and the disruptions and impacts to operations and activities, 2020 and the years ahead look to build on this momentum," said Lees.

He then went on to look at the Task Force on Climate-related Financial Disclosures (TCFD) framework, what it means for pension schemes, and how investors must "wield the tools available to them as owners of capital", such as utilising their votes as shareholders.

McEwen then went on to look at mechanisms by which one can integrate climate change into their investment frameworks and showcased an example portfolio that they run at Sarasin & Partners.

He showcased the carbon footprint of the portfolio, relative to the MSCI ACWI benchmark; highlighted the mechanisms by which the firm integrates climate risk into their analysis; explained how they act on the assessment of climate risk; and finally how they also make the most of the opportunities available to invest in climate change.

The next keynote speaker of the day was London Pension Fund Authority (LPFA) CEO, Robert Branagh, who continued with the sustainability theme and looked at ways in which pension funds can manage the risks posed by climate change today and going forward.

He showcased the innovative measures the LPFA has taken in this area, outlined examples of good practice and offered helpful hints and detailed observations on how LPFA is helping respond to climate change *[see p40]*.

He also provided an overview of the LPFA's progress in addressing the challenges posed by climate change, touching on the rationale for what the authority has been doing, including its policy and the drivers behind it; the results of the policy; details on its Transition Pathway Initiative; and finally the LPFA's plans for the future in this space.

The investment theme continued into the morning, with World Gold Council chief market strategist and managing director of research, John Reade, explaining the difference gold can play in a portfolio as a standalone asset compared to broader commodity indices.

"Institutional investors continue to embrace alternatives to traditional stocks and bonds in pursuit of diversification and higher risk-adjusted returns. For those adding commodities to the alternative segment of their portfolio, many gain access to gold via a commodity index but this exposure fails to showcase gold's role as a strategic asset," he argued.

Reade also explained how gold stands apart from commodities as a differentiated asset, having delivered better long-term risk-adjusted returns than other commodities; is a more effective diversifier than other commodities; outperforms commodities in low inflation periods; has lower volatility; is a proven store of value; and is highly liquid.

He also looked at the environmental, social and governance (ESG) aspect of gold and what evidence there is that gold is a climate-mitigating risk asset. "Climate change is increasingly driving investment decisions and re-shaping approaches to portfolio risk. Because of its diverse sources of demand, lack of credit risk and track record as an effective hedge, gold is likely to perform better than most mainstream asset classes under different climate scenarios," he explained.

The third keynote speaker of the day was the Pension Protection Fund (PPF) panel manager, Helen Beckinsale, who introduced the PPF's new Trustee and Support Services Panel, which has been appointed to provide advice where a sponsoring employer is in stressed or distressed circumstances or expected to enter a PPF assessment period.

Beckinsale outlined why the panel was needed, how it was developed, the issues it advises on, and how to access it.

She also explained how she sees the panel evolving: "We genuinely hope that people can utilise the skills and services that the individual firms *[on the panel]* can offer, and that it can help trustees ensure that they can best protect members' benefits and get the best outcome for them. It could even reduce the number of claims on the PPF, which would be a huge benefit and success if that were to happen."

All in all, she added, by introducing the panel, the PPF hopes to improve the pre- and post-insolvency experience for both members and levy payers.

The final keynote speaker of the day was Minister for Pensions and Financial Inclusion, Guy Opperman MP, who began by thanking the pensions industry for the great effort it has made "to ensure that pensions survive in these tricky times".

He outlined the steps the government has taken to ensure there is ongoing support for pension savers, schemes, trustees, employers and pensioners during the Covid-19 emergency; and also acknowledged the importance of reducing the potential impact on auto-enrolment (AE), which he said remains a key priority for government.

The Minister then went on to praise the information that TPR and FCA have provided in relation to the pandemic; looked at the risk of scams, acknowledging the excellent work the industry has done on this topic; and looked at the highlights and his hopes for the Pension Schemes Bill.

Finally, he spoke about the importance and relevance of the TCFD; offered updates on consultations in progress; and reflected on the work he and his team are undertaking to improve pension provision for the self-employed.

Pensions Age would like to thank all the speakers, sponsors and delegates who helped make the event such a success.

The Pensions Age Virtual Conference is available to view at www.pensionsage.com/virtualconference/recording

Written by Francesca Fabrizi

Plotting the right course

As the pensions industry reacts to Covid-related volatility, the bulk annuity market carries on from its strong start to the year, still completing deals for schemes large and small. *Pensions Age* finds out from Aviva how the sector continues to glide along on these choppy waters

Navigating the coronavirus pandemic has been a challenge to all aspects of daily life, leaving many feeling lost at sea. But in times like these, plotting the right course is vital and hard work is key to maintaining progress in strong headwinds.

It hasn't been plain sailing for the bulk annuity market within the pensions sector. Having had a record-breaking couple of years, and with a buy-in/out still being the desired aim for so many DB schemes, industry eyes naturally turned to see how it would cope with the waves ahead. And as with any tightly-run ship, the bulk annuity sector has worked hard in the background to ensure business has continued pretty much as usual.

"Aviva's DB Solutions team has been open throughout Covid-19," Aviva managing director of annuities and equity release, Tom Ground, says, "continuing with deals even when the market was very volatile, such as in April. We carried on executing bulk annuity deals throughout the crisis."

Ground explains that Aviva was "probably a little bit conservative" in terms of market spreads, due to concern about availability within the corporate bond market. As a consequence, the company shortened its deal cycle and paused its offering of extended price locks, but has since returned to offering this to schemes.

While some DB schemes that had been hoping to soon de-risk had to wait due to the effects of the coronavirus pandemic – namely those that had been relying on member processes and sponsor contributions to be able to afford to buyout – other schemes found opportunity amidst the crisis.

"There has been a distinction between schemes that have been ahead of the curve with hedging interest rate risk," Aviva annuity asset origination director, Marcus Mollan, says. Those that had concerns that interest rates could go down and have hedged accordingly are in a better position to be able to de-risk than those that haven't, he explains.

"Similarly, those schemes that focused more on cashflow-aware strategies," Mollan adds, "have weathered the market volatility better than equities, which have had a volatile few months."

"Meanwhile, schemes that hold gilts have found that gilt yields had gone down so much they can now afford a buy-in," Ground states. He gives the example of the Co-operative Pension Scheme (Pace) securing a £350 million deal with Aviva in May, its second buy-in transaction deal this year with the company, having completed a £1 billion deal with the insurer in January.

The deal insured the DB pension liabilities of an additional 2,300 Pace members, after the initial Aviva deal covered approximately 7,000 members.

According to Ground, all parties had been closely monitoring pricing, given that current market conditions presented potential opportunities for the scheme.

"The transaction was completed in under two weeks from start to finish, with the existing 'umbrella contract' allowing the parties to transact smoothly and quickly," he explains.

Deals may have continued, but that doesn't mean that annuity insurers were simply able to glide through the market volatility without ever changing course. No, like all successful ships, they had to adapt when the environment called for it.

"Our capital position remained very stable throughout the crisis," Ground says, which was achieved through tracking the contraction of gilt yields and "our hedging process working fantastically".

Aviva is also using the size and strength of its considerable annuity volumes to invest for the benefit of society now and for future generations.

For instance, Aviva has invested around £15 billion in social infrastructure. This includes: £3 billion in the healthcare sector, such as hospitals, GP centres and drop-in clinics, £2 billion in education, such as schools and libraries, another £2 billion in student accommodation and other university financing, £3 billion in rail, £2 billion in renewables, such as offshore wind farms, and their associated infrastructure, £1.5 billion in housing, and nearly £1 billion in local services, such as street lighting, emergency services and policing.

The past two years alone have seen nearly £4 billion of Aviva's annuity premiums invested in this way and in 2019, the company decided to combine its revenue from both bulk and individual annuities, in order to further increase its buying power and make an even greater positive impact.

"We try to be flexible with this activity, depending upon what's happening within this market generally," Mollan says. "For instance, a lot of the private asset projects we were considering investing in have, if not completely switched off, been delayed, so instead we have focused on public assets. Our intention is to work in the background on longer-term projects."

Aviva is currently seeing green shoots of activity, especially in areas that were not so affected by the lockdown, such as renewable energy and ports, he adds.

Investing in social infrastructure projects benefit all generations, as the capital from middle and older generations are being invested for the long-term benefit of younger generations, while the older generations get to receive the interest returns from the projects, which will in turn provide economic prosperity for future generations.

The annuity industry is a way for that capital to be channelled through one part of the economy to another, and therefore from one generation to another, Mollan says.

It is also more receptive to making long-term investments to the benefit of society than other institutions, he adds, comparing the 20-25 year investment insurers make to the 5-6 year time horizon of banks, due to insurers needing to continue paying pensions out for many decades.

This is reassuring to the pension schemes, and their members, who wish for their money to be put to good use but would be too small alone to invest in social infrastructure projects.

"You have to be pretty large to be involved in private equity or loans to fund these assets," Marcus explains, "so it is difficult for smaller-sized pension schemes to access this market."

Aviva "may not be the most aggressive mover" into new and risky situations, Mollan says. Instead, it focuses its investments on projects where its long-term activity ties in to where the economy is going, and where Aviva can provide the benefit of its large scale and expertise.

It is not just expertise it provides, but as a large, well-diversified and financially strong insurer, it also provides security.

"When there is market volatility or an economic shock, it does drive home to people the value of more secure investments," Mollan says. "When markets are performing strongly, people are naturally forgetful that things can change quickly, but both individuals and pension schemes soon realise that managing complex market risks and short-term volatility is not something that they want to do, which this crisis is highlighting to many," he adds.

The pricing, as well as the timing, is also favourable right now for many schemes to look to an insurer to pass on their risks. The current volatility has provided positive market conditions for competitive bulk annuity pricing to occur, Ground explains, which is revealing itself through a significant pipeline of bulk annuity activity for Aviva in the second half of 2020.

So, no matter what the choppy waters may churn up for the second part of this turbulent year, Aviva remains on course to provide tailored de-risking solutions to UK DB schemes of all sizes.

Aviva managing director of defined benefit solutions, Tom Ground
Aviva annuity asset origination director, Marcus Mollan

Company profile

Aviva provides life insurance, general insurance, health insurance and asset management to 33 million customers worldwide.

It is one the UK's largest insurers and is also the largest corporate pension provider, with over £70 billion of pension scheme assets under management.

It takes a prudent approach to capital management and has a strong regulatory balance sheet, with Solvency II coverage of 182 per cent for Aviva plc (Q1 2020). Its financial strength is demonstrated by its ratings - AA- (Stable) by Standard & Poor's and AA- (Stable), and Aa3 (Stable) by Moody's (Jan 2020).

Defined benefit solutions

Aviva is a leading provider of tailored solutions for UK defined benefit pension schemes.

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

All its scheme administration and member service is managed in-house. Aviva's dedicated service teams provide the highest levels of help and support and members will always speak to defined benefits experts if they contact the company.

Whether wanting to protect members or reduce liability, Aviva can help find the best solution for DB pension schemes.

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

A global issue

Summary
• Covid-19 has had a profound effect on pension schemes around the world, with the stock market crash having had the most significant impact.
• Some countries have implemented a range of support mechanisms to help pension funds and members, whilst others have taken little action.
• Pension schemes have also helped other industries that have been hit hard by the pandemic.

Pension systems around the world have faced similar challenges in light of Covid-19. Natalie Tuck examines how the largest pension markets have responded to the impact of the pandemic

The beginning of March saw coronavirus creep into the headlines of pensions news. In the UK the news was bleak; defined benefit (DB) pension deficits climbed by almost £50 billion over February, according to the Pension Protection Fund's (PPF) 7800 Index.

Tumbling markets

As shockwaves rippled through global financial markets, pension markets in other countries also felt the effects. Finnish Pension Alliance senior adviser, Janne Pelkonen, says pension assets in the country have dropped from €215 billion at the end of 2019, to €193 billion (Q1 2020) – around a 10 per cent drop.

In the Netherlands, where its defined benefit-style pension schemes were already struggling, schemes have seen average funding ratios fall to around 90 per cent at the end of May – a decrease of around 10 percentage points since January, according to Dutch Pension Federation chairman ad interim, José Meijer.

The impact of stock market falls has created different challenges for pension systems, depending on the type of schemes they have. For example, in Denmark, where DC pension schemes are the standard, consumers have borne the brunt of the market volatility.

Insurance and Pension Denmark executive director for wealth and pensions, Karina Ransby, explains that investment portfolios follow a glidepath approach by de-risking when savers approach retirement.

As a result, older savers with a high share of bonds have "not been hit so hard by the effects on the financial markets," she states. For those younger savers that will have been hit harder, Ransby says they will have time to recover these losses in the years to come. As a result, the advice to Danish pension savers has been to stick with the investment profile they had pre-pandemic.

The response has been similar in Australia, where its superannuation funds are largely DC schemes. Association of Superannuation Funds of Australia (ASFA) CEO, Dr Martin Fahy, says superannuation funds have experienced considerable volatility in investment markets over the course of 2020 and also volatility in the exchange rate.

"Funds as long-term investors have substantially maintained their investment allocations. However, there has been some selling of bonds to meet liquidity needs, including to meet currency hedging requirements and early release requests. Funds have also used this liquidity increase to participate in discounted capital raisings by Australian companies."

A report by Vanguard, *How America Saves 2020*, also found that US savers have kept in mind the long-term aspect of a retirement fund. Vanguard said the majority of savers have continued to maintain a long-term view with their retirement plan investments. Between January and April 2020, just 5.3 per cent of participants traded.

In Norway, which has also seen pension funds hit by negative returns, Pensjonskasser secretary general, Espen Kløw, says that pension funds have a strong buffer so they have been able to "sit still and stick to their investment strategy".

Pelkonen is also optimistic about Finnish pension funds' assets, with signs of recovery already being seen. Meijer has also witnessed this in the Dutch market. They both agree that contingency plans and changes since the last financial crisis in 2008/09 have helped funds handle this crisis.

Safety measures

Despite this optimism, countries have put in place special measures to minimise the impact of the coronavirus. For example, in Finland, its Ministry of Social and Health has prepared legislation in cooperation with social partners, the Finnish Centre for Pensions and The Financial Supervisory Authority on temporary solvency regulations for pension funds that could be passed if needed.

"We have already prepared as a pre-emptive measure temporary solvency regulations changes, which have not been implemented. But if the storm were to become more drastic than it is, then they could be passed in parliament," Pelkonen explains.

In addition, since May, Finnish employees have seen their average pension contribution level reduce by 2.6 per cent, down from 16.95 per cent. At a cost of €1 billion, the reduction is valid until December 2020. However, Pelkonen says minor contribution hikes between 2022-2025 will see employers pay this back. The government also allowed private-sector employers to postpone contribution payments by three months, although doing so will incur interest.

In Japan, Mercer Japan head of wealth consulting, Tomoya Goto, says that although "no specific responses" have been introduced to Covid-19, the Ministry of Health, Labour and Welfare has informed pension funds that they "can take a flexible approach to their operation, taking into account their circumstances".

In the Netherlands, the Dutch government quickly introduced a generous support scheme for employers that are affected by the crisis, Meijer says. This included the payment of pension premiums, with pension funds extending their payment period themselves before the government support was introduced.

The Dutch government has also announced that its temporary minimum funding ratio of 90 per cent (introduced last year) for schemes will be extended until the end of 2021, as a result of the economic situation. This will hopefully reduce the amount of pension funds that will have to make pension cuts next year.

Member support

Support for the pensions sector has not been limited to the pension schemes themselves, with governments bringing in a number of measures to help members. For example, in Australia the government has introduced an early release of superannuation scheme funds, where those who have been made redundant, or have reduced working hours, can apply for an amount tax free, Fahy says.

This can be for A$10,000 (£5,544) in 2019-20 and a further A$10,000 in the first quarter of 2020-21. The government has also halved the minimum amount that retirees have to draw down in their pension for the financial years 2019-20 and 2020-21.

"Superfunds have handled it well," Fahy says. "They have processed what will be around 2.5 million early release requests very promptly (generally within three days of receiving a request), have achieved more or less breakeven investment returns over a very difficult year, and have handled liquidity and currency hedging pressures."

In Denmark, Ransby says the pandemic has not had much of an impact on the pensions industry, however the government has protected the pension contributions of those not able to work during the crisis.

"The wage compensation schemes negotiated by the government, the employees and the employers for employees who have been sent home during the Covid-19 crisis, have included payments to pension schemes, hence these employees have been able to maintain their pension schemes during the crisis," Ransby explains.

In the USA, the government passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act in March, which provides support for those affected by the pandemic. Savers are able to make withdrawals from their retirement plans and individual retirement accounts without facing the normal 10 per cent penalty usually applicable before age 59.5. However, Vanguard reports that just 0.9 per cent of participants have withdrawn from their funds with the average amount being US$19,000 (£15,100).

Written by Natalie Tuck

Paying it forward

Pension schemes have seen various support measures to help them through the crisis, but they have also taken it upon themselves to support other sectors.

For example, Finnish Pensions Alliance senior adviser, Janne Pelkonen, says pension providers in the country are invested in a fair amount of domestic real estate. When the government imposed a lockdown on the county, leaving the hospitality sector struggling to make an income, pension insurance companies did not collect rent from restaurants for a two-month period.

The hospitality and tourism sector in the Netherlands has also been supported by Dutch pension schemes. "There is a risk of an increase in companies going bankrupt and therefore no longer able to pay their pension obligations. Dutch pension funds have reviewed (and changed) their premium collection policies to cope with this situation," Dutch Pension Federation chairman ad interim, José Meijer, explains.

"This support scheme also covers the payment of pension premiums. Pension funds alleviated the short-term consequences of the crisis by extending the payment period of pension premiums. This helped employers with immediate liquidity problems in the first month in which the government support scheme was shaped."

In addition, several Swedish pension providers have invested in numerous bonds to support those affected by Covid-19. Some of the investments will provide support to companies that have been negatively affected by Covid-19 in both Europe and developing countries. Others are aimed at promoting effective healthcare systems and providing financial support to reduce the disruptions that have occurred in various supply chains.

EU regulations: Same rules apply

Natalie Tuck examines the European regulations and laws that are still applicable to UK pension schemes

Politicians love a catchphrase. These short snappy phrases have come to define the UK's departure from the European Union. Former Prime Minister, Theresa May, loved "Brexit means Brexit", whilst current Prime Minister, Boris Johnson, just wanted to "get Brexit done". Prior to the referendum, one of the Vote Leave campaign's key slogans was "take back control", so the UK could reclaim its sovereign power.

After several years of elections, new Prime Ministers and negotiations, the UK formally left the EU on 31 January 2020 and is now in a transition period until the end of the year. However, despite voting to "take back control", the UK is currently, and will remain, subject to most EU laws and regulations after 31 December 2020, including European pension rules.

Linklaters pensions practice partner, John Sheppard, says: "Subject to some exceptions, existing EU law that applies to the UK at the end of the Brexit transition period will continue to apply." As Sackers partner, Ferdy Lovett, notes, this is because anything remotely EU-related is translated into domestic law and will remain in force until it is repealed.

The key EU regulation affecting UK pension schemes is the Institutions for Occupational Retirement Provision (IORP) II Directive, which was finalised at the end of 2016, with member states expected to transpose the directive into domestic law by January 2019 (although some member states are yet to do this).

It has four specific objectives, which include clarifying cross-border activities of IORPs, ensuring good governance and risk management, providing clear and relevant information to members and beneficiaries, and ensuring that supervisors have the necessary tools to effectively supervise IORPs.

Sheppard explains that in practice, the directive has largely already been implemented in UK domestic law and this UK law will continue to apply at the end of the transition period. "What we are still waiting for on IORP II is The Pensions Regulator's consolidated code of practice, which is expected to include the detail of how schemes need to comply with the additional governance requirements brought in by IORP II."

He notes that whilst Brexit does potentially give the government the flexibility to reconsider some of these issues (and other areas of EU law that affect pension schemes), "the new requirements are consistent with the regulator's broader aims of improving pension scheme governance and a substantial change in approach seems unlikely at this stage".

Of course, other EU regulations and laws will also still affect pension schemes in the UK. Lovett highlights the General Data Protection Regulation (GDPR), which came into effect in May 2018 and introduced significant changes to data protection laws. As with the IORP II Directive, once the transition period is over GDPR will still apply.

Looking back further, there is the Barber judgment, an iconic pensions case from 1990 in which the European Court of Justice (ECJ) ruled that men's and women's pension rights must be equal. This has long been a part of UK domestic law, creating the unique issue of guaranteed minimum pension equalisation in the UK, which was more recently clarified by the UK's High Court.

Another European case law involves the *Pensions-Sicherungs-Verein VVaG v Günther Bauer* ruling, in which the ECJ ruled that pension lifeboat funds, such as the Pension Protection Fund (PPF), should ensure that ex-employees of insolvent companies do not fall below the poverty line.

Despite this ruling coming as recent as December 2019, it is still expected that the UK will adopt the judgment. The PPF says it is in discussions with the Department for Work and Pensions on the ruling. Sackers senior associate, Katharine Swire, explains: "I believe the position to be, regarding future compliance, that case law handed down by the end of the transition period will, in effect, form part of the EU law that will be 'retained' by the UK as part of its domestic law – but it could then be disapplied following Brexit."

So while leaving the EU does allow the UK to "take back control", for the foreseeable future, at least, the same rules apply.

Written by Natalie Tuck

Job losses = pension losses

With coronavirus-shutdown sectors now facing a wave of unemployment as lockdown and furlough support eases, Laura Blows explores what this means for affected workers' retirement savings

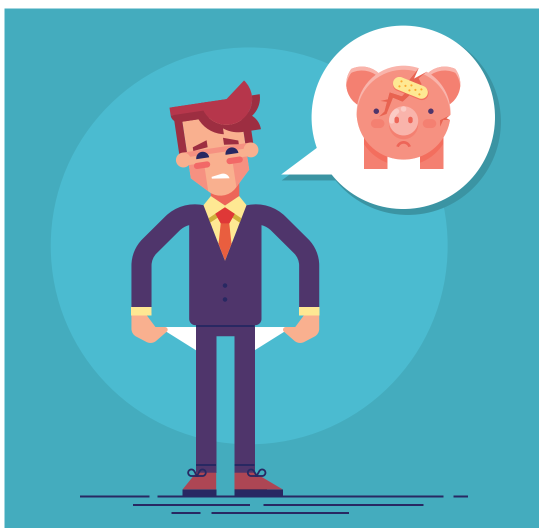
Now that lockdown is easing and the government has confirmed the end of its furlough scheme, the job casualties are starting to pile up. Unsurprisingly, the retail, travel and hospitality sectors are particularly hard-hit. For those individuals suffering job loss, as well as dealing with the immediate and often devastating financial blow redundancy causes, they may also have to contend with the fallout from this time for decades to come.

Even those 'lucky' enough to be furloughed, instead of, or prior to, losing their job, found their pension contributions fell by 25 per cent, 5 per cent more than the 20 per cent wage cut, analysis by Now Pensions finds.

It attributes this to a 'quirk' in the system, which means that, as the first £120 of weekly pay does not count for pensions, the effect of furlough hits harder on the portion of pay that is pensionable.

Workers that are not, or are no longer, furloughed, but have instead lost their job in those hardest-hit sectors such as retail, hospitality or travel, may struggle to find new employment quickly, Redington director of DC and financial wellbeing, Jon Parker, warns, due to the longer-term challenges facing these entire industries.

This fear may well be justified, as for younger workers (of which the arts, leisure, travel and tourism industries have a high proportion) starting out on their savings journey, any gap in savings now will have a significant impact on their ability to retire when they choose, Aegon pensions director, Steven Cameron, says. "Aegon analysis shows that an employee who breaks from pension contributions in their mid-20s for one year could lose out on a future fund of nearly £7,300 at state pension age and a break of five years could see them lose around £42,000," he adds.



"A two-year gap in savings early on in a career could result in a 10-15 per cent reduction in the final value of an individual's DC pot," Parker notes.

Older workers facing financial hardship may consider accessing their pension pots to bridge a shortfall in income, but LEBC Group warns that this risks lasting damage to long-term retirement plans and may compromise eligibility for Universal Credit.

For instance, if more than the 25 per cent of their pension pot is withdrawn, income tax becomes due on the balance and higher rates of tax may be applied. Withdrawing more than the 25 per cent tax-free sum from pension pots over £10,000 also triggers a restriction on future pension saving; this reduces the amount allowed with tax relief from £40,000 to £4,000, so short-term emergency withdrawals are harder to build back up later. Also, taking money out of a pension pot makes it count towards savings, potentially making the individual ineligible for Universal Credit, it explains.

Looking longer term, the latest Scottish Widows *Retirement Report* finds workers in lockdown sectors such as retail, travel and hospitality could face a lifetime of 'playing catch-up' as coronavirus hits their retirement savings, which were already lower than employees in other UK industries.

Its annual research of more than 5,000 adults in the UK reveals that 27 per cent of those working in travel and the arts are not saving into a pension, 67 per cent of retail workers are worried that if they ever did retire, they would quickly run out of money, and only 18 per cent of restaurant workers are optimistic about retirement.

"We recognise that the next 12-18 months is going to be about businesses getting back on their feet, but many individuals have taken a substantial hit to their finances and the fear is that the gap can't be closed, meaning they face a lifetime of work as they struggle to afford to retire," Scottish Widows head of policy, Pete Glancy, warns.

While short-term action needs to be taken to bolster the economy, we shouldn't forget that this savings gap already exists and this could grow, Standard Life head of proposition, Neil Hugh, says.

"It's important that policymakers don't lose sight of this for the longer-term recovery and put at risk some of the great progress that has been made through automatic enrolment."

Written by Laura Blows

Beyond the numbers

Summary

- There have been approximately 62,500 excess deaths this year. How many precisely can be directly attributed to Covid-19 is difficult to determine.
- Those with pre-existing conditions such as diabetes and heart disease, males, older ages and those from socioeconomically-disadvantaged backgrounds have been more likely to die of Covid-19.
- The mortality trends for pension schemes have broadly matched that of the general population, although can vary greatly by scheme.
- Pension scheme liabilities have declined by approximately 0.5 per cent, so not changing insurer pricing for longevity hedging.
- Longer-term consequences of the pandemic are expected to have a greater impact on future longevity, such as medical complications for Covid survivors and the negative health effects of the lockdown.
- The biggest impact on longevity will be if there is another protracted recession, due to the rise in unemployment and decline in healthcare funding it may cause.

Laura Blows explores what the spike in mortality caused by Covid-19 means for pension schemes and the long-term impact of the pandemic on longevity

62,500 is the current, tragic, total of excess deaths in the UK this year. However, there is a lot of detail behind this simple, yet shocking, headline number.

Excess deaths

The Continuous Mortality Investigation (CMI) states that there were 62,500 more deaths in the UK from the start of the coronavirus pandemic to 26 June 2020 than if mortality rates were similar to those experienced in 2019.

According to the LCP *Longevity Report,* published in June, at the height of the pandemic in April/May, the Office for National Statistics (ONS) reported the highest number of registered deaths in England and Wales in any week since 1993, and over double the typical number of deaths for that time of year. Therefore, as of end May 2020, the number of Covid-19 deaths in 2020 had led to a rise of 11 per cent in the year-to-date rate of mortality, LCP finds.

Meanwhile, Prudential Retirement head of longevity risk transfer, Amy Kessler, puts the number of UK deaths for March/April/May this year to be 125 per cent of 2019 totals over the same period last year.

Where these deaths are occurring has also changed compared to 2019. For instance, between 13 March and 8 May, over 8,000 fewer deaths were registered in hospitals than in the corresponding period in the weekly average, a decrease of 20.9 per cent, the ONS finds. In contrast, almost 11,000 more deaths were registered in care homes, an increase of 60.5 per cent, and over 8,000 more deaths were registered in private homes in this period, an increase of 42.6 per cent.

Covid-19 is attributable to the majority, but surprisingly not all, of these excess deaths.

For example, in just one week, ending 17 April, at the peak of the pandemic, XPS Pensions Group's Covid-19 Tracker finds that there were 14,340 excess deaths, with 9,408 of these being attributed to Covid-19, and 4,932 excess deaths being non-Covid related.

The largest increase in non-Covid excess deaths are seen in deaths due to 'dementia and Alzheimer's disease', at 5,404 excess deaths (an increase of 52.2 per cent the five-year average), with 'symptoms, signs and ill-defined conditions' (the latter mostly indicating old age and frailty) seeing 1,567 excess deaths between 13 March and 1 May. Combined, these comprise two-thirds of total non-Covid-19 excess deaths in this period, the ONS states. However, it warns that some of these may be due to undiagnosed Covid-19.

There are challenges to clearly defining which excess deaths are due to

> "62,500 excess deaths"

Covid-19, and which to other factors. For instance, the ONS may publish how many have died where Covid-19 is mentioned on their death certificate, but the virus may not actually be the primary reason for death, LCP suggests.

While the exact role of Covid-19 in all excess deaths is hard to define, the total excess deaths are just a fifth of the worst-case scenario as charted by Imperial College, Kessler states.

In fact, the 62,500 excess is a decrease from 63,500 excess deaths to 12 June 2020, the CMI reports. At the time of writing, the CMI also finds a recent decrease in the number of deaths in the UK occurring each week. For instance, there were 7 per cent fewer deaths registered in week 26 of 2020 than if death rates had been the same as week 26 of 2019, it notes.

These fewer deaths compared to 2019 are particularly striking, considering that the average mortality rate in England & Wales fell in 2019 by 3.8 per cent, to 530,000, 13,000 fewer than the previous year, LCP finds. This year had also begun with mortality levels lower than the same time in 2019, until coronavirus struck.

"Excess deaths have declined now compared to March-May because I think those in the most infirm health that may have died from something else this year already died from Covid-19 during these peak months," Kessler suggests.

Vulnerability

Those with certain pre-existing conditions, such as chronic kidney disease, serious heart conditions, type-2 diabetes, obesity or a weakened immune system, are more likely to die from Covid-19.

According to the CMI, the number of excess deaths has predominantly been driven by older ages dying, with the impact on males being slightly greater. *The Impact of Covid-19 on Future Higher-Age Mortality* report, published in May, states that more than 97 per cent of deaths occur above the age of 50, but "the highest risk is of course frail elderly over 85", Kessler (a co-author of the paper) adds.

People living in more deprived areas have seen a bigger increase in mortality rates during the pandemic compared to those in less deprived areas, the CMI also finds. Kessler gives the example of London, which has twice the amount of deprived areas as the rest of the country and also had twice the Covid infection rate. Yet these higher Covid-mortality groups did not actually see a disproportionate increase in mortality rates. According to the CMI, mortality rates nearly doubled for all groups during April, at the peak of the pandemic.

However, "the poor and poor health came into the pandemic with a higher mortality rate already", Kessler says, "so it was just equally multiplying from that rate". As she says, "the coronavirus has exposed the impact of inequality on longevity and magnified it".

Pensions experience

The experiences of pension schemes seem to echo that of the general population.

The LCP *Longevity Report* analyses the recent experience of the defined benefit pension schemes it administers, covering around 65,000 members. "Our analysis shows there has been an increase in the number of deaths, but this has broadly been in line with the increases within the general national population," it states.

"We are seeing the deaths within the pension schemes for which we do administration following the general population trends, but with a few-weeks delay, as people deal with other death-related matters like cancelling bank accounts before thinking to contact the pension provider," XPS head of longevity, Steve Leake, says.

However, XPS' Scheme Vulnerability Analysis tool shows that this can vary greatly by scheme, Leake adds. "During the peak of the virus some schemes may have two to three times the number of expected deaths, while another pension scheme may just have the same volume of deaths as 2019," he explains.

Using data analytics to conduct member profiling at a postcode level to determine things such as member age, likelihood of living in a care home, financial situation, living in pandemic 'spike' areas like London or Leicester, and health could help pension schemes understand how vulnerable their members are to the coronavirus.

"For instance, you may know how many members you have over 75 and are at greater risk but may not know how many live in a care home or hospital and so are at even greater risk," Leake says.

This information can help a scheme assess the likely impact of Covid on its 2020 mortality levels.

Longevity hedging

"If the number of excess deaths continue to run off and stay low, and with an economic recovery, its impact on a typical pension scheme will be quite modest, around a 0.5-1 per cent reduction in liabilities," Leake predicts.

Therefore, any trustees questioning whether now would be a sensible time to look to hedge longevity risk is unlikely to find a great difference in pricing.

"From LCP's ongoing discussions with insurers and reinsurers, they are making very little (if any) allowance for the impact of Covid-19 in their longevity assumptions at the current time," the LCP *Longevity Report* states. "Holding out for the potential for increased mortality in your scheme this year is unlikely to save you as much as locking into the favourable pricing opportunities that can arise during periods of volatile market conditions."

Indeed, March and April saw attractive buy-in and buyout pricing of

> "11% rise in mortality as of May 2020"

recent years, driven by the widening of UK and US corporate bond spreads, the report adds, so "schemes hedging longevity only (ie through a longevity

"18,000 increase in cancer deaths over next year due to Covid impact"

swap transaction, rather than a buy-in or buyout) will want to give careful consideration to the value offered given the current uncertainty around future longevity".

"Many pension schemes are focused on the bulk of their liabilities, which mainly sit with the middle and upper aspects of their membership," Kessler says. "In these groups of members there is not quite as much mortality as the lower groups that are less likely to be in the pension scheme or only have a small amount of money within it."

Aon Risk Settlement Group partner and head of demographic horizons, Tim Gordon, agrees, stating in June that "the socio-economic profile of pension schemes means that their liabilities are typically partially insulated from the variations we see in national mortality statistics".

Accordingly, it would be premature now to make major changes to best estimate longevity assumptions in either direction, he adds.

"Indeed, it is reasonable for median best estimate assumptions to remain broadly unchanged."

Knock-on effects

The excess number of deaths experienced this year so far may not have a significant immediate effect on pension scheme liabilities, but the pandemic's long-term knock-on effects may have an even greater impact on future life expectancy than the virus itself, *The Impact of Covid-19* paper predicts.

For instance, how the life expectancy of Covid-19 survivors is affected is up for debate. There may be a modest increase in life expectancy of around 0.2 per cent at age 65, *The Impact of Covid-19* paper predicts.

Yet, akin to the 1918 Spanish flu or SARS, survivors may be left with long-term health damage such as lung scarring or blood clots, Institute and Faculty of Actuaries (IFoA) *Longevity Bulletin* editor, Matthew Edwards, warns.

"There is growing evidence that a number of survivors of the virus (often young people in their 30s) who needed to be hospitalised have developed serious health conditions that they did not have before, such as lung scarring and new-onset diabetes," Pensions Institute director and co-author of *The Impact of Covid-19* paper, David Blake, agrees.

It may not be necessary to have even had Covid for health to be affected by the pandemic. There is expected to be an increase in non-Covid deaths due to people avoiding hospitals and missing doctor appointments during lockdown. For instance, LCP notes that A&E departments reported 50 per cent less activity than usual during April.

The result of this may already be playing out, as the ONS notes deaths due to causes such as asthma and diabetes increased up to the week ending 24 April 2020 and occurred increasingly outside hospital; this could suggest a delay in care for these conditions is leading to an increase in deaths, although this rise could also be related to undiagnosed Covid-19.

The Impact of Covid-19 paper cites research from the University College London and the Health Data Research Hub for Cancer, which predicts that up to 18,000 more people could die from cancer over the next year in England because of the impact of Covid-19.

The paper also highlights Cancer Research UK findings that referrals by doctors for urgent hospital appointments had fallen by 75 per cent – equivalent to 2,300 cases per week – while 400 cancers a week were being missed because 200,000 weekly screenings for breast, cervical, lung and bowel cancer were suspended during the lockdown.

Longer term still, the cancellation of millions of non-urgent procedures, such as hip and knee replacements, is expected to affect morbidity and mortality patterns, LCP's report predicts. "Several million are currently on waiting lists, and with fears that this could be as high as eight million by autumn, the waiting time for 'non-urgent' procedures is likely to be longer than ever. For those waiting for hip replacements, for example, this

"7% fewer deaths in week 26 of 2020 compared to week 26 2019"

can mean months longer with more sedentary lifestyles, affecting their mortality risk in years to come," it states.

However, Kessler points out that, for the vast majority of people, missing four months of normal healthcare is not life changing. "The question is: are people immediately going to seek that healthcare they missed after lockdown or will they stay home all year?"

Avoiding doctors is not a welcome change, but some people implemented more positive health actions during lockdown, such as social distancing, wearing face masks, drinking less and exercising more.

Yet Edwards is sceptical that these new habits will transform into long-term change. "In five years' time I doubt we'll still be obsessing over 30-second handwashing," he says.

Some behaviours may have become more self-destructive during lockdown, as estimates suggest one in three have put on weight, and smoking and alcohol consumption have increased in the most at-risk groups, while physical activity has declined, the LCP *Longevity Report* states.

"2-3x number of average deaths for some pension schemes during the virus peak"

At least half a million more people in the UK may also experience mental ill health as a result of Covid-19 over the next year, the Centre for Mental Health predicted in May. This makes the rise in mental health issues another increasing concern, Edwards says, also highlighting the centre's statistic that PTSD occurs in about 20 per cent of people who needed intensive care treatment.

Looking further ahead, it is still very uncertain whether there may be future waves of Covid-19, or even of different pandemics, and whether survivors of previous pandemics will have immunity and therefore increased life expectancy is up for debate.

Economy/longevity link

But beyond the health issues, Covid-19's biggest impact on life expectancy will likely be due to economic factors.

One of the predicted fallouts from Covid-19 is a global recession. In June, the Organisation for Economic Co-operation and Development (OECD) predicted that the UK economy will nosedive by 11.5 per cent. If history repeats with the global financial crisis (GFC) of 2008 and the longevity trends that followed it, "projected life expectancies could fall by as much as 4-5 per cent", LCP says.

"Over the past 20-plus years there have been improvements in longevity of around 3 per cent a year between 2000-2010. Then between 2010-2015 it only increased around 1 per cent a year. This was due to many different drivers but one was the reduction in public funds to health and social care *[as a result of the GFC],*" Edwards explains. "The strength of the economy relates to mortality and life expectancy. Both by directly in health expenditure but also with those employed being in better health than the unemployed."

The Impact of Covid-19 paper agrees that if there is long-term unemployment as a result of the pandemic, this could lead to so-called 'deaths of despair' in the future. The start of the year saw 3.9 per cent unemployment, one of the lowest rates since 2010, but this is expected to significantly rise as furlough winds up. According to the ONS, around 612,000 lost their jobs in May compared to March, a 2.1 per cent decline in paid employees.

However, while higher unemployment may result in an uptick in suicide instances and other stress-induced disorders, pensioners "may benefit from having family with time to spare to look after them" potentially leading to a rise in their life expectancy, LCP's report suggests.

Yet an economic downturn might reduce spending on medical and pharmaceutical research, causing a reduction in long-term future mortality improvements, and may cause general medical advances to stall as resources are redirected to finding a vaccine and treatments for Covid-19, *The Impact of Covid-19* paper warns.

The current economic downturn may not play out in the same way as the global financial crisis though, since this one has come about under such different circumstances.

Leake recommends pension schemes consider the impact of a range of different economic scenarios, from an 'instant' recovery as lockdown eases, to a protracted global recession. "If things go back to normal there may be a 0.5 per cent reduction in liabilities for a typical scheme. But if we get a recession then it may result in a 5 per cent reduction in liabilities," he says.

Monitoring

Therefore, it is important that pension schemes closely monitor member deaths over the next months and years to see whether they are in line with the death rates predicted by their scheme actuaries, Blake says.

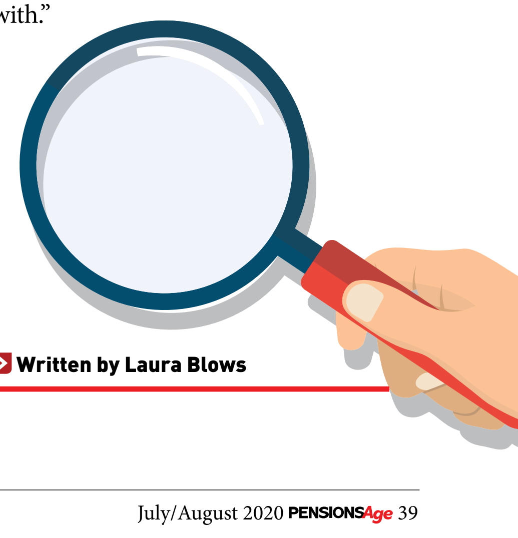
"Large schemes do this as a matter of course, but it is much more important now," he says. "Clearly, excess deaths above predicted levels will reduce pension liabilities. But they should also stay in close contact with employers for evidence of younger employees taking sick leave *[due to the long-term health effects of surviving Covid-19].* In extreme cases, this could result in ill-health early retirements, which could have the effect of raising liabilities as well as reducing future assets such as future employee pension contributions."

"Recession = estimated 5% reduction in pension liabilities"

However, pension schemes must not overreact to high short-term UK mortality data when looking to set their long-term mortality assumptions, as Aon warned back in June.

The past four months have been unique, and as such "the industry is trying to understand what 'this' all means at a population level, before we can extrapolate that down to individual schemes", Kessler warns.

It is as AMNT co-chair, David Weeks, says: "Pension schemes should keep up-to-date with the latest mortality information. But recognise that decision making with imperfect information is the challenge that we are all having to work with."



Written by Laura Blows

Climate first

Following the June publication of its *Annual Climate Change Policy Review*, Duncan Ferris speaks to London Pensions Fund Authority (LPFA) chief executive officer, Robert Branagh, about the Local Pensions Partnership (LPP), climate issues and listening to members

Can you tell me about the LPFA's relationship with the LPP since it launched?

2016 was quite an interesting time as in 2014/15 the government set up a new pension scheme for public-service schemes. Final-salary schemes were far too expensive, even for the government, so career-average schemes were brought in for the public service. This was a big change in terms of the schemes to which local authority employees or even settled government employees contributed to after 2015.

The other thing that happened in 2015/16 was that the government suggested that, because local authority schemes had real money – as opposed to settled government schemes that were on a pay-as-you-go basis – the pension schemes in England and Wales should pool together their assets into a smaller number of investment managers. They alighted on eight pension fund managers to look after the approximately £250 billion of assets between the 88 funds. They set up investment pools, which were vehicles for taking local authority money and investing it for efficiency, savings, and consistency of approach.

The LPP is one of those eight pools, and was set up in 2015/16 by the LPFA and the Lancashire County Pension Fund. The interesting thing about the LPP is that not only is it a pool for investments for us, but it also does administration for about 15 other local authorities. It's almost like a pensions business we own, although it is technically speaking a pool. So the relationship is quite interesting. We are 50/50 owners with Lancashire so we have a responsibility to grow this, develop it, nurture it and make sure that it thrives going forward as a standalone business.

What are the current goals of the LPFA?

It's important to say that the LPP have now finished pooling all our assets, Berkshire's assets and Lancashire's assets. Strategically, these pools were set up to make efficiency savings and generate returns for their funds by taking things in-house. The LPP has finished doing that so, in a way, one of our three objectives for the fund is to make sure that LPP can thrive and develop, extending its position as a pensions business as well as a pool. So, we're going to be investing more time and support into the administration side, as well as the investment business.

It might sound a bit corny, but we have two main drivers, which are collaboration and sustainability. Collaboration sounds a bit cheesy but, if you think about the LGPS being 88 funds now and the London community for pension funds and local authorities, there are lots of other boroughs and councils within London, and we certainly don't do enough learning from or sharing with other London pension funds or other LGPS funds. There are lots of people doing great work in pensions so collaboration is one of our strategic goals for the next three years, particularly learning from the London pensions community and the London local authority community.

The second of the two is sustainability. This is really important to us as we've spent the past three or four years setting up, implementing and monitoring our climate change policy. We're a bit different to many other pension schemes as most have come to climate change late after dealing with environmental, social and governance (ESG) issues or responsible investment. We have a very healthy relationship with the Mayor of London, who prioritised an awful lot of climate change and decarbonisation work as a city, so we started there rather than with a broader responsible investment policy.

We have a sustainability policy that we report against, that we monitor, we take to board meetings and have published externally, while last year we also published a responsible investment policy, which is basically us saying that we want to take a broader approach to responsible investment.

What encouraged the LPFA to establish its core policy commitments?

There's a little bit of a divide between private-sector schemes and public-sector schemes. The LGPS has consistently tried to meet its members on a regular basis, like a member AGM, whereas a lot of private-sector schemes have stopped doing that. The LPFA still holds a member forum every year and we get 300 to 400 members coming along. We hire a big venue and do a presentation on investment, a presentation on administration and we spend time answering member questions.

At that AGM last November, I spoke to 60 members after the formal sessions were over. Fifty of the 60 said they were reassured that we were looking after the fund really well. Ten of the 60 said they didn't know we were doing such good work on climate change, said they didn't know about responsible investment and commented that they hadn't heard funds talking about climate change.

I think when you ask, "why do pension funds change or do things differently", sometimes it is just to do with members raising their voices. It means that when you're sitting in front of 400 people and someone asks what you're doing to make the planet a bit better, this is some of the stuff that you can show off.

Would you advise other pension funds and the LGPS schemes to go down to this grassroots level?

Absolutely. Pension funds sometimes get disappointed that the level of member engagement they get is very variable. For example, when we ask our members to log on and do self service on their admin, there are relatively low levels of take-up. On big things, like climate change or responsible investment, much more engagement is always going to be useful. We are just looking after the money on their behalf, so finding out what they want is hugely beneficial in helping us run pension funds.

As much testing, querying and dialogue with members that you can afford or invest your time in is going to be really beneficial for pension funds.

How has the uncertainty of Covid-19 affected the LPFA's work?

On the investment side there is obviously a huge reduction in terms of assets and performance but, interestingly, and I don't know whether this is over-optimism in the markets, it's come back to where it was before. So, in investment terms there has been minimal impact, which is reassuring. Our assets went from around £6.5 billion down to about £5.8 billion over the couple of months but are now back up over £6 billion, and our liabilities have been reduced as well.

Of course, we're here for the long term, so we can weather some of those decreases in asset values and it's not a major problem. There is certainly no pressure on our ability to actually pay pensions because we hold the money to pay around eight or nine months' worth of pensions at once, so we have always got that buffer and long-term reserves.

I think the thing that has been more interesting for me is how we dealt with members during that time. We spent a lot of time communicating with members to reassure them that their pensions were safe, the fund was continuing as normal and that they could contact us with any queries. I think that played quite well because the volumes of work have been relatively similar to how they were before lockdown.

Written by Duncan Ferris

Building a better future

Summary
- Infrastructure investments have long been an aspect of pension fund investing, but access issues persist around social infrastructure.
- They can hold environmental and social value, but are also well matched for pension scheme liabilities and have fared well throughout the pandemic.
- The government must engage with the industry to ensure pension schemes can access infrastructure investments effectively and direct capital where needed.

As the government highlights infrastructure as key to the UK's post-Covid recovery, Sophie Smith explores what this could mean for pension schemes and what role they can play in 'building back better'

Build, build, build. This was the Prime Minister's recent message to the country, as he announced a 'new deal' designed to put infrastructure and jobs at the heart of the UK economy. The deal includes an additional £5 billion of capital investment projects and social infrastructure, with £1.5 billion directed towards hospital maintenance and a further £1 billion towards school rebuilding. However, for many institutional investors, such as pension schemes, infrastructure is not a new opportunity but a long-standing feature of their portfolios, and their commitment to this asset has not waned, even throughout the crisis.

Macquarie Infrastructure Debt Investment Solutions (MIDIS), for instance, recently raised £2.7 billion, predominantly from UK corporate pension schemes, local authority pension schemes and insurance companies, to support its UK infrastructure debt strategy. MIDIS associate director, James Lumb, states that many of the "more sophisticated pension schemes" in the UK have been allocating to infrastructure for a number of years, due to "high-quality, stable cashflows".

A recent report from the Social Market Foundation highlighted pension superfunds as "the key" to solving the UK's infrastructure funding "mega-gap", estimated to be as much as £1 trillion. Whilst a second report by Legal & General (L&G) argued that there could be as much as £190 million in pension money ready to be directed towards UK infrastructure over the next decade.

It seems there is still much more the pensions industry can do to support British infrastructure, especially amid the ongoing pandemic. Of course, no matter how socially worthwhile an investment may be, pension scheme trustees must remember to consider the economic arguments.

Making a difference or making returns?

Nest investment analyst, Jess Menelon, however, says that it is "clear" that when chosen and managed carefully, infrastructure investments can offer "stable, long-term inflation-correlated returns, even in difficult market conditions". She explains that the pension scheme, of which the youngest member is just 16 years old, is a long-term investor, and can be patient with members' savings, allowing them to benefit from illiquidity premiums often associated with these types of equity investments.

The financial benefit of infrastructure investing can also be seen in the defined benefit (DB) space, with a spokesperson for the Pensions Insurance Corporation (PIC) describing infrastructure investments as "socially-useful capitalism at its best", emphasising that these types of investments "naturally align" with the aim of paying pensions.

L&G head of investment solutions, Sumit Mehta, says the reason for this, is that they provide long-dated, fixed-income style returns with attractive risk-adjusted yields.

"It needn't involve a trade off between protecting pensioners or benefitting society," he insists. "Instead there is a virtuous circle, where older savers are funding the infrastructure that supports communities, jobs and growth for the next generation, to provide the economic returns to support pension payments."

Lumb adds that social infrastructure investments and financial returns actually go "hand in hand", stating that if an investment is not socially useful, it is likely that there will be concerns about being able to finance it in the long term.

Access denied

Aviva Investors managing director, infrastructure, Darryl Murphy, agrees that infrastructure can work from an asset/liability-matching perspective, emphasising, however, that pension schemes, which tend to be more yield focused, may approach infrastructure investment differently than some insurers, typically focusing more on equity, rather than debt space. The reason for that, he explains, is that they like the strong asset liability matching characteristics of infrastructure, but that there are key differences in terms of the rates of return available in the equity space compared to debt. Insurers also benefit from capital treatment under Solvency II, unlike pension schemes.

Murphy stresses, however, that pension funds historically have had "reasonably limited" access to social infrastructure, as this tends to be publicly funded. He notes that investing in debt in housing associations (HAs) could be one route of access, which also holds strong social importance. Although, more broadly, he says smaller schemes that want to invest, but have no capability, tend to invest through a pooled fund as a route to the asset.

The Lothian Pension Fund (LPF) also highlights the costs of legal execution and due diligence as prohibitive for small-pot investors. Lumb, however, argues that "familiarity with institutional capital as a funding source" is growing and creating new opportunities for institutional investors.

Even where access is improved, Murphy warns that "if you're going to invest directly, you need a fairly material level of capital". However, Mehta highlights the potential scale accessible through the pension risk transfer (PRT) market and the aggregation of pension scheme assets. This has allowed insurers, such as PIC, to step up to the plate in the DB space. But with no equivalent in DC, many schemes have suffered limited access to the asset due to size restraints.

Clara Pensions director of policy and communications, Richard Williams, highlights the emergence of pension superfunds as a potential answer to this, stressing that consolidation can make pensions safer, and that benefits of scale can also benefit the broader economy.

"Consolidation gives schemes the capacity and capabilities to invest in assets such as infrastructure. However, the right role for infrastructure assets will depend on sufficient assets of the right quality and right risk profile being available," he adds.

This increasing trend towards de-risking, across both DB and DC, has seen rapid growth across the PRT market. This can lead to issues around availability of opportunities, although equally, according to PIC, it can lead to an increased need to source debt investments in secure, long-term investments like infrastructure.

PIC highlights debt financing for social HAs as an example of this, explaining that HA clients are seeking to build long-term relationships with lenders. Without these relationships, the firm warns that many development plans would need to be cancelled or scaled back, as "government funding alone is not nearly enough".

HAs are not the only sector that could benefit from additional funding, as Lumb highlights that both public-sector balance sheets and banks will be facing pressure from a funding and capital perspective. He emphasises, however, that the UK still has the potential to "unlock deep domestic pools of pension capital" to finance long-term infrastructure needs.

Lumb adds that in this "lower for longer rate environment", many investors will be very focused on returns, noting that the potential for superior risk-adjusted returns through infrastructure debt could encourage more investors into the asset class as an alternative to government and corporate bonds traditionally invested in.

Built to last?

A new study by the Foresight Group has revealed that over half (54 per cent) of financial intermediaries believe that infrastructure is seeing the biggest surge in investor demand across all asset classes in response to Covid-19, more than twice the number choosing equities (20 per cent) or fixed income (19 per cent).

However, Mehta highlights that the pandemic has presented some "short-term headwinds", with the transportation sector particularly hard hit by the pandemic, stressing that the disruption of global supply chains will also affect construction timelines for infrastructure "across the board".

On the other hand, RPMI Railpen and Wrenbridge recently announced that they had secured planning consent for a warehouse development in Waltham Cross, London. This will not only deliver jobs for the borough of Broxbourne, but was also one of the first virtual planning committees held since lockdown.

Murphy adds that the majority of infrastructure has "fared well during Covid", noting that whilst the volatility throughout the crisis had been a "test on the sector", the asset has proven its "resilience and demonstrated itself to be a long-term defensive investment".

The benefits of infrastructure within a portfolio can also be seen in the LPF, which noted in its recent financial report for 2019/20 that its infrastructure portfolio includes "essential critical assets" that benefit from contracted or regulated income streams, expected to largely insulate the portfolio from "material adverse financial impacts derived from Covid-19".

Mehta notes that more broadly, the crisis has demonstrated the importance of infrastructure to the UK economy, predicting that it will "remain a critical component of strategy and an ideal class for backing liabilities" for pension funds. The LPF, meanwhile, argues that this could also see a re-rating of low volatile essential infrastructure assets.

Building back better

Murphy adds that whilst it is encouraging to see infrastructure as a "key pillar" in plans to rebuild the UK economy, the government announcement, which will see billions of pounds directed towards social infrastructure investments, has suggested a preference for private capital to be focused on consumer-funded assets, rather than support improvements to social infrastructure and transport; further restricting pension scheme access to the social infrastructure space.

Achieving a net-zero future, however, is a "significant challenge" that will likely offer an opportunity for private investment to demonstrate its long-term value, Murphy stresses. Indeed, in the government's summer economic update, Chancellor Rishi Sunak emphasised that this would be a "green recovery", with concern for the environment at its heart.

"This means that the infrastructure opportunity in the UK is heavily focused on the energy transition," Murphy explains, adding that whilst infrastructure is not akin to impact investing, it should still be viewed as a similar win/win.

"Infrastructure investments work from a financial point of view, from a risk and return point of view, and they're also very ESG positive; that's why they are attractive to pension schemes," he says.

Equally, Lumb notes that a step up in focus on ESG by pension schemes has also led to a "strong and growing interest in sustainable infrastructure".

"The renewable energy sector was the initial beneficiary of this trend," he explains, clarifying that appetite for social infrastructure has increased as investors have become more familiar with the sector and the "essential role" it plays.

The LPF also highlights pension schemes as key in providing "green and sustainable infrastructure for all", with around 17 per cent of its own infrastructure portfolio already invested in renewable energy. At the PLSA Investment Conference earlier this year, Pensions Minister Guy Opperman also highlighted low-carbon infrastructure projects as a climate-related opportunity.

However, Mehta states: "To effectively harness the potential of infrastructure investments, pension schemes will need to carefully assess sector selection, thoroughly test the quality of underlying cashflows and devise the most optimal framework for collaboration with government, in light of the expected increase in fiscal deficits."

Speaking at an industry webinar in June, the Department for Work and Pensions (DWP) director of private pensions and arm's length bodies, Pete Searle, emphasised that the department was looking to talk with "people in the system" to find out what the blockages were, and what the government needs to do to remove them. Infrastructure investments then seem like a potential win/win/win for the pensions industry, the broader economy, and environmental objectives. Considering the growing scale in the pensions industry, and campaigns such as the newly-launched Make My Money Matter *[see p45]*, bringing renewed member attention to where investments sit, it seems likely this trend will continue to grow. But only if the government and industry are ready to work together.

Written by Sophie Smith

Make My Money Matter

At this critical moment, when we reflect on systemic threats to our economy and reimagine the world we want to grow old into, our money matters more than ever, says David Hayman, explaining why the Make My Money Matter campaign was recently launched

Over recent times, people have increasingly been asking the question 'what can I do, through my own actions, to make an impact in the world?'

We've seen it in the clothes we buy, the food we eat and the holidays we take. We've seen it in the companies we work for, the media we consume, and the brands we buy from.

Now, we believe we're going to see it in where we put our money.

For too long, there's been a disconnect between the money we save and the everyday decisions we make. A recent YouGov survey commissioned by Make My Money Matter found that nearly three-quarters of Britons either do not believe or do not know whether their pension is invested in line with their values.

That's why we have vegans accidently invested in the meat industry, climate campaigners invested in fossil fuels, and scientists invested in tobacco. Whether you agree with the merits of divestment or engagement, it's difficult to argue in favour of such a disconnect between investor and investments, such an imbalance between principles and practice.

That's why we've launched Make My Money Matter – a brand new campaign working to empower each and every one of us to know where our money is invested, to understand the impact it is having, and to ensure it aligns with our values, while still getting a good return. If we do this, we think we can help direct the £3 trillion invested in UK pensions to build a better world for us all.

We know the demand for 'investment with values' is there. A government survey last year found that 68 per cent of UK savers want their investments to consider people and planet alongside financial performance. Even in the context of Covid, our survey found that a third of savers care more about the social and environmental impact of how their pension is invested compared with at the start of the pandemic.

We also know that this presents a huge opportunity for the industry, with over half the population saying they would actually save more if their investments considered people and planet. Franklin Templeton estimates that young savers alone would boost their contributions by £1.2 billion if providers considered responsible investment more in their products.

Finally, we know the question of values or value is a false choice. With the majority of sustainable investments matching or outperforming traditional funds over the past decade, there doesn't have to be a trade off between investing in line with your beliefs and getting healthy returns. As Nest CEO, Helen Dean, outlined recently: "We fundamentally believe that well-run companies with sound social and environmental practices are a lot more likely to be profitable over the long term."

So, over the coming months we'll be harnessing this demand for increased transparency and accountability in our investments, to call on the pensions industry to do three things. Firstly, to listen to savers, and explain how our views and values have influenced their investments. Secondly, to play their part in tackling the climate emergency by committing to Net Zero, with a halving of their carbon emissions by 2030. And finally, to grow the amount of investment that is focused on having a positive impact on people and planet.

If we do this, we believe we can create a generation of savers who are engaged with their money, and proud of their pensions. After all, what's the point of saving for retirement if we don't have a world we want to retire into?

Written by Make My Money Matter campaign director, David Hayman

Make My Money Matter (MMMM)

Make My Money Matter is a campaign group calling to shift the £3 trillion in the UK pensions pot into sustainable investments. It was set up in collaboration with sustainable finance advocates, impact and institutional investors, creative campaigners, the private sector and the government.

MMMM was founded by Richard Curtis, writer, director, UN SDG Advocate and co-founder of Comic Relief; and Jo Corlett, former special adviser for No. 10 and the Department for International Development.

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Investing responsibly for our customers – *Maria Nazarova-Doyle explains why investors can't lose sight of the importance of responsible investing during the Covid-19 crisis* ***p48***

Investing in a greener tomorrow – *ESG has increasingly been on the pension scheme agenda, but could the current pandemic mark a sea-change moment for responsible investing?* ***p50***

Sustainability focus:

Growing interest

Scottish Widows head of pension investments, Maria Nazarova-Doyle

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Investing responsibly for our customers

Maria Nazarova-Doyle explains why investors can't lose sight of the importance of responsible investing during the Covid-19 crisis

Right now, it can be difficult to think of anything that's as important or challenging as the Covid-19 pandemic, and Scottish Widows is working hard to deal with its impact and help our customers through this difficult period.

But we must also look beyond the virus, and it's in this context that we recognise that environmental, social and governance (ESG) factors such as climate change are some of the biggest issues facing society today. We're proud to be part of Lloyds Banking Group (LBG), who have really taken the initiative in supporting a greener economy, and we can make a real difference to tackling these challenges by helping to finance a greener and more prosperous future together.

We believe this will require new ways of living, working and investing for our business and our customers, and our experience during the Covid-19 lockdown suggests that different ways of doing things are feasible and would benefit the environment. In early June both Scottish Widows and LBG co-signed a letter to the Prime Minister from the UK Business Group Alliance for Net Zero, in which we and other business groups urged Mr Johnson to ensure we don't lose sight of climate change in our haste to help the economy recover, and we aim to build a more sustainable, inclusive and resilient UK economy for the future.

There is an urgent need to transition to a low-carbon future, grow the green economy and tackle inequalities for the future prosperity of the UK. As a group, we have recently set ourselves an ambitious goal to accelerate working with customers, government and the market to help reduce the carbon emissions we finance by more than 50 per cent by 2030 - the estimated equivalent of removing the emissions produced by almost a quarter of UK homes.[1] The Global Commission on the Economy & Climate has estimated that over the next 15 years, approximately $93 trillion will be needed for investment in low-carbon infrastructure across the world to meet global targets.[2]

While we don't have all the answers today, we are committed to making progress across the breadth of our operations. For example, through Lex Autolease, we have one of the UK's largest ultra-low emission vehicle fleet, with more than 21,000 ultra-low emission vehicles.[3] Also through our £2 billion Clean Growth Finance initiative, we offer discounted finance to Commercial Banking clients investing in a lower carbon future. Through this initiative, Lloyds Bank and Scottish Widows have provided collective funding of £273 million for the world's biggest offshore wind farm, Hornsea Project One.[4]

Our commitment to helping Britain prosper

Using the expertise we have across Lloyds Banking Group, we are actively engaged in unlocking further investment in support of the transition to a low-carbon economy – which we believe will lead to delivering stable, long-term sustainable returns for our customers. We currently lend more than £7 billion from our growing annuity fund to support housing, higher education, sustainable energy and infrastructure projects.[5]

Scottish Widows' responsible investment approach

Scottish Widows is a signatory to the UN Principles for Responsible Investment and the Institutional Investors Group on Climate Change (IIGCC). Our work with IIGCC encourages public policy solutions to ensure an orderly transition towards a low-carbon economy, and also helps encourage and inform investment practices aimed at preserving and enhancing long-term investment value.

As a leading pension provider in the UK, Scottish Widows is looking after the retirement savings of millions of hard-working people. Given the nature of the products we offer, our goal is to help our customers secure their financial future and so it is imperative we understand the financial implications of ESG issues. Where we believe these factors pose downside risk to investments or offer potential upside opportunities, we will incorporate them into our investment decision making.

To refine our approach, we recently launched our Responsible Investment and Stewardship framework, outlining plans to enhance our sustainability practices and influence positive change across the industry.

The framework provides greater transparency on how we will develop our investment fund range, helping address material financial risks and opportunities linked to ESG issues. It also helps shape decisions on asset allocation, manager selection, fund research and engagement activity.

Developed by Scottish Widows' Responsible Investment team, the focus of the framework is to integrate responsible investment activity across the fund range and ensure it meets customers' evolving needs.

Made up of Six Principles of Responsible Investment, the framework includes implementing exclusions across funds managed and mandated by Scottish Widows, such as the funds we use in our default workplace pension investment options; reducing the carbon intensity of their equity exposure; and developing a broader range of funds that enables customers to support causes close to their hearts.

With the aim of extending these principles to all asset classes over time, the team is working with policymakers and the industry to promote direct investment opportunities required to successfully transition to a lower carbon economy.

Better stewardship leads to better long-term investment outcomes

We believe that effective stewardship drives better long-term investment returns for our customers. So our new framework also outlines our stewardship approach to influence positive change among companies we invest in. Most of our customers will invest with us for decades and material risks that are on the horizon will impact their savings if we do not take action now. So we will be active in our stewardship approach and will focus activity on those companies which are failing to address climate change risks. We will challenge them to report on the financial impact of climate change on their business, to improve their business practices and reduce their carbon footprint.

While we delegate voting activities to our investment managers, we will work together with them to understand their voting practices and will monitor their voting activities to ensure their approach to systemic issues like climate change and other major risks allows for the value of investments to be preserved and, where possible, enhanced. Should material concerns arise, we will take action and vote our shares directly.

When implementing our exclusions policy, we recognise that removing all bad performers on material ESG factors would mean we lose the opportunity to drive positive change. So we will restrict exclusions to the most controversial companies where we believe engagement will not yield results, while striving to influence investee companies to engender positive change. Where we have a material holding we will always seek to engage first before divesting. Where we do not see material progress we will use our shareholder rights to challenge the company and will divest where it is clear that progress will not be made.

When selecting investment managers, we will pay particular attention to their ESG and stewardship credentials and will hold them to account, insisting that they demonstrate that they are doing what they have committed to.

It is also important to us that we practice what we preach. Therefore we are looking at ways of improving our own sustainability practices for the benefit of our customers and shareholders and to continue to build a future worth living in.

To learn more about the Scottish Widows approach to responsible investing, visit www.scottishwidows.co.uk/responsibleinvestment

Written by Scottish Widows head of pension investments, Maria Nazarova-Doyle

In association with SCOTTISH WIDOWS

Sources
1. Ministry of Housing, 2017.
2. Global Commission on the Economy & Climate, 2014.
3. Lex Autolease, Feb 2020.
4. Lloyds Banking Group, Feb 2020.
5. Lloyds Banking Group, Feb 2020.

Investing in a greener tomorrow

ESG has increasingly been on the pension scheme agenda, but could the current pandemic mark a sea-change moment for responsible investing?

Environmental, social and governance (ESG) factors are increasingly viewed as a core aspect of investing, and recent months could mark a point of change for industry action on ESG issues. Whilst in January a survey by the Society of Pension Professionals (SPP) revealed that the majority (57 per cent) of funds have made no portfolio changes, despite genuine interest in ESG, SPP president, James Riley, argues that changes are now starting to take place.

"We are seeing some schemes being particularly proactive in the area with ESG being viewed as one or more of: a return driver, a risk management tool or an opportunity to align a scheme's investments with the values of the scheme and sponsor," he explains. And whilst motives may differ, an increasing number of large schemes have upped their commitment to responsible investing over recent years, potentially marking the end of the 'early stages' of ESG, and the start of more action-based trends.

Nest, for instance, recently announced that it had fully divested from the tobacco industry a full year ahead of schedule, whilst June also saw the Universities Superannuation Scheme announce plans to exclude a number of "financially unsuitable" sectors.

This type of action is perhaps more in line with the initial aim of socially responsible investing (SRI) than the direction of some regulatory updates. As Scottish Widows head of pension investments, Maria Nazarova-Doyle, explains, SRI was originally developed to allow investors to avoid companies they disliked for ethical or values-based reasons. This has shifted to become what is now known as 'exclusions' or 'negative-screen' investing, with other SRI strategies developed over the years, such as positive screen or thematic investing, where only companies aligned to the investors' values are held.

Increasingly, pension schemes are also looking to use their influence as a shareholder, within less ESG compliant sectors, to promote positive change, rather than simply "running away from the problem", PTL managing director, Richard Butcher, highlights.

He adds that, whilst fiduciary duty is at the core of any investment decision, for a pension scheme trustee, this means working to identify and mitigate risks for a long-term horizon that will inevitably capture more climate-related risks. Butcher says that, in this context, it is reasonable for trustees to question whether some organisations, such as those in the oil or tobacco industries, will continue to exist amid societal pressures.

While in the past such extremes may have seemed unlikely, the Covid pandemic has set new precedents in every sector, and every country. Pension investments are no exception.

The changing tide?

"This is a watershed moment for sustainable investment," stresses

Nazarova-Doyle, emphasising that ESG strategies have proved resilient relative to other funds through the recent market downturn resulting from the Covid-19 outbreak. She notes that this has already translated into action, as investors continue to 'pour' money into ESG funds. In fact, according to research firm Morningstar, around $45.6 billion was funnelled into ESG funds in the first quarter of the year, compared to outflows of $384.7 billion for the overall fund universe.

Nazarova-Doyle stresses that whilst this performance will undoubtably be, in part, driven by limited exposure to oil and energy, the bias of ESG funds towards well-run businesses, underpinned by good governance and strong balance sheets, will have been crucial in helping them to "avoid the worst of the turmoil".

Proof in a pandemic

Indeed, Sackers partner, Ralph McClelland, describes the pandemic as a "potent illustration" of the volatility that can be caused by natural events, in turn highlighting how important and challenging effective financial risk management is. Dalriada Trustees responsible investment officer, Clár Christie, explains that these lessons should be applied to climate risk now, emphasising that if trustees act now to adjust their investments according to climate investment research, they can proactively work to limit exposure to those sectors.

Considering the impact of a global event such as Covid-19 on markets, Christie stresses that, should the physical risks associated with climate change occur in the future, it seems likely that this kind of global market shock could happen more often. "And given the irreversible nature of climate change, it may be more difficult to recover from these shocks," she adds.

Nazarova-Doyle states that the sheer scale of the Covid crisis could also "radically change investor perspective" as to what sustainable actually means, clarifying that it should be about companies making decisions in the best interests of society and their workforce, allocating capital responsibly and mitigating the climate impact of their businesses.

Adding to this, Riley notes that although the financial benefits of ESG have been "borne out in the initial phases of the pandemic", the crisis has also seen consumers embrace "togetherness and social responsibility".

"Their expectations are likely to move the focus from shareholder value towards recognising that the long-term viability of companies is intrinsically linked to the wellbeing of all their stakeholders including employees, suppliers, customers and communities," he explains.

Indeed, the ongoing pandemic has seen an increasing shift towards the social impact of corporate actions, with some firms praised for their proactive stance, and others quickly condemned for their failures. PLSA senior policy lead of investment and stewardship, Caroline Escott, says that it is not only a social issue but that, overall, it makes "good financial sense" for schemes and employers to be considering the 'S' in ESG now more than ever.

"How companies behave now towards their workforces will likely have a material impact on their future revenue, operating costs and even the post-Covid-19 regulatory environment. This in turn has consequences for scheme investors' risk-adjusted-returns and ultimately for the value of beneficiaries' savings," she says.

An engaged membership?

Whilst there will likely be a renewed focus on environmental and social issues following the crisis, Nazarova-Doyle argues that the pensions industry has "long been failing" to engage members on ESG issues. She argues that sustainable investments have the power to 'unlock' member engagement, by empowering savers with the knowledge that their savings are being used to build a future worth living in.

However, Butcher notes that whilst there is consumer-led demand, there is not currently an equally corresponding amount of purchase activity by members. As such, the immediate focus for many pension schemes will remain on meeting regulatory updates.

As McClelland notes, recent years have seen a shift in gear towards ESG investing, and work for the foreseeable future will focus on regulatory compliance, both in terms of the changes to scheme statement and investment principles for 1 October 2020 and preparing for the upcoming requirement to publish implementation statements, which explain how trustees have complied with some parts of their obligations.

Asking the question

However, Nazarova-Doyle predicts that the pandemic will actually see increased demand in communication from schemes to their members, to better explain how their investments are helping in the economic recovery, and working to 'build back better' towards a low-carbon economy. Considered alongside consumer campaigns, such as the newly launched Make My Money Matter (MMMM) Campaign, which was co-founded by film director, screenwriter and producer, Richard Curtis, it seems likely that member pressure on ESG issues will only increase.

The MMMM campaign has already brought renewed attention to pension investments, with familiar names such as Gary Lineker openly discussing the issues around where pensions may be invested. So one thing that is increasingly clear is that ESG is going nowhere. The time for deliberation is over; now is the time to make sure that members have a pension they can genuinely be proud of, in a world they can be proud of.

Written by Sophie Smith

In association with Scottish Widows

Building on a solid foundation

Capital Cranfield professional trustee, Hugh Creasy, sits down with Jack Gray to discuss his role as a sole trustee in the buyout process of the Unomedical Pension Plan

In March 2020, the Unomedical Pension Plan completed a £10 million buyout with Aviva, covering all 65 members of the scheme. The sponsoring employer of the scheme, ConvaTec, merged with Unomedical in 2008 and took on the responsibility for managing the scheme. Working with Aon and Eversheds Sutherland's streamlining solution for smaller pension schemes, Pathways, the sole trustee and sponsor got the deal over the line.

Capital Cranfield was appointed as the sole trustee of the scheme to handle the wind-up process, with its professional trustee, Hugh Creasy, leading the team.

How prepared was the scheme for buyout?

The lay trustees had done a terrific job in tidying up the pension scheme and getting it very well placed, with an eye to moving it on to buyout. They had reached a point where they had built up enough of a fund and with a low enough risk profile to give comfort that they would be in a nice stable position. At that point, the estimates were that the scheme was about 90 per cent funded of the buyout target.

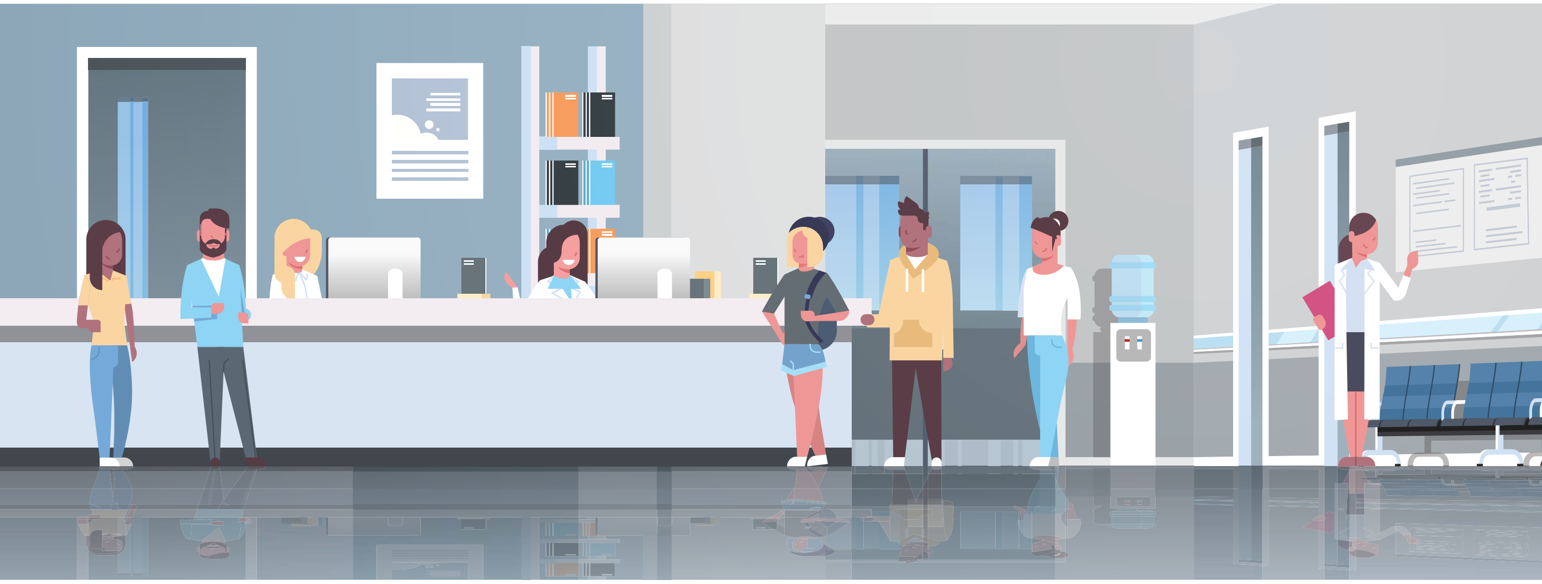
They felt that they had been very comfortable in running it as a board of lay trustees and were happy with where they had reached, but they had a choice of either learning how to do a wind-up or hand across the scheme in a good shape to a sole professional trustee and ask them to now hold the reins.

It came to me with the agreed target being to get to buyout, and a great deal of this was having the foresight to anticipate that we need to get to a place where the investments have been de-risked in a way that is good for buyout and to plan ahead on those finances to allow a gradual progression into the place where it is fully funded. I think there was good foresight on that score from the former trustees. My life was made considerably easier by good planning from the lay trustee board.

Was the data ready and in place for full buyout?

Not entirely but it was not in a bad position. When I came in we started looking at how to get ourselves into a position where we felt we had absolute confidence that we properly understood the benefits, the members shared our understanding of their benefit terms, and we were at a point where we could go to an insurance company and say: "We have already gone through all these steps so you can have absolute confidence that it is worth talking to us about terms because we will be able to move straight on."

We weren't the biggest transaction in the world, so we needed to be able to get the insurers' attention, and making sure that everyone understands their benefits



in sufficient detail that the insurance company is going to be happy was a crucial part of it. That was something we did largely during 2018. I came on board towards the end of 2017 and one of the first steps for us was getting the data and legals bottomed out. That involved writing to members and making sure that we knew where everybody was, making sure that GMP reconciliation was all closed off and ensuring that everyone had the opportunity to come back to us.

What were the advantages and disadvantages of being a relatively small scheme?

A fundamental part to it is that the life events of individuals can have a meaningful effect on the finances themselves. We started out with a reported deficit against an insurance premium that was sufficiently high that the sponsor was not able to put in cash and close it off. But if you take a few cases where the individual feels they are coming up to retirement age and want to take a transfer value, you can pay out a fair transfer value without necessarily having to go to the margins that the insurance company would require. That accelerated the speed at which we moved towards full buyout.

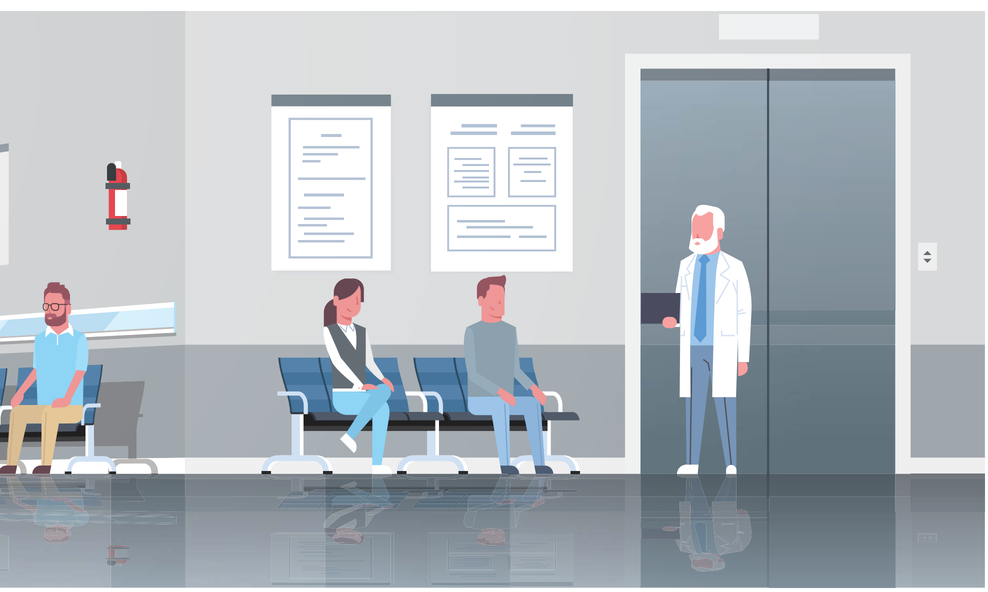
An advantage of it being a small scheme was being able to get on top of all the meticulous data and being able to say we had replies from every member of the scheme was very achievable.

A disadvantage is around insurer appetite, in that we know that the market is challenging because there is a relatively limited supply both of insurers who are interested in taking on the business and also of people with the expertise in those insurers who can then focus on your case.

We first went to the market in August 2019, after conducting a detailed assessment, to say that a transaction was entirely viable for us.

We were in a good place on the legals and the data, and we thought that the finances were there. The reality was that there were only a few interested in that market at that particular time and, even then, there was still a wait of around three months before getting a quotation back because the insurers had sufficient volumes in their pipelines which meant we were having to join a queue.

Even once we had our quotations back and were ready to go, it still took time. We were in that position by early January 2020 and completed the trade by the end of March.



Why did you decide to use Pathways?

There were a couple of things in its favour. Our existing legal advisers were Eversheds, who developed Pathways with Aon. We appointed Aon to carry out this task, the buy-in, buyout and to lead us through to wind-up using their expertise. Having Pathways, which uses pre-negotiated legal contracts, when you are going to be setting up a contract with an insurer means that the lawyer has a clear brief, the fee is straightforward and we did not have any of the circus you get with some non-pre-negotiated contracts.

What role did the sponsor play?

It has been a really positive relationship with the sponsor throughout. When I first came in, I think the assessment was about £1.5 million short of full buyout. We had a conversation as to whether that was too much to be writing off at this stage and taking a cheque, and it was. So, we had a conversation as to how close we needed to get. The sponsor was very happy and wanted to remain informed but had looked to appoint a sole trustee to manage the process.

As we got to the middle of 2019, we could see that the terms available in the market were looking a lot more attractive to us and we had member activity, which helped bring us in closer. At that point we started to engage more consciously and set up a working party of myself and key representatives from the sponsor so we could make decisions rapidly and from a well-informed base.

All the decision making, although it formally lands with the sole trustee, had been taken with soft agreement from the sponsor. We had been on the same page throughout.

If you get the basics right, make sure that the trustee and the sponsor are on the same page, and you have the right team around you that really understand the market, it will work.

Written by Jack Gray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Pensions and divorce: An uneven split

Following on from the divorce bill recently achieving Royal Assent, Adele Woods explores how divorcing couples are more likely to disregard their rights with pensions

Confirmation that The Divorce, Dissolution and Separation Bill has received Royal Assent means that once in force it will be even easier for divorcing couples to obtain a divorce independent of legal support. This could see people disregarding their financial claims and in particular those relating to pensions.

In many cases, even now, where people utilise divorce online, they remain completely unaware that their financial claims remain live. The reality is that obtaining the final decree of divorce (called the 'Decree Absolute') only terminates the marriage and it does not, contrary to popular belief, end the financial tie between ex-spouses.

Often a pension can be the biggest asset of the marriage. When it comes to dividing pensions the court does not take into consideration future earnings and need only divide the sum as it stands at the time. Yet there are many factors to consider, including the age of the parties and whether the pension is in payment. This is often complex and can require an expert report in order to achieve fairness.

Most clients pay little attention to the value of their pension but it is advisable that everyone regularly reviews their pensions and remains aware that in the unfortunate event that their marriage comes to an end they will need to be addressed.

From experience there is also the assumption, often by the party with the larger pension asset, that by not doing anything they will be preserving the pension in its entirety for themselves, but this is a risky position to take as ex-spouses can make claims against their previous partner's pensions many years or decades after the divorce has been finalised. The court will often take the current value and not back-date to the time of the divorce. Over recent years, there have been many high-profile cases in the press that have seen successful claims for money and assets, such as pension contributions, being made even where parties divorced years before.

Another concern is that, even if couples choose to divide their pension using a pension-sharing order and their ex-spouse passes away after the final decree of divorce is granted but before the order comes into effect, there is a chance the order could fail. The ex-partner would be unable to claim as a widow or widower leaving them financially vulnerable.

The Law Society has campaigned that the bill should be amended so that a final divorce order cannot be granted until the pension sharing order has taken effect – ensuring no party faces unfair financial burdens – however this has not been incorporated into the bill.

It is therefore imperative that finances, and in particular pensions, are dealt with at the same time as divorce proceedings. If you are considering divorce we would recommend that you obtain legal advice at the outset.

Written by Smith Partnership family team associate, Adele Woods

Summary
- Occupational pensions are the second-most significant contributor to retirement income, accounting for 30 per cent of average weekly income.
- Inequality is rampant in terms of occupational pension income, with women and BAME pensioners receiving less than their White British male counterparts.
- The proportion of retirement income coming from workplace pensions is on the rise and is likely to continue climbing.

Saving nuts for winter

How much income do occupational pension schemes provide for retirees and what does the retirement income landscape look like? Duncan Ferris delves into the statistics and sheds light on pension income inequalities, and how future generations' retirement takings are being damaged in the present

The humble squirrel is the quintessential sensible saver of the animal kingdom. Red, grey or black, they spend the autumn months stashing caches of delicious nuts in the cold ground so that they can return and enjoy a healthy feast when the earth has hardened with frost and fresh food is sparse.

Much as the small, branch dwelling rodent devotes a great deal of its time to burying nuts in the ground for future food, sensible humanoid savers will spend their working lives squirrelling away wages into occupational pension schemes to enjoy in the winter of our lives. But to what extent are these savings responsible for savers' income as they reach their later years, what factors affect their contribution and what does the future hold?

Income breakdown

Data from the Department for Work and Pensions' (DWP) *Pensioners' Income Series 2018/19* indicates that 69 per cent of pensioners received income from an occupational or personal pension in 2018/19.

The figures show that occupational pension income accounted for 30 per cent of total gross income for all pensioner units, defined as a pensioner couple or single pensioner.

This was overshadowed by benefit income, including the state pension, which made up 43 per cent of income.

Earnings income was the other major contributor, making up 14 per cent of income, while income from investments, personal pensions and other sources made up 8, 3 and 1 per cent respectively.

Unsurprisingly, occupational pension income was the most significant form of income for couples and single pensioners in the highest-earning fifth, accounting for 42 and 35 per cent of their respective incomes.

Comparatively, couples and single pensioners in the bottom fifth saw less than 10 per cent of their income coming from occupational pensions, as they relied on benefits for 78 and 86 per cent of their respective incomes.

Whilst this illustrates the importance of a significant contribution to income from an occupational pension, evidence of a slowdown in growth of pensioner income threw into even sharper relief why saving into a workplace scheme is becoming more essential.

Despite weekly average pensioner unit income having increased by just 10 per cent from £500 to £550 between 2008/09 and 2018/19, this same period saw weekly occupational pension income increase by 38 per cent, from £121 to £167.

The decade beforehand saw weekly average pensioner unit income rise by 39 per cent from £360 to £500, while occupational pension income climbed by 30 per cent from £93 to £121.

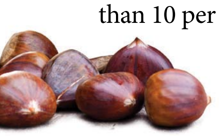
This means that, even though growth in average overall pensioner income has slowed across the two decades, income from occupational pension schemes has actually accelerated.

This has been possible because two of the other most significant forms of income, benefits and investments, have seen their contributions to pensioner units' weekly gross income decline, dropping from respective levels of 46 and 12 per cent to 43 and 8 per cent between 1998/99 and 2018/19.

Inequality

While it is worth noting that pensioners' disposable income growth appears to have slowed, it is equally key to recognise that pension income is not the same across the board, with some sections of society sadly receiving a rawer deal than others.

Overall income inequality among retired households is on the rise, according to data from the Office for National Statistics (ONS), which showed inequality had increased by 2.4 percentage points in 2019 to 31.6 per cent.



One stark example of inequality has been illustrated by research conducted by the Pensions Policy Institute, which found that the average woman's pension savings stood at £51,000, under a third of mens' £156,500.

Divorced women were found to be an even more vulnerable group, with median pension wealth of £26,100 and a private pension income of £3,880, 42 per cent below the national average.

According to data from the DWP's *Pensioner Income Series 2018/19,* occupational pension income was £80 per week and made up 25 per cent of single women's gross income in 2018/19, compared to £124 and 29 per cent of single men's income.

Single women received an average of £323 per week, significantly lower than the £435 received by single men, and they were much more reliant on benefits and the state pension, which made up 64 per cent of their income and 47 per cent of their male counterparts'.

The proportion of single women's gross income stemming from an occupational pension has increased from 18 per cent in 1994/95, while the proportion for single men was unchanged at 29 per cent.

Consequently, single women are marginally less reliant on benefits, with benefits and the state pension having supplied 67 per cent of their gross income in 1994/95, although there remains a clear disparity between male and female retirees.

PensionBee head of corporate development, Clare Reilly, says: "The gender pay gap should not be something that rests on women's shoulders alone. The government should do more to tackle it as we know where there's discrepancy in pay a discrepancy in pensions will follow."

Gender is not the only issue where there is an imbalance, as there is also an evident divide along racial lines.

DWP data released in 2019 showed that White British pensioners received a weekly occupational pension income of £160, 4 per cent above the national average of £154.

Black pensioners received just £62 per week, 60 per cent below average, Asian pensioners received £69 a week, 55 per cent below average, and Mixed-Race retirees took home £81 per week, or 47 per cent below average.

Additionally, White pensioners from non-British backgrounds received £97 of occupational pension income per week, or 37 per cent below the national average.

DWP data showed that, between 2016/17 and 2018/19, BAME pensioners were less likely to receive income from an occupational pension, with just 30 per cent of Asian pensioners and 41 per cent of Black pensioners enjoying a contribution to their income from workplace schemes.

This was significantly lower than the 61 per cent of White pensioners who received income from the source.

The White British group of pensioners also received more in benefit and personal pension income each week, leaving their contemporaries from other racial groups receiving significantly lower total incomes.

Participation

In terms of current trends, the proportion of employees with an active workplace pension has increased from 43 per cent in 2012 to 77 per cent in 2019, according to figures from the ONS' *Annual Survey of Hours and Earnings.*

However, Royal London pension specialist, Helen Morrissey, still expresses concern, as she explains: "Thanks to auto-enrolment investing in a pension has become business as usual for millions of workers.

"However, there remains concern that people believe the current 8 per cent minimum contribution will be enough to secure a decent retirement income and not feel the need to increase contributions beyond this point.

"The reality is that a contribution more like 15 per cent is needed. We need to make people aware of the importance of contributing beyond the 8 per cent minimum wherever possible."

Despite this concern that contributions might not be at a high enough level, we can broadly extrapolate from trends and increased participation that workplace pension schemes are likely to make up a greater proportion of retirement income for future generations.

There does remain a potential complication in the form of the unignorable impact of coronavirus, which, according to a survey by Scottish Widows, has resulted in 10 per cent of working age people with pensions reducing contributions or ceasing saving altogether due to the crisis.

Furthermore, figures from the ONS have demonstrated that the number of employees on payroll fell by more than 600,000 between March and May, when the pandemic was at its most volatile.

Though the impact of Covid-19 could turn out to be a short-term issue, it may present a palpable threat to future occupational pension income if the nation's economic recovery does not go smoothly.

Overall, It seems that it is more essential than ever for savers to diligently siphon their savings into workplace schemes because of their increasing importance, just as the humble squirrel buries its nuts to see it through the barren winter.

Written by Duncan Ferris

Summary
- Despite being introduced for positive changes, some policy can have unintended consequences.
- Some policies, such as auto-enrolment, are so wide-ranging that unforeseen circumstances are nearly inevitable.
- Pension tax is a complex area and reform can lead to national crises, as has been seen with NHS pensions and the tapered annual allowance.
- These unintended consequences can carve a path for further policy changes to address the issues brought about by the initial changes.

Unintended consequences

Whatever guise they take, most changes in the pensions sector are designed to bring about positive outcomes. However, they can have unforeseen negative impacts. Jack Gray investigates some of the changes that have had unintended consequences

Despite the stereotype that the pensions industry is slow moving, policy in the sector appears to be ever-changing. It has seen huge reforms over the past decade and there are constant discussions on how to improve pension outcomes. Although changes are nearly always well-intentioned, they can bring about unforeseen circumstances that are not always beneficial.

Getting involved

One of the biggest pension shake-ups was the introduction of auto-enrolment (AE) in 2012. However, the journey to requiring people to join a workplace pension scheme began many years prior.

"The legislation that introduced personal pensions in the late 1980s also permitted employees to opt out of their employers' pension schemes if they wished," begins LCP senior partner, Bob Scott. "The result was a huge mis-selling scandal, driven by commission-hungry insurance salespeople who advised individuals to give up their generous employer-funded schemes. It took another 25 years before AE required individuals to join their employers' schemes once again."

AE has helped more people than ever in saving for their retirement. LGIM head of DC, Emma Douglas, notes that although the success of AE has been "tremendous", its introduction means that "engagement has not increased".

"We have created a nation of 'triple defaulters' who remain on the 'factory settings' of the default contribution rate, default retirement age and default investment fund," she adds.

Squire Patton Boggs partner, Matthew Giles, agrees that the policy has been a success. However, he warns that it may have set false expectations about what level of pension contributions are needed to have a comfortable retirement and has allowed some employers to justify reducing their contributions to the AE minimum.

AE may have also led to an increase in dormant pension pots. PensionBee research suggests that the number of dormant pots will increase to 21.5 million in 2020 due to Covid-19, with the majority being AE pensions. "Due to AE we are likely to see a significant increase in abandoned pension pots," explains PensionBee CEO, Romi Savova. "DC pensions, which are received by employees under AE, are the fastest growing type of dormant pension, with an expected increase of 48 per cent, from 10.2 million dormant pots in 2019 to 15.1 million in 2020."

Tax reform

The ongoing debate surrounding pension tax continues in 2020. The controversial and complex topic has had many instances of well-intentioned changes leading to unsavoury circumstances. The most high-profile case was in the NHS Pension Scheme, which saw widespread opt-outs and workers cutting their hours to avoid tax bills resulting from the tapered annual allowance.

"Tax reform often has unintended consequences," says Giles. "The introduction of annual and lifetime allowances to pension saving means that pension saving is no longer tax-efficient for some high earners or long-term members of defined benefit (DB) schemes."

Gowling WLG pensions partner, Chris Stiles, adds that, although the allowances aim to ensure that retirement savings were only given tax privileges up to a certain point, they have become a "complicated minefield". He states that the issues have been exacerbated by a "reduction in the allowances relative to their starting point" and as features, such as the money purchase annual allowance (MPAA), have been "bolted on".

"Even a small mistake by taxpayers can lead to devastating tax consequences," he notes.

The Covid-19 pandemic has created further unintended consequences of pension tax policy. LGIM head of product policy strategy, Colin Clarke, points to the MPAA as an example. He states that many people have accessed their pensions earlier than they may have expected due to the crisis and, because they are now subject to the reduced allowance, "they are restricted in how much they can pay in to build up their pots for when they do actually retire and need the income".

Scheme funding

Policy around scheme funding throws up some examples of changes that were later rectified after unintended consequences were identified. The minimum funding requirement, introduced in the Pensions Act 1995, was designed to ensure that schemes had an achievable funding target, which was set relatively low with the aim of making it accessible for all. However, as Giles explains, it became the default funding basis, rather than acting as a minimum, and had a "levelling down effect".

"It was ultimately discredited as too weak and replaced in 2005 by the scheme-specific funding requirement," he continues. "As part of the new funding regime that followed, The Pensions Regulator (TPR) at one point adopted an approach of challenging valuations where the recovery period was over 10 years. The reaction to this was for some schemes to treat the 10-year timeframe as the new standard – the trigger point was later dropped.

"Now the regulatory pendulum is due to swing back to a more standardised funding approach, which will inevitably have further unintended consequences."

Potential unintended consequences can be identified in the proposal stage of future changes. Scott says that TPR's DB funding code consultation, which gives trustees the option of 'fast track' or 'bespoke' approaches for completing scheme valuations, could result in an increase in contributions for certain employers. It may also result in lower contributions for others whose funding assumptions are more prudent than fast track.

"TPR also encourages de-risking so that pension schemes rely less on investment returns from investment in growth assets," he adds. "However, if the resultant contribution demands lead to earlier failure of the sponsoring employer, members may end up receiving a lower proportion of their benefits than if the de-risking had not taken place."

The price of freedom

Arguably the biggest change in pension policy in recent times was the introduction of pension freedoms in 2015, which gave people more personal responsibility with their savings and altered the way they planned for retirement.

Although it is an attractive policy, according to PLSA head of DC, master trusts and lifetime savings, Lizzy Holliday, it does have a "costly" side-effect. "The new options for savers shift the effects of uncertainties like life expectancy and the performance of markets onto the individual in retirement," she says.

"Evidence suggests savers are not engaging in complex decision making required to manage these risks, and potentially losing out as a consequence."

Foresight

Foresight on the possible consequences of policy changes can solve problems before they arise. The government recently published its first draft of its Corporate Insolvency and Governance Bill, designed to provide emergency protective measures to help companies survive disruptions caused by Covid-19.

"In its original drafting, the bill had the potential to create a situation where bank lenders were higher up the pecking order for recovering cash than employees' pensions in the event of a company insolvency," explains PLSA head of DB, LGPS and standards, Joe Dabrowski.

"The government has since committed to amending the bill to make changes that are more favourable to pension schemes." These amendments include ensuring that TPR and the PPF have a 'key role' following an insolvency and that the interests of pension schemes are represented in any company recovery plans.

The industry has an important role in shaping pensions policy and proactive engagement on changes can stop problems before they arise. However, unintended consequences are almost inevitable in such a complex and wide-ranging sector, and proactive support on their mitigation can be equally as important.

Written by Jack Gray

Correlation conundrums

Summary
• Understanding the role diversification plays in pension portflios should be a top priority for trustees.
• Correlation may seem easy to understand as a concept, but in times of crisis, assets may not behave as expected.
• Trustees should boost their understanding by asking the right questions of their managers and consultants.

The importance of understanding how the assets in a portfolio relate to one another comes under the spotlight in times of crisis, but how much of the technical detail do trustees comprehend and how much do they really need to know? Francesca Fabrizi finds out

Pension scheme trustees are not on their own when it comes to learning the basic mechanics of an investment portfolio. Guidance is readily available and, even if they can't get out to industry events and seminars in the current environment, industry bodies, consultants, pension providers and press have been quick to fill that gap with online tutorials and virtual conferences to help keep trustees on track.

As a result of all this information available at their fingertips, and the requirements from the regulator for them to keep on top of things, the basic concept of diversification is generally understood by pension fund trustees today – they are aware of the need to diversify the assets in their portfolio to help ensure that when one asset goes down, all the others don't follow suit.

"Trustees are becoming increasingly aware of the role diversification plays in a well-constructed investment strategy, and the need to recognise how asset classes interact with one another, to understand the level of risk," says Quantum Advisory senior investment analyst, Stefano Carnevale. "A good example is when undertaking a stochastic asset liability modelling (ALM) exercise for a defined benefit (DB) scheme, where consideration is given to how the assets move relative to liabilities."

But while most trustees may be comfortable with the concept of diversification in their portfolios, they might not understand the finer details or nuances of correlation, says SECOR Asset Management head of strategy and risk, Scott Freemon, nor should they necessarily be expected to.

"Our clients tend to think in terms of hedges (correlations near -1) and diversifiers; but group all diversifiers together. The difference between correlations of 0.2 and 0.7 is often difficult even for statisticians to intuit, so it's unfair to ask the same of a trustee," says Freemon.

Also, as always, understanding tends to vary between trustee boards, and is dependent on their levels of experience and knowledge; and while they don't necessarily need to be investment or, more specifically, correlation experts, if they don't understand what's happening in their portfolios, they should take the time to learn.

"It is important for trustees to understand their investment strategy and its expected characteristics. If they do not, time should be spent to overcome this. It is always important to ensure trustees understand the implication of adding and/or removing an asset class to a diversified portfolio from both a risk and return point of view," stresses Carnevale.

Added to this, trustees need to be aware that it's not as simple as it might seem at first, and correlation in itself is a statistical expectation (measured historically), a guarantee of neither future performance nor diversification, warns CFM managing director, Stephane Vial.

"Correlated assets tend to move together 'on average' but can certainly diverge from one another at times, even if strongly correlated," he says.

More specifically, in times of crisis, it's even harder to predict just what assets might do. Carnevale explains: "Investors spend considerable time seeking asset classes with correlations less than one. Unfortunately, we have seen time and again that many of these correlations tend to move towards one in a crisis. This is to be expected because we know growth assets rise in value over time specifically because they fall together during bad times. Reliable portfolio defence comes from truly uncorrelated investments/anti-correlated investments or, at a minimum, investments with anti-correlated components embedded in their risk profile."

Education, therefore, should be high on any trustee's agenda.

Asking the right questions

In addition to attending seminars and seeking out guidance in order to better understand the goings on in their portfolios, pension fund trustees should also be taking the time to ask questions of their managers and consultants, but what sorts of questions should they be asking when it comes to furthering their understanding of diversification and correlation?

First of all, says Freemon, with their managers, trustees should be concerned with concentration risk, ie investment portfolios that "put all of their eggs in one basket" and fail to spread the risk that all holdings in a given portfolio will fall to zero value simultaneously. "Concentration risk can be justified but the rationale should be clearly articulated," he advises.

In addition, with their consultants, Freemon urges trustees to make sure that they reduce or eliminate all risks that can be reduced or eliminated cheaply, either by hedging or asset diversification. "Once that is well in hand, trustees should make sure that they have included all asset classes that could meaningfully improve the risk-return trade-off. Some of the most attractive diversifiers and hedges are often excluded due to complexity or governance burden," he states.

Trustees should also question how correlation matrixes (correlation between a range of asset classes) have been constructed, says Carnevale, and how they are being used in projections of asset class returns. "Often, correlations based on historic returns are used to infer possible future portfolio returns. Where a fund's holdings change, understanding what the change adds in terms of diversification could be useful. Furthermore, understanding how a fund has performed under various market conditions will provide an insight into the true impact/value of the fund's approach to diversification," he says.

It is also worth asking about correlation on average and correlation conditioned by specific events, eg tail correlation or correlation during equity market downturns, says Vial. "If two strategies are uncorrelated to the market, there is more value in adding (to an equity portfolio) one that exhibits negative correlation to market tails than one that is correlated (and would amplify the market drawdown)," he explains.

Learning from the crisis

While past performance is of course never to be relied on to make future decisions, it's interesting to look at which assets performed well in the most recent crisis and which performed less favourably. "Unlike previous crises, all major asset classes generally experienced large declines, the only real exceptions being cash and government bonds," says Carnevale.

Generally, he continues, asset classes that tend to be less correlated to equity markets (commodities and investment grade bonds as an example) performed strongly, however, given the unprecedented speed at which equity markets fell, investors were limited to the choice of asset classes that returned positively. Thus, diversification proved to be less effective.

However, he adds, the level of falls did vary across asset classes, which would have provided some protection. "Furthermore, certain regions were affected to differing degrees and so regional diversity proved beneficial too," he says.

Freemon states that what he saw was high-equity, low-LDI portfolios performing poorly in the recent crisis while their return-oriented client portfolios held up "quite well due to positions in nominal gilts, unhedged dollar-based investments, low-beta absolute return strategies, and equity downside protection", he explains.

The best asset diversifier, argues Freemon, has long been nominal gilts. "In that sense, LDI can often be thought of as an asset hedge. Other attractive diversifiers include systematic macro hedge funds, unhedged positions in dollar-denominated assets, and corporate bonds with an interest rate component. "We would also strongly advise against standalone hedging of the inflation indexation risk embedded in liabilities as these hedges are often positively correlated with the riskiest investments, particularly in times of crisis."

For trustees with the need for even more correlation reduction, he recommends looking at low-cost equity downside protection strategies that seek to replicate the return on equity put options or collar strategies at a more reasonable cost.

Going forward, Carnevale argues that illiquid asset classes (such as long lease property and private markets for example) are typically less sensitive to market movements and can therefore reduce the overall level of correlation with other asset classes. It's important, however, for trustees to weigh up the benefits of correlation/diversification against the overall liquidity requirements of a scheme. "As cashflow requirements increase, the ability to redeem assets to fulfil these becomes more important. Having a limit on the amount of diversification may be necessary to ensure benefits are not eroded. For defined contribution schemes, it is key that members understand this too," he warns.

For defined benefit schemes, he continues, trustees should also consider correlation with the scheme's liabilities, and funding position, specifically, trying to match characteristics of a scheme's assets and liabilities. "Correlation in this sense is a good thing as this provides a form of insurance to its funding position," he says.

Finally, he adds, trustees should consider diversification across investment managers, to benefit from different house styles and views.

Written by Francesca Fabrizi

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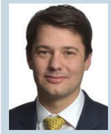
CHAIR

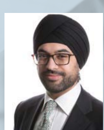
Andrew Cheseldine, Professional Trustee, CCTL
Andy joined Capital Cranfield in 2017. Before joining Capital Cranfield, Andy acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pension arrangements, and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013 and often speaks at industry events.

PANEL

Suzanne Lubbe, Manager Research, Mercer
Suzanne is a senior asset class specialist within Mercer's equity boutique, and leads the research for global and EAFE (global ex-US) equity. In her role, she prioritises and co-ordinates Mercer's research of global equity managers around the world, as well as undertaking primary research herself and she works with clients from all parts of Mercer's worldwide business. Before joining Mercer in June 2011, Suzanne worked as a fund-of-funds portfolio manager. She also has prior experience as an investment consultant. Suzanne has worked in both the UK and South Africa.



Peter Rutter, Head of Equities, Royal London Asset Management (RLAM)
Peter is head of equities at RLAM. His team manages equity mandates for institutional, pension, charity and retail clients. Peter is also a global equities portfolio manager with over 18 years' experience and, as head of RLAM's global equities investment team, he leads a differentiated investment process, built around a corporate lifecycle concept and includes ESG integration. Prior to joining RLAM, Peter was head of global equities at Waverton Investment Management.



Amandeep Shihn, Head of Sustainable Investment Manager Research, Willis Towers Watson
Amandeep leads Willis Towers Watson's emerging markets equity and sustainable investment manager research efforts. His particular areas of focus are researching global, emerging market and Asian equity strategies and sustainable investing. Amandeep is involved in portfolio construction, sourcing new investment ideas and he has designed a number of the tools used to research managers and monitor their portfolios from a sustainability perspective.

Mike Smaje, Trustee Executive, BESTrustees
Mike joined BESTrustees in March 2020, having most recently worked for Aon Hewitt as an investment partner. Mike is a qualified actuary with over 25 years' pensions experience as both a scheme actuary and investment consultant on both corporate and trustee assignments. He has also worked for a leading investment manager. He has worked with schemes of all sizes, from very small to over £4 billion, across many sectors, including major global corporations and SMEs. He specialises in investment matters and integrated risk management.

Global equities roundtable

Global equities today

Our panellists look at the opportunities available in the global equities space for investors tackling the current pandemic, as well as those looking ahead

Chair: What do global equities offer UK pension schemes in the current market environment?

Lubbe: It may be an overused phrase, but these really are unprecedented times – the lockdown has, to some extent, represented an immediate reversal of globalisation as local borders have been shut. That's what we have been facing and, therefore, those strategies that can travel despite those restrictions to provide access and exposure to global businesses that are holding us together should be considered within a broader context of client specific circumstances.

For example, we have seen different platforms become part of our normal working day – Microsoft Teams or Zoom to facilitate meetings or even this roundtable, for instance – and so, those businesses that are global and are able to transcend the lockdown circumstances, and managers that are able to access those, can definitely have a part to play in a client's portfolio.

Rutter: The first point I would like to make is that, if we've got excess savings in pension funds that are being saved for the future, there are over 4,000 very liquid equities listed around the world, which creates an amazing set of opportunities for future pensioners to allocate their savings to.

This includes all kinds of opportunities that do not exist in any single domestic market. This is across the whole spectrum, from early stage innovative growth in the States through to potential turnaround opportunities in places like Japan or domestic emerging market opportunities. So, there is an incredible wealth of opportunities for investors to potentially benefit from.

Also, I genuinely think, right now, as a result of these unprecedented times – the unprecedented monetary policy, these forms of financial repression and all kinds of risks building up in the system – equities are very attractively valued relative to many other asset classes for long-term savers. They are one of the few cheap and liquid forms of long-term real return that are left to people at the moment. We cannot ignore that fact, when thinking about people's savings 20, 30 years down the line, which is what most pension savers are about, especially in DC schemes.

Shihn: I agree – a good thing that global equities offer pension schemes is greater access to diversity. What we've seen is that the epidemiology of coronavirus tends to vary from country to country and that has created greater uncertainty within financial markets, economies opening up and therefore the ability of different economies and different business models to revert back to whatever a new normal type of structure might be. Global equities allow investors to get exposure to a broad set of markets and not just a localised market environment.

What we've also seen is that some countries in Asia are better at dealing with the current crisis than others in Europe. So, investing in global equities offers diversity in both risk and opportunity which one does not get from investing in a single market.

Smaje: I would echo all of those thoughts. History has shown that, in the very long term, equity markets have always recovered from the various crises and wars that have happened over the past century or two and have offered strong real returns to investors over long periods. Every crisis throws up opportunities as well as the obvious downside risks. We know that those companies that have shown resilience to the crisis and are able to sustain their business models should emerge from this crisis in reasonably decent shape.

The injections of liquidity from

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governments and central banks around the world give another boost to equity markets and long-term savers, particularly in the DC world; perhaps not so much in DB where secular demand for equities is falling. But in the DC world, equities are arguably the bedrock of any investor's portfolio.

Chair: What are the panel's thoughts on currency risk here?

Rutter: I don't want to be sensationalist about it, but we don't know the outcome of many of these extraordinary interventions; and with these different emerging socioeconomic pacts between state and corporates and the economy that are emerging in Europe or the UK, America or China, there is a chance for domestic investors that it ends badly with mass currency depreciations in certain jurisdictions. There comes a point therefore where you need to ask: would you rather be invested in your local currency and government or in Microsoft? Microsoft might be a better store of long-term wealth than your domestic economy and its currency.

In any domestic economy, UK or elsewhere, if you begin to lose faith in the solvency and structure of that currency and economy, then Microsoft or Visa, for example, might be good places to have your money instead so you don't go down with it, as a saver.

Smaje: Academic research on the benefits versus costs of currency hedging has shown that there is a modest amount of risk reduction from hedging. I have always been of the view that hedging perhaps a half to two-thirds of your currency risk is good risk management. Clearly, there is the tail risk there. So, potentially, a degree of currency hedging in my opinion is a sensible thing to do.

Investment options

Chair: What options do pension funds have when investing in global equities?

Lubbe: If you look at this question from an active/passive perspective, ultimately a passive option that tracks a global benchmark is almost the only truly passive option. If a pension fund is going to track, for example, regional benchmarks or factor benchmarks, then those are active decisions because they'll need to think about what weights they are putting them in at, or what factors they are tracking and so on. All that has an impact.

Then, on the active side, there is a whole range from being high active share and low coverage versus the more systematic with an alpha component or those that are just trying to access the factors. So, there really is a wide range of options.

Rutter: There are many potential dimensions to this question – vehicle choice, fund type, active/passive, style type, what's the source of alpha; and there's an environmental, social and governance (ESG) and responsible investment stance that needs to be considered too.

There is also a debate around whether you go regional, with tactical allocations, or whether you just go global. Global does provide a broader set of options because there are so many levers to pull in a global versus a domestic or regional approach. But while that gives you the richest set of options to manage, it must also be the most complex set of options.

Would the consultants agree that to be a fair comment to make in relation to pensions?

Lubbe: It is fair. When we look at our database, we have somewhere around 36,000 strategies across different asset classes and across different universes. Within that, global equity is one of the most complex universes, with about 1,500 strategies listed in the Core category. So, the options available to pension funds within global equity are vast and, like you say, complex.

Shihn: We tend to give managers leeway to invest and, as markets have become increasingly interconnected, the local jurisdiction of a company's listing has become less relevant over time and may be less reflective of a country's economic outcomes. Some of the best-known US-listed large cap companies, for example, tend to be global in nature. The US is not necessarily the larger part of the economic interest of that business and the same will be true for companies listed in the UK and in Asia, for example.

So, a global mandate provides managers with the opportunity to find and source ideas, regardless of jurisdiction, including looking at competing companies located in different geographical locations. One of Apple's biggest competitors in mobile phones is Samsung, and they are both listed in different countries. One is classified as an emerging market company, the other one a developed market company, depending on which index you use. Furthermore, the Apple supply chain itself has historically largely been emerging-markets based. So, there are different ways to play an investment theme and different ways to get access to global companies and benefit investors.

Chair: That's something of a challenge for a trustee. Mike *[Smaje]*, how do you fight your way through the complexity of all of this?

Smaje: There is an infinite number of ways you can access global equities. The starting point, I would argue, is the global opportunity set. The case for regional allocations is somewhat outdated for reasons that Amandeep *[Shihn]* has articulated – most big businesses are now completely global and jurisdictional listing is somewhat irrelevant.

So, particularly from a passive point of view, I would argue that a global mandate is your starting point and you need good reasons to want to deviate from that.

When it comes to active management, it's a case of identifying skilled managers and looking at where they operate. I am agnostic as to whether they want to pick from a constrained field in one particular market or just find good businesses that can generate sustainable earnings on a global basis.

Chair: So, should investors be taking blanket approaches? That seems to have dominated returns from global equities, so why bother with areas like Europe and Japan, given the strength of the US?

Lubbe: When you are talking about an unconstrained approach and allowing managers to find opportunities wherever they may be, it's not necessarily going to be about the region, but about the specific stocks. For example, Amazon and Netflix are US-based companies, but they are not US companies.

Rutter: Also, it's important for investors to know exactly what they want to achieve when they're buying global equities and the great thing about global equities is that there are lots of ways to achieve different things. So, if you want to access global growth and innovation, predominantly you're going to be in the US. But if you think there is an opportunity in turnarounds, then Japan is fantastic. If you think there's an opportunity in domestic emerging market growth, you've got a combination of global multinationals and some really interesting emergent domestic market players.

So, there are opportunities across the board but for very different reasons and you need a manager who's clear about what those reasons are and why they're doing what they are doing, or you need to take a view yourself and then pick a manager that can deliver that for you.

There are good investment returns to be made everywhere but, as a manager, you need to be crystal clear as to what you are trying to achieve and why there are good returns. In the past few years, for example, we made some successful investments in Japanese turnarounds but that's a completely different play than buying Netflix or Amazon. It is one of the interesting things about global – never a dull day.

Shihn: Yes, different markets offer different opportunities. Different companies exist globally, and peer companies can operate in different country/regional jurisdictions and not taking a global approach somewhat restricts an opportunity set. We have found, historically, that investors who tend to think regionally have tended to end up with more of a home bias to capital allocation decisions, which may be sub-optimal, particularly against the backdrop of global markets.

Also, to think about which market is going to give the best return at a particular point in time, one needs to have views on inflection points in markets and that has to come with a set of strong priors and the ability and skill to be able to execute on market rotations and that is notoriously difficult to do. As a house, we don't believe market timing is a repeatable skill.

Markets like Europe and Japan have been leaders in global equity market returns over different points in time. Global markets have not always been led by the US. It just happens to be the case in recent history. There was a time when Japan made up over 40 per cent of the global equity index. Now it is the US which is the largest country in the market cap-weighted index, accounting for over 60 per cent of its weight. These trends have changed in the past and we can reasonably expect them to do so in the future too, so taking a global approach allows investors the flexibility to operate in a constantly changing environment with more flexibility.

Smaje: As a trustee it's hard, even working with your consultants, to formulate which regions in particular are worthy of specific allocations. I think more in terms of identifying skill. So, whilst I am a great believer in the global unconstrained approach, it's possible to find very skilled managers in a particular region and I wouldn't want to preclude investors from going into those perhaps niche managers that, for example, fish in the very small cap end of the market that perhaps some of the bigger global players wouldn't necessarily research to the same degree.

So, it's about maximising the opportunity set but also capturing skill where it exists.

I tend not to think on a regional basis because trying to time rotations in and out of the markets at any particular time is really difficult and I wouldn't attempt it as a trustee for certain.

Shihn: It is still possible to find good managers who have particular skills in picking stocks in different countries and you may well want that exposure, so you don't want to exclude that opportunity

Global equities roundtable

of generating returns unnecessarily. We allocate to some country-specific fund managers in our global equity portfolios where we believe the skillset is needed. For example, Japan.

Chair: Thinking more generally about the environment, it feels like we are entering very different times over the next couple of years partly due to coronavirus, partly due to the political vista. There is an argument, for example, that America would like the Chinese companies to de-list from American markets. If that were to happen, it causes all sorts of ructions. Where is the market going from here?

Rutter: You've highlighted an interesting phenomenon. We are seeing almost two emergent systems in terms of a relationship between corporates and government. There is the Anglo-Saxon Western model in the main and the Chinese model. I don't think anyone has a philosophy as to which is the better model, but they are very distinct; for example, the linkage between Chinese company leadership and the Communist Party running China is close in a way that is completely different to most other economies. You can take your view as to whether that's a good thing or a bad thing but that is a different system to what we see in Europe and America.

That is a real conundrum for investors to wrestle with as well as for underlying clients – how do they want to manage those two emergent systems through investment decision-making and their long-term capital allocation? It is a big topic and we are just in the early stages of it.

Discount rates

Chair: How do you allocate capital in a low discount rate environment?

Lubbe: I never claim to be good at market timing. All I would say is, given that it's cheap to borrow, longer duration assets tend to have been rewarded more recently, but there's also a lot of junk that is almost on perpetual life support because it's cheap to borrow. So that creates an almost artificial world – what happens then when some level of normality returns, if normality ever returns?

Rutter: How you allocate capital in a low discount rate environment is an unbelievably challenging question.

What has happened since the financial crisis is that the ruler by which you made long-term capital allocation decisions has potentially hugely changed. You can either be an absolutist and say "I'm waiting for that to break down" or you can be a pragmatist/relativist and say "it is what it is, X looks cheaper than Y, I'm all in on those junk bonds because the discount rates are so low and the zombie companies will go on".

So it's almost an impossible question to answer, but it is also one of the most important questions to answer. A balanced approach must be the way forward. I wouldn't take an extreme position one way or the other about what you think is going to happen with discount rates because there's just too much risk if you do. So, it is unprecedented times, as Suzanne *[Lubbe]* said right at the beginning of this discussion and no one really knows the answer to this question.

I'd try and get to a position where your future as an investor doesn't entirely reside on getting it right because you could either be a hero or you could be in a very bad situation. Don't take the risk where you don't know, and no-one really knows.

Chair: Also, don't take risk where you don't need to.

Shihn: For most, the low discount rate has meant that it is now easier to justify paying a higher earnings multiple for companies and perhaps allocate a larger premium to growth expectations. But growth expectations still need to come through in earnings. We're in an environment where PE *[price/earnings]* multiples at some of the high growth tech companies are increasing to similar sorts of levels to where they were back in the dot.com era. The difference now is they are actually generating cash.

So, to an extent, those multiples can be supported and, because debt is cheap, they can allocate capital to reinforce whatever moats they have built and to buy out competition. That's true for other companies too, not just tech companies.

You could take the view that in some markets high PE multiples have existed and persisted for long periods of time. If you take India consumer staples companies, for example, companies such as Nestle India and Hindustan Unilever have been priced at a premium for decades. They wouldn't have been bad investments at high valuations but investors who are sensitive about the valuations that they pay for companies may miss out from not paying up for those valuations or may risk overpaying for that level of growth. But investors also risk overpaying for companies at high valuations if the growth expectations don't follow through to the earnings and we believe that could be a real risk right now.

It's a difficult balance to strike and that's why it's important to diversify your equity portfolio. What's more is this is not just by diversifying across multiple portfolio managers, but also to ensure you get a range of styles and invest across a broad spectrum of countries, sectors and market caps so that you're not betting your whole basket on one particular manager or style approach. After all, it is what you own in aggregate

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that counts.

Chair: So, lots of ideas on balancing risks. Mike *[Smaje]*, how as a trustee would you try and implement all this?

Smaje: With asset allocation/capital allocation decisions, there are a number of scenarios that could unfold from this crisis, many of which depend on actions of governments around the world and central banks. Also, there is a lot of geopolitical risk that's on the increase.

All that points in one direction which is diversification. From a portfolio construction angle, having genuine diversity is going to be a good thing. By genuine diversity I don't just mean diversity across regions in your equity portfolio, I mean holding assets that are genuinely uncorrelated.

Then, if we think primarily about equities, again it comes back to your time horizon. Allocating capital to strong companies that have sustainable business models that can generate a sustainable return on capital employed year on year over the long run, and have a good moat around their earnings, is likely to generate strong real returns over the medium to long-term.

It's about paying a fair price for those companies rather than paying a cheap price.

Amandeep *[Shihn]* highlighted that 10 years ago, PE multiples were toppy and yet a lot of those companies have gone on to generate strong returns. So, having global diversification at asset class level and identifying those strong, sustainable businesses is likely to be your best bet in the long run.

How do you implement that? Well, as a trustee, we'd be looking to our friends in the advisory community to guide us towards the best managers and best strategies that help us to do that.

Shihn: I would just add that running multiple equity managers and tapping into a concentrated number of their very best global ideas is key for outperformance. But you need lots of managers, and many clients have to balance against their governance budget. Again, it is important to understand what you own in aggregate across style, sector, country and market cap. I see these as core components for implementing a better equity portfolio.

Value versus growth

Chair: Why is growth outperforming value? Will it continue to do so?

Lubbe: Mercer has just released a report on this topic entitled *Is there still a case for value?*

In part, the technological change has really challenged finance theory. The change in technology has led to a higher level of disruption for incumbent businesses and also a higher number of value traps because the business model has disintermediated. It raises the question of whether a backward-looking approach is still relevant in a world where things are changing at such a fast pace?

We do still believe there is a case for value, so we're not throwing the baby out of the bath water because we don't believe that's appropriate. But when we talk to our clients and look at managers, one of the things we are saying is that perhaps a value approach that is more forward looking – considering the earnings potential going forward rather than just relying on pure mean reversion to bring those returns through – is more appropriate in this world.

So, it's not a case of value versus growth; it's the type of value and the type of growth that you're going to be investing in.

We think pension funds should have both, so they have diversification of return drivers but while being careful and maybe a bit more thoughtful about value

investing.

Rutter: I agree with those observations. RLAM has also published a paper on this subject and I've never had such a busy response from clients who want to follow up on it. It's clear that this is a big topic that everyone is wrestling with.

It makes a lot of sense that growth outperformed value. If you look at asset price movements being a function of cash receipts and a discount rate, the cashflows from growth companies have been better. It's driven by that technology piece; it's driven by the availability of capital to keep businesses like Tesla going – there haven't been many environments where a company could be allowed to invest so heavily for so long.

Not only is that helping the cashflows be stronger at the front end of the corporate lifecycle, it's also helping ruin the economics for the value traps at the other side. So, the cashflows have been better for growth stocks driven by easy access to innovative capital and a lot of technology innovation in the new kind of data and technology information age.

The second thing is the mechanics. In a falling discount rate, interest rate environment, long duration cashflows go up in value faster than short duration cashflows. So, growth against value has got both the cashflows and the discount

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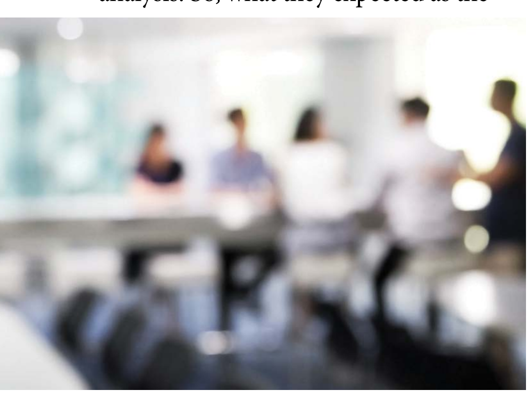
rate going for it.

Will it reverse? Well, systematically, if you're going to bet on value from here, you either need a broad economic recovery, a reduction in the rate of innovation going on in the world or discount rates to stop going down or rise, or some combination of those three things. We don't particularly see any of those happening for various reasons.

They may happen. I am not saying they won't, and therefore a more nuanced approach to value is probably required. There are scenarios in which you just want to be in value stocks, but they may never occur. So, in the interim, it's best to be nuanced and selective. But it's a huge debate and the valuation differentials are pretty extreme relative to history.

Shihn: Is value dead? Our answer would be no – the long-term case for value remains valid. But it is important to be realistic about what assumptions underpin that and what the expectations are.

Value investing itself has evolved over time and we may now be in an environment where the old forms of value investing as we know them are less applicable and investors need to evolve with the market. Investors perhaps are now more aware of topics and issues that affect a company that they were previously less inclined to build into their analysis. So, what they expected as the outcomes may not have manifested.



An example would be sustainability. Sustainability metrics, including ESG information, are increasingly valued by society and investors. Sustainability metrics tend to be forward looking rather than backwards looking and we haven't got a great deal of backwards looking sustainability data to observe its market impact through cycles; and so some value-based approaches may not fully appreciate sustainability measures when applying mean-reversion based approaches to investment decision making.

But value is not dead. If we want to think about value versus growth, maybe we should flip that question on its head and ask whether we expect quality and growth to continue to outperform over the next eight to 10 years, as they have over the prior decade. History will tell us that cycles do not typically go on for that long without turning.

I don't think we have the answer to which style is going to perform better over the next one, two, or three years, but could we reasonably say that value investing would still work over the long term? The answer would be yes.

Smaje: Looking at this from a historical perspective, value has tended to perform more strongly when economic growth has been accelerating and I don't think we're looking at a world where growth is likely to be accelerating quickly.

But, as a trustee, I wouldn't necessarily be thinking in these terms. I'd be thinking about constructing a broadly diversified portfolio across a number of factors. If you employ a factor approach, then I'd be looking for a diversified factor exposure. If you're looking at an active approach, then perhaps a global unconstrained approach where you're looking for quality businesses that can grow their earnings on a sustainable basis could be appropriate.

Shihn: I agree that it's important to diversify – you don't know which styles are going to work over a given timeframe so you need to take a measured approach and that is not betting on one particular investment style, but constructing a balanced portfolio of different investment styles where stock selection is the dominant driver of investment returns.

Rutter: Just to add a point about sector neutralising intangibles. We think about 40 per cent of the asset value in global stock market is intangibles and R&D now. But, even adjusting for that, even doing the sector neutralisation, there's still the anomaly out there.

But what is particularly interesting for us as stock pickers is, I've never seen such an environment where, at the stock specific level, if you take that nuanced approach there are some big gaps right now. So, I think a combination of diversification and also being highly selective on particular stocks or sub sectors is a reasonable way to try to exploit the value opportunity.

Manager selection

Chair: How do pension funds select managers? Is it one manager? Is it a group of managers?

Lubbe: We believe in a diverse set of return drivers; and multiple managers. But obviously that needs to be taken into account within the context of the client's own governance budget. But the reasoning behind that is we don't believe any one manager is equally good at accessing all the different return drivers.

So, asking a manager to extend beyond their circle of competence reduces that portfolio manager to a jack-of-all-styles rather than a master of any particular one. I don't think that serves clients best, compared to gathering a group of masters, if you will.

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Coming back to the active versus passive debate we touched on earlier, one of the challenges we find is that many clients think that active management should always outperform, and studies show that it does not. The universe that we work with also doesn't show that the median manager outperforms. Now, there's a big range between the top manager and bottom manager and we're talking median manager, but that leads to some level of disappointment.

So, while we believe in active management, it's not easy. But also, clients should come in with adjusted expectations. So, managers will put a return target of, say, 3 per cent above the benchmark but is that realistic in terms of the tracking error they're taking? Is it realistic in terms of their approach and is it realistic to expect them to deliver 3 per cent year in year out?

Rutter: In such a broad, complex financial market, there are many different ways of generating excess active returns and you have to be absolutely clear about what inefficiencies you are exploiting and why you have an advantage in exploiting those.

Managers need to be able to answer those questions. They need to demonstrate and evidence that they are consistent to those things they can talk about as their source of advantage. Then they need to be consistent in applying them. So, clients know what they're buying and why.

What passive has done is caused a re-pricing of that and there is no free carry from beta anymore that the active industry used to get. So, you don't get free fees for beta because that can be accessed very cheaply. It is demonstrating that differentiated skill set rather than just accessing the market that commands fees.

Shihn: When thinking about equity allocations, investors need to think about a few things. Firstly, I touched on this slightly earlier, but the governance constraints of a client and then their investment beliefs are key. That will incorporate their view on active management versus passive.

Then their ability to, within their governance constraints, construct equity portfolios that work for them on a net of fees outcome basis in line with the client's beliefs and expectations. Our views on managers are based on net of fees expectations because fees do eat a lot of the returns.

Studies show around 80 per cent of active managers fail to deliver net of fees returns in excess of their benchmarks over one, three, five and 10-year time horizons. That makes manager selection crucially important when constructing an equity portfolio.

So, if we're thinking about one manager or a group of managers, that comes down to clients' expectations, governance constraints and what their objectives are.

One or two managers may work for some clients but we think that, based on numerous academic research, managers who tend to perform better tend to invest in their best ideas, tend to have higher conviction in those best ideas, tend to run concentrated portfolios with high active shares, tend to have good levels of risk management and risk awareness – that's a lot to ask for.

But those traits are important and we believe that selecting the best managers to achieve this can be done, and where solutions didn't already exist, we've looked to try and create them using managers we believe to be capable of implementing such an approach.

Chair: What's the trustee view?

Smaje: The probability of an active manager, even a very skilled one, outperforming in a given year is not 90 per cent. It's actually just over half or something like that. It really is a difficult game to get right; and identifying the skilled managers in the first place and those that are going to outperform is incredibly difficult.

As trustees, I wouldn't go down the route of picking two or three active equity managers and crossing my fingers. If you're going to do it properly, you need an unconstrained approach, with multiple managers, in the hope that you get more winners than losers and that's the way to do this. It's about probability weighting.

As a trustee board, it's really difficult to construct that type of portfolio under your own steam. Obviously, a lot of big funds with huge internal governance resources can do that. The majority of funds out there however quite frankly can't, which explains the growth in fiduciary solutions, for example.

So, constructing that type of portfolio can pay dividends and the evidence tends to suggest that, in certain circumstances, it has worked by and large. For those that don't have that governance or the belief that they can get that right, then passive really makes the most sense on a low fees basis.

Added to that, people have to be realistic with the time horizon over which you can expect to reap that outperformance. Good managers can buy good companies that might well get de-rated by the market for reasons outside of their control over a relatively short period of time.

But if those strong companies generate sustainable growing earnings year on year, they're going to show good returns in the long run.

So, you've really got to have a longer-term time horizon to believe in active management.

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Global equities roundtable

Responsible investment

Chair: Responsible investment/ sustainable investing: What is the 'minimum standard'?

Lubbe: We see as a minimum standard that managers are stewards of clients' capital – it is not just a job; a portfolio manager needs to be responsible in how they invest their clients' assets. And sustainable investing can, as we have seen, reduce risk; but, if implemented in certain ways, it can also be return enhancing. For example, active engagement, engaging with management to steer them to a more value-added path; or commenting on their remuneration so that their actions are more longer-term strategic rather than short term just to line their pockets, can have an impact.

Also, the generation of consumers coming through now has a very vocal view on how management treats its staff, how management treats its customers and they will vocalise that via social media. So suddenly the world is smaller, and people are more easily able to get their views out there.

But also, there is more of a willingness today to boycott a company based on those environmental, social or governance issues and that has the impact of possibly re-rating stocks. That is what we have seen in the past few years at least. Is it something that is here to stay? We don't know but it most definitely needs to be considered.

Rutter: On ESG, our view as an asset manager in general and in our global equity portfolios is that there are major benefits to ESG integration. There have been since time began but they are particularly acute now. There are potential investment insights in incorporating ESG factors, especially governance, but also 'E' and 'S'. You get better risk management – equity holders are always last in the queue of beneficiaries from a company; looking at ESG risks tells you about things that could go wrong as an equity holder.

So, you get better risk management in portfolios and stocks.

Also, in the act of integrating ESG into your analysis, you can engage with companies better with more impact for your investors. It is awfully hard for passive funds to effectively engage. As active funds, if you are integrating ESG, you know what the real issues are for the shareholders, ultimately.

I would then say there is even a circularity that the active engagement can then improve your risk management and investment decision-making.

In terms of how clients go about looking for that from their managers, they just have to ask their managers to tell them about their ESG integration and engagement; to prove that they really do integrate it; to give evidence and examples as to how they do it and how it has changed their decision-making.

Shihn: We think sustainability is very important. We integrate our view on sustainability within our overall view of fund managers – we do not view ESG integration and stewardship as being separate from an investment activity. There is evidence that points to a moderate to long-term risk of adjusted return advantage for approaches that integrate ESG and effective stewardship in their investment process effectively. That is what we look for and want to see from fund managers.

We want to see examples from fund managers of them undertaking the work to thoroughly assess risks and opportunities from a sustainability perspective and observe what influence that has on decision-making and their voting and engagement activities as stewards of client capital.

Smaje: I absolutely agree ESG integration is critical. Not only is it the right thing to do, but it is sensible risk management, capturing those left tail downside risks that might not be apparent just from looking at historic volatility of a company's stock price.

Also, as owners of capital on behalf of all the pension fund members, if we don't take this seriously and integrate ESG factors into investing, then who will? We have a societal responsibility and so it's absolutely critical that ESG is properly integrated into investment decision-making, and not just in equities. I realise that we are in the infancy in terms of thinking about ESG integration within other asset classes, but the current generations coming through are keen on this. If we're investing their savings on their behalf, then they would expect us to pay attention to ESG considerations in all asset classes, not just equities, and we will see more of this going forward.

Lubbe: I'd also note that as the industry has evolved, it is now easier for managers to demonstrate their ESG credentials because of the greater number of tools available to them. But do they truly believe ESG matters or are they just greenwashing their reports? We believe a qualitative assessment makes a difference in this area. Our researchers across the globe have on average 18 years of experience, and we look at the intangibles too to judge the manager's commitment to ESG.

Where to cut

As speculation grows that the government may look to pensions to help replace its Covid-related spending, *Pensions Age* asks: If the government does claw back pensions spending, how should it do so? From the triple lock, tax relief, or somewhere else?

Pensions are an expensive business for governments. They regularly top the list of biggest expenditures and liabilities. According to Office for Budget Responsibility, the current basic state pension will cost £101.6 billion in tax year 2020/21; a recent Pension Policy Institute study found the annual cost of pension tax relief (income, investment and National Insurance) to be over £50 billion; and the Whole of Government Accounts puts public sector pension liabilities at £1.8 trillion.

The sector of the population that has been hardest hit financially by Covid-19 has arguably been those currently in work. And with younger people and the lowest earners being disproportionately affected, it is difficult to make a fair case for maintaining the current tax relief structure where older, higher-paid workers receive most of the benefit. In addition, in an economy that has low inflation, low wage growth and low interest rates, it is more challenging to maintain the 2.5 per cent growth floor within the triple lock. With the government wanting to 'build back better', we would suggest that an immediate reduction or removal of the 2.5 per cent floor within the triple lock, coupled with a Treasury-led consultation into pension tax relief reform would be the fairest means of ensuring an equitable outcome.

Redington director of DC and financial wellbeing, Jon Parker

Changes to public-sector pensions could generate significant savings but are unlikely to be acceptable given how the NHS and the wider public sector has supported the country through the pandemic. Reversing the triple lock may well be an area for reform, even if it is politically unappealing, with another option being national insurance, perhaps at a lower rate, on pensions in payment. Changes to higher-rate tax relief would bring an immediate benefit to the Treasury but would be hugely complex to implement quickly, with risks of unintended consequences. Some form of flat-rate tax relief may seem more palatable and viewed as ostensibly fair.

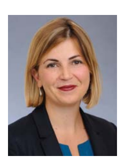
Isio CEO, Andrew Coles

It is easy to say that those with the 'broadest backs' should bear the burden, that higher-rate taxpayers are wealthy and therefore removing high-rate tax relief is the fairest approach. However, we will be paying for this spending for generations to come. This points towards sharing the burden fairly across generations. Younger pensions savers will pay for the Covid-related spending for decades, through higher taxes and spending cuts. It therefore seems reasonable that current pensioners share the burden by removing the triple lock.

Society of Pension Professionals president, James Riley

The triple lock is the logical thing to turn to. Many workers have seen pay cuts and job losses recently. Uprating the state pension faster than price inflation in these circumstances is an intergenerational transfer of wealth with no justification. And the wealth transfer is set to be worsened if the predicted bounce in average earnings materialises after the pandemic. Estimates of this cost amount to £20 billion or more in a single year.

Aon head of UK retirement policy, Matthew Arends



With Covid-19's inevitable impact upon earnings, we face a situation where retirees are seeing a significant rise in their state pension, while a chunk of the working population faces a major fall in their income as the pandemic weighs on businesses and the economy. There's no doubt that the triple lock costs money or, by extension, that its removal will lower the incomes of pensioners in the future. The argument the government now faces is the question of economic fairness across generations.

Fidelity International investment director, Maike Currie

Pensions history

25th anniversary of The Pensions Act 1995

The Pensions Act 1995 received Royal Assent 25 years ago on 19 July 1995, although most of its provisions were implemented from 6 April 1997. The Act had been conceived as a result of the Maxwell affair and was one of the recommendations of the Pension Law Review Committee, under the chairmanship of Professor Roy Goode, that a new Pensions Act should replace the existing complex legislation.

The Act aimed to clarify the rights and duties of employees, employers, trustees and professional advisers. Part 1of the Act covered occupational pensions across 125 sections. It did not just deal with the misappropriation of pension fund assets. It was a wide-ranging piece of legislation, which, among other things, introduced equal treatment for men and women in relation to pension schemes, established an Occupational Pensions Regulatory Authority, provided for schemes to have member-nominated trustees, provided that pensions in payment had to be increased annually, made provisions about winding up schemes and introduced a Pensions Compensation Board as well as a Minimum Funding Requirement (MFR).

The objective of the MFR was to establish a minimum amount of assets that a defined benefit pension scheme should hold in order to fund its benefits. If a scheme did not hold the required minimum it had to do so within a given period.

With the establishment of a minimum of one-third of the trustees being member-nominated trustees, or in the case of a corporate trustee one-third being member-nominated directors, detailed provisions set out the terms that would apply to those appointed to these roles. This, together with the creation of a pensions regulator with additional powers, was felt would provide the increased protection needed for pension scheme members and pensioners.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

I	N	T	E	R	N	A	T	I	O	N	A	L	E
S	E	C	N	E	U	Q	E	S	N	O	C	R	L
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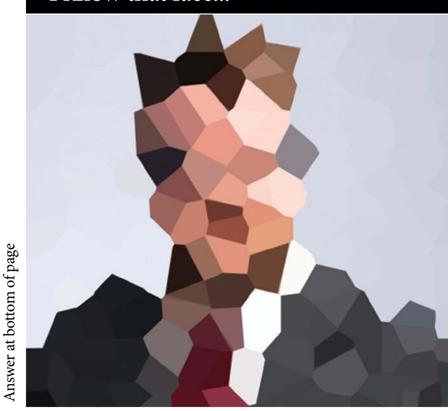
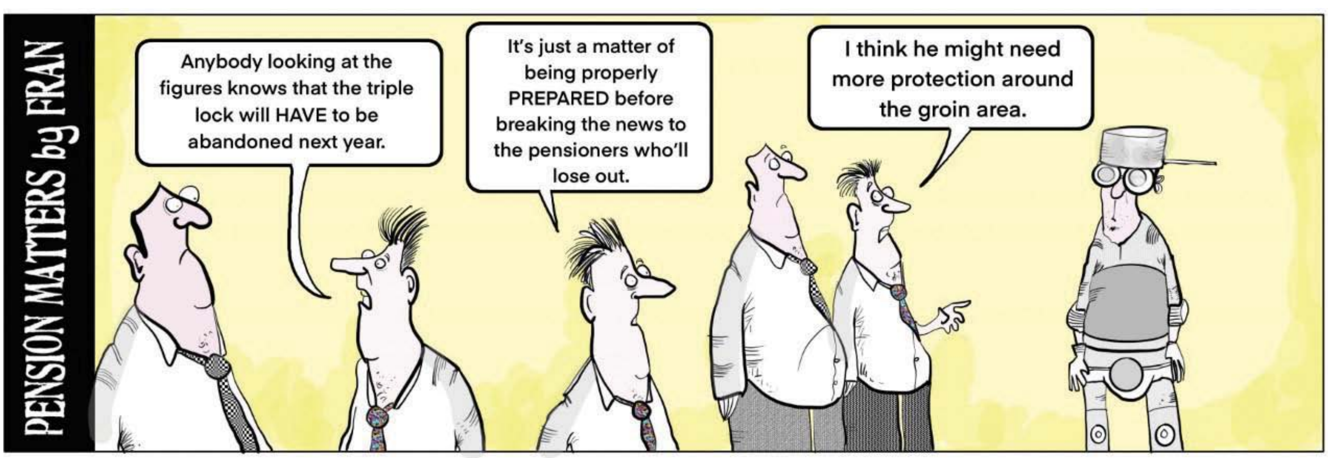
I know that face...

Answer at bottom of page





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