Pensions Publication of the Year 2019!*

Diversity The efforts made to improve diversity within the pensions industry

Admin Whether the new work patterns of administrators are here to stay

Financial education The importance of taking a holistic approach to pension saving education

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June 2020

PENSIONS Age

The leading pensions magazine

Interview: *New SPP president, James Riley, talks about its engagement successes and potential future improvements*

Remote working: *The tips and tricks to improve the working from home experience*

Will trustees increase their focus on ESG considerations in a post-Covid pandemic world?

Ford case study: How a worldwide pensions data analytics tool is helping its pension schemes

Editorial Comment

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

To get people engaged in what you're trying to say, I believe you need to make your message interesting, memorable, succinct and repeatable.

Prime Minister Boris Johnson's chief adviser, Dominic Cummings, recently provided a masterclass in this.

Irrespective of the believability of his story, or the validity of his reasons for doing so, Cummings' explanation for taking a 60-minute round trip to Barnard Castle to 'test his eyesight' by driving during lockdown greatly sparked the country's interest – one just had to turn to their social media platform of choice to be bombarded with 'should have gone to Specsavers' style memes (and if anyone hasn't seen Paddy McGuinness' video of *Is this the way to Amarillo*, complete with new lyrics, I highly recommend doing so).

So, Dominic's story. Interesting – tick, just trying to make sense of his reason for the drive has made it an interesting tale. Memorable – certainly; it's likely to be one of the most memorable moments of lockdown when we look back at this in future years. Succinct – yep, 'I drove 30 miles to test my eyesight' is simple in its beauty. And repeatable – definitely. Just ask any of the police officers trying to enforce the rule at the time against unnecessary drives, only to be countered with a deluge of 'testing my eyesight' excuses.

Okay, so maybe Dominic's statement took on a life of its own in a way I very much doubt he or the government desired, but the pensions industry can only look on in envy at a message embedding the national consciousness so quickly and easily.

A simple statement about pensions that can take hold of the public imagination in this way, while generating the *right* call to action, could have a profound impact on people's retirement savings.

Another vital aspect of improving pension funding is engagement from all stakeholders (which is why it is the theme of this issue's *Pensions Age*), to encourage messages, behaviours and actions that will help avoid people retiring in poverty.

Therefore it was gratifying to recently see the government, financial bodies and regulators join forces to publish a guide for concerned pension savers in response to an increase in enquiries during the Covid-19 pandemic.

The bodies involved in the publication are the Pension Protection Fund, the Department for Work and Pensions, Financial Services Compensation Scheme, Money and Pensions Service, The Pensions Regulator, the Financial Conduct Authority and The Pensions Ombudsman.

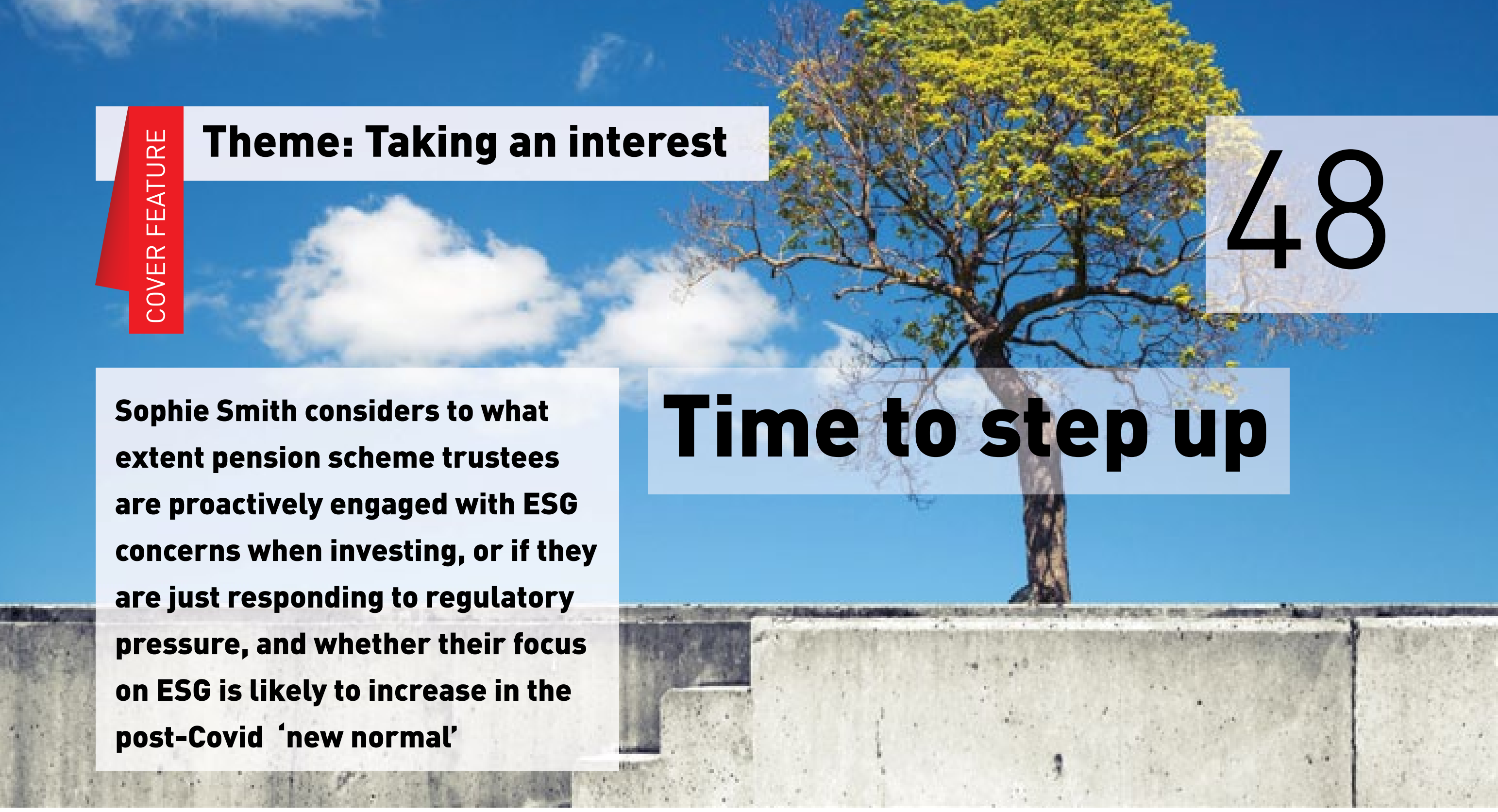
The guide they have produced seeks to answer some of the most commonly-asked questions from pension savers at this time, and hopes to reassure scheme members amid concerns about the impact of the crisis on their retirement savings.

By working together, the seven organisations are providing clear, consistent and constant guidance to an understandably concerned public at this time.

However, it may be too optimistic for the pensions messages within the guide to go as viral as Dominic's 'eye test' excuse did amongst the young and old alike, given the broad disinterest in retirement saving many in the country still sadly have. But, along with efforts such as the important and reassuring information the guide provides, it's also worth the industry exploring examples of how statements do get hold of people's imaginations, to see what lessons can be learnt.

So if anyone does come up with an interesting, memorable, succinct and repeatable pensions saving message, answers on a postcard please. Or go for a drive and write it at Barnard Castle. It's then bound to go viral.

Laura Blows, Editor



COVER FEATURE

Theme: Taking an interest

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Time to step up

Sophie Smith considers to what extent pension scheme trustees are proactively engaged with ESG concerns when investing, or if they are just responding to regulatory pressure, and whether their focus on ESG is likely to increase in the post-Covid 'new normal'

Highlighted features

By agreement, Pensions Age is distributed free to all PLSA members as part of its package of member benefits

By agreement, Pensions Age is distributed free to The Pensions Management Institute (PMI) members as part of its package of member benefits

Pensions Age is distributed to The Association of Member Nominated Trustees members

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NEW circulation figures

Pensions Age now has its new circulation - figure from the Audit Bureau of Circulations (ABC). 15,030 (July 2018–June 2019) print distribution this is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 25,000+ online subscribers (source: Publishers Statement Sept 19). Our print circulation is nearly 300% higher than other titles in the market.

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Dateline - May 2020

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

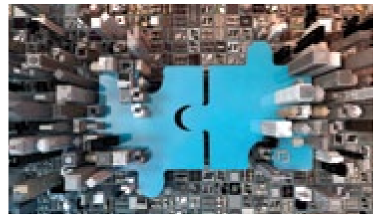
1 May Pension savers reclaim £32.7m in overpaid tax from their first pension freedoms withdrawals in Q1 2020, according to **HMRC**. Its data shows a slight increase on the amount reclaimed compared to Q4 2019, when £32.2m was repaid. Over 10,000 official reclaim forms were processed by HMRC in Q1 2020, with the average saver being refunded £3,141.

4 May The majority of defined benefit (DB) schemes with over £1bn of assets are now closed to future benefit accrual for the first time, according to data from **Barnett Waddingham**. Its research finds that 51 per cent of 'large' DB schemes are now closed to future accrual, up from 33 per cent in 2016.

5 May Punter Southall Aspire (PSA) announces that it is withdrawing from the master-trust market and seeking a 'suitable home' for Aspire Savings Trust members. The Aspire Savings Trust was one of the 38 defined contribution (DC) master trusts authorised by The Pensions Regulator (TPR) but will now exit the market. The scheme trustee will begin its due diligence in assessing the master trust market to find the best place to transfer its members and assets to. It comes as PSA has announced a strategic partnership with Evolve, which has its own master trust – the Crystal Trust.

6 May Trustees of DB schemes must give careful consideration as to how contributions will be 'switched on' again when considering a potential delay in payments, **Lane Clark and Peacock (LCP)** warns. LCP partner, Steven Taylor, says that deciding whether or not to allow an initial deferral of deficit recovery contributions (DRC) is only part of the challenge.

13 May DC to DC pension transfers must still be completed in "good time" to ensure savers don't lose out, states **TPR**. In updated Covid-19 guidance to DC schemes, the regulator emphasises that transfers between DC schemes are a "core financial transaction" and a common way for members to access benefits, and, as such, need to be one of a scheme's priorities during the current crisis. It notes that if a transfer is delayed, and investment values fall in that period, then the members cash equivalent transfer value (CETV) will be reduced, stating that it is "therefore very important to process transfers within a reasonable timeframe". It urges trustees to monitor transfer activity and work with administrators.



14 May The government agrees to proceed with the merger of the **Northumberland and Tyne & Wear Pension Funds** following a consultation. The Local Government Pension Scheme (LGPS) funds submitted a joint application to the Secretary of State for a merger to be effective from 1 April 2020. Documents from the Ministry of Housing, Communities & Local Government estimate that merging the funds could create savings of between 10 and 12 per cent per year.

18 May TPR says that it "strongly disagrees" with those calling for its DB funding code consultation to be rethought or abandoned. In a blog, TPR executive director of regulatory policy, analysis and advice, David Fairs, says that the issues raised in the consultation were "even more important and relevant in light of Covid-19". A recent Aon survey found that support for the update funding code was "sliding". However, Fairs confirms that it is pressing ahead with the consultation as the principles "still stand".

18 May The Pension Protection Fund (PPF) launches a new panel to provide support to trustees of schemes whose sponsoring employer is in the 'stressed' or 'distressed' stage of business recovery. The pension lifeboat has named 11 firms to the Trustee and Support Services panel, which the PPF hopes will improve the pre- and post-insolvency experience for both members and trustees.

20 May The number of employers that are requesting DRC suspensions or reductions will continue to rise, according to **TPR**. In a meeting with the Work and Pensions Select Committee, TPR executive director of regulatory policy, analysis and advice, David Fairs, says that the proportion of employers requesting deferrals or reductions "may

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

have just crept over 10 per cent". He states: "Intelligence says to us that about 5 to 10 per cent of trustees have received an application from an employer to reduce or suspend contributions. As lockdown continues, we expect that percentage to increase."

20 May HMRC's over-taxing of pension withdrawals is "set to get more penal" during the lockdown period, according to **LCP** partner, Steve Webb. Analysis by the firm reveals that 'over-taxation', usually occurring when savers choose to take money flexibly from their pension, will likely become more draconian throughout the current crisis as more savers look to their pension to supplement income. Webb calls on HMRC to rethink the taxation process for these types of withdrawals.

21 May TPR urges DC pension trustees to monitor investments in alternative funds during Covid-19, as they may be unintentionally breaching pension legislation. It warns that members' investments in self-selected funds that are temporarily closed during the ongoing market volatility and have therefore been redirected to alternative funds, may become default arrangements for the purposes of legislation. Contributions that come in during the crisis cannot be invested in funds that have been 'gated' and trustees have needed to invest them in an alternative fund. DC scheme trustees may then be breaching pension law if they do not subject these investments to the rules surrounding default funds.

22 May The LGPS funding deficit fell from £37.2bn in 2016 to £6bn in 2019, according to its Advisory Board's annual report. The total assets of the LGPS increased by 5.9 per cent over the course of 2019 to £289.7bn, with this figure constituting a £73.3bn increase over its assets recorded in the scheme's last triennial valuation in 2016. Its liabilities were estimated at £295.7bn, up from £253.6bn in 2016.

26 May FTSE 100 companies' pension schemes were in their best position for 20 years at the start of the coronavirus crisis, according to **LCP's** latest *Accounting for Pensions* report. LCP estimates that by the end of March 2020 and the start of the coronavirus crisis, 70 per cent of the schemes were in surplus, with 60 per cent having reported an accounting surplus in their 2019 accounts. However, the proportion of FTSE 100 schemes with an accounting surplus had fallen back to below 60 per cent by the close of April.

27 May The government, financial bodies and regulators join forces to publish a guide for pension savers in response to an increase in enquiries during the Covid-19 pandemic. The seven bodies' guide seeks to answer some of the most commonly-asked questions at this time and hopes to reassure scheme members amid concerns about the impact of the crisis on people's financial wellbeing.

27 May The government has not had any "recent discussions" on the future of the state pension triple lock, according to Pensions Minister Guy Opperman, despite recent calls for it to be scrapped. In response to a written question, Opperman states that there have been no recent discussions on the future of the triple lock. Furthermore, Opperman says that no assessment has been made of the impact on pensioners that removing the triple lock would have.

29 May Employers will be required to resume the payment of minimum pension contributions to furloughed workers from August. Chancellor of the Exchequer, **Rishi Sunak**, announces that the Coronavirus Job Retention Scheme will continue until October, but the government will begin phasing in a shared cost arrangement from August. The scheme had previously covered employers' pension contributions for furloughed workers.

News focus

FCA to ban contingent charging on DB pension transfers

The Financial Conduct Authority (FCA) has announced that it will push ahead with its plans to ban contingent charges on defined benefit (DB) pension transfers in most circumstances from October, following a consultation that revealed 'polarising' opinions across the industry

The FCA is moving ahead with a ban on contingent charging for 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 FCA admitted that some people who may have benefitted from a transfer may be discouraged from taking advice as a result of the ban, but argued that the potential harm to this smaller group of consumers would be outweighed by the potential benefit to a much larger group.

It estimated that two in three people who no longer take advice would not have been suited to a transfer, while one in three may have been suited to a transfer and benefitted financially.

The ban was agreed following a consultation, initially published in July 2019, which the FCA said it received "polarising" responses to.

Ultimately, the regulator decided to proceed with the ban as it felt there was a conflict of interest for DB transfer advice where the only two outcomes are to transfer or not to transfer.

It noted that most advice resulted in a recommendation and most firms contingently charge, creating concerns that advisers may recommend a transfer to receive payment, rather than it being in the best interest of the consumer.

Furthermore, the FCA said that most consumers would not be materially harmed by remaining in their existing DB scheme and the carve-outs mean that only a small number are likely to benefit from a transfer but cannot afford advice.

The regulator expects that the ban would be effective in reducing the number of consumers who proceed to a transfer following advice and the harm that unsuitable transfers cause.

It added that it had considered the potential unintended consequences of the ban and decided it did not agree that firms will be incentivised to recommend a higher proportion of unsuitable transfers following a ban.

Additionally, the FCA said it did not believe firms would deliberately make unsuitable recommendations to remain in a DB scheme.

Several anti-gaming provisions were outlined, including its existing rules, to ensure that vertically integrated firms do not undercut other advice firms and to prevent firms receiving commission for recommendations.

The FCA stated that its anti-gaming provisions would also prevent payments to third parties.

'Abridged advice' will be introduced into the DB transfer market, alongside increased disclosure requirements and workplace pension comparison.

On the implementation of the new rules, firms will now need to set a total charge for their activities, for example based on the average number of hours it takes to give advice, but they also have the new option of giving abridged advice.

However, a firm may set a different level of non-contingent charges if they are not undertaking the full range of advising and related services that are normally provided alongside DB transfer advice.

Furthermore, firms may charge different amounts to different clients where there are "genuine and legitimate reasons" for the difference.

The ban comes into effect on 1 October, however those who have agreed contingent charges and started work before that date may charge contingently, providing a personal recommendation is given before 1 January 2021.

The announcement received a mixed response from the industry.

Pensions and Lifetime Savings Association (PLSA) policy lead: master trusts, Craig Rimmer, said the organisation was "pleased to see" the FCA's measures on addressing the issues around DB transfer advice and that it was "an important step in ensuring savers are given the best chance of achieving a good income in retirement".

However, Aegon pensions director, Steven Cameron, warned that the ban "runs the real risk of further reducing access to advice on DB transfers at a time when the coronavirus pandemic arguably means for some individuals, this is needed more than ever".

The FCA's report also revealed that more than two-thirds (69 per cent) of DB transfer advice resulted in a recommendation to transfer.

The organisation said this proportion, observed between April 2015 and September 2018, was significantly higher than expected, given the FCA's view that transferring is not in most consumers' best interests.

The overall suitability of all advice was found to have risen from a low point of 47 per cent to 60 per cent in 2018.

However, the FCA said it remained concerned at the number of files that either appeared to be unsuitable or where there were information gaps.

Around 700 firms gave up their permission to provide pension transfer advice after involvement in the FCA's industry-wide data collection from over 3,000 firms.

The FCA launched 30 enforcement investigations against firms that it believes gave unsuitable transfer advice.

Research found that only around 50 per cent of advice given by firms considered to be "potentially high-impact", due to the high volume of advice they dispensed, was considered suitable.

Nearly 235,000 members were found to have taken advice from nearly 2,500 firms on a DB transfer between April 2015 and September 2018, on transfer values worth over £80bn in total.

Over 170,000 of them then transferred, including over 9,500 who transferred against advice.

The analysis also found that almost half (47 per cent) of the advice given to former British Steel Pension Scheme (BSPS) members was found to be unsuitable.

A further 32 per cent of the advice appeared to contain "information gaps", while just 21 per cent was deemed "suitable".

The FCA found that the percentage of unsuitable advice was higher for BSPS members than those sampled in the rest of the report, where just under a fifth of advice was deemed unsuitable.

As such, the FCA intends to write "directly" to the 7,700 former members of BSPS, for whom contact details are available, who transferred out previously.

It stated that this would help members to "revisit the advice they received" and to "complain if they have concerns".

The FCA confirmed that, going forward, it would continue to focus on firms providing transfer advice, with work examining the sector set to continue.

Written by Duncan Ferris, Jack Gray and Sophie Smith

NEWS IN BRIEF

The Pensions and Lifetime Savings Association (PLSA) has published a new template to help DC scheme trustees in producing their annual chair's statement. The PLSA worked with several legal firms and advisers in designing the template, as some of its members had raised concerns about how some of the legislative requirements regarding the statement are being applied in practice. The template has the support of TPR.

New draft insolvency legislation could harm DB pension schemes and the Pension Protection Fund (PPF), according to **Herbert Smith Freehills**. It warned that "restrictions on issuing statutory demands or winding-up petitions and the introduction of a new moratorium" were likely to create a situation where it was "virtually impossible for schemes to take action in the short term to enforce debts that have or that may become due from their sponsor".

DB transfer request volumes are on the road to recovery after having declined sharply amid the coronavirus crisis, according to **LCP**. The firm's quarterly analysis of the schemes it administers found that volumes bottomed out in the week commencing 6 April before beginning to recover, though requests still remain well below pre-lockdown levels.

The **government** has said that it does not believe that there are "proportionate interventions" to be made in pension investments affected by the Covid-19 crisis. Economic Secretary to the Treasury, John Glen, said that although the government recognised that the value of investments may have fallen, it would not be intervening.

VIEW FROM THE AMNT

English is a living language adapting to changing times. Monitoring this change is the Oxford English Dictionary (OED), which makes additions and omissions of words and phrases from its lexicon each year. During the coronavirus pandemic a number of new phrases and words have emerged; lockdown, social distancing, self-isolation, flattening the curve and the new normal, to name a few. Coronavirus itself is not a new word.

The financial and pension industry is not immune to these linguistic changes with words and phrases such as furlough, covenant leakage and material request.

There is one phrase that strikes a chord within the wider social context and also in the finance and pension industry; equitable treatment.

The lack of resources and inadequate planning within the care sector has been cruelly exposed within care homes, with the public calling for 'equitable treatment' for all carers within the health and social sector.

The Pensions Regulator has called for 'equitable treatment' for pension funds when companies consider suspending deficit payments and contributions.

This is also a moment when pension funds need to look at their own equitable treatment of members, particularly in terms of state abatement, or clawback, which unfairly penalise the most vulnerable pensioners.

As the crisis ends, let's hope equitable treatment becomes the new normal.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

DC trustees may be breaching default fund rules - TPR

The Pensions Regulator (TPR) has warned defined contribution (DC) scheme trustees that their use of alternative funds, due to the closure of some self-selected funds as a result of Covid-19, may be breaching legislation around default funds

TPR has urged DC pension trustees to monitor investments in alternative funds during Covid-19, as they may be unintentionally breaching pension legislation.

The regulator warned that members' investments in self-selected funds that are temporarily closed during the ongoing market volatility and have therefore been redirected to alternative funds, may become default arrangements for the purposes of legislation.

Contributions that come in during the crisis cannot be invested in funds that have been 'gated' and trustees have needed to invest them in an alternative fund.

DC scheme trustees may then be breaching pension law if they do not subject these investments to the rules surrounding default funds.

Default arrangements are subject to a charge cap, if the scheme is used for auto-enrolment, and need to have a separate Statement of Investment Principles.

TPR said that the only ways in which a default arrangement would not be created in the redirection of member funds would be if the members were made aware that funds could be moved before they selected the original fund or if trustees subsequently obtained consent from members before diverting contributions.

The regulator urged scheme trustees to review the DC code of practice and said that they may need legal advice to check whether their scheme was affected.

The Pensions Regulator
Making workplace pensions work

Trustees that have unintentionally created a default arrangement have been told to take immediate steps to ensure they meet legal requirements.

TPR, however, issued some reassurance, saying that it would continue to take a "pragmatic approach" in deciding on whether to take enforcement action.

Despite this, it warned that it has "no discretion" in using its powers regarding chair's statements and will continue to impose fines for non-compliance.

In updated Covid-19 guidance, TPR told trustees that DC to DC pension transfers must still be completed in "good time" to ensure savers don't lose out.

The regulator emphasised that transfers between DC schemes are a "core financial transaction" and a common way for members to access benefits and, as such, need to be one of a scheme's priorities during the current crisis.

It said that if a transfer is delayed, and investment values fall in that period, then the member's cash equivalent transfer value (CETV) will be reduced, stating that it is "therefore very important to process transfers within a reasonable timeframe".

Where demand is an issue, trustees have been urged to monitor transfer activity and work with administrators to prioritise "core financial transactions", including DC transfers.

Written by Jack Gray and Sophie Smith

Bulk annuity pricing sees biggest disparity in over a decade

The market volatility due to the Covid-19 pandemic has caused the widest range of pricing in the bulk annuity market for more than 10 years, according to Aon

The bulk annuity market has seen the widest range of pricing in over a decade due to ongoing market volatility, Aon has said.

Analysis by the firm found that pricing over the past two months had shown high levels of disparity, ranging by as much as 10 per cent between best and worst pricing on individual transactions.

Aon risk settlement team partner, Mike Edwards, explained that this disparity is more than double what would be expected "in a more typical market situation".

"In addition to that," he added, "the pricing levels from individual insurers have been highly variable from transaction to transaction."

The firm explained that the widening gap in pricing reflects a number of current market factors, such as the variety of insurer pricing investment strategies, and the proportion they invest in corporate bonds in particular.

Sourcing capability of individual insurers to buy corporate bonds at prevailing yields, considering reductions in market liquidity; and the range of views on how much increases in credit spreads relate to increased risk of defaults, were also identified as key impacting factors.

However, the firm emphasised, that despite uncertainties, 2020 is still set to be "another busy year for risk settlement", with £6bn of deals already completed.

Furthermore, Edwards added that whilst current market conditions may be creating "significant differences in pricing", the best pricing captured is still "among some of the most attractive seen in years".

He acknowledged that whilst schemes may question whether they should wait for current uncertainties to lessen before approaching a transaction, market experience has shown that if schemes are ready to transact, they are "better off being 'in the market'".

River and Mercantile said pension schemes that are ready to proceed with bulk annuities could have a "golden opportunity" amid the current pandemic.

The firm highlighted that despite increased uncertainty due to economic turmoil stemming from Covid-19, increased market capacity and widening credit spreads meant that schemes ready to proceed could achieve "a great deal".

The discussion around bulk annuity opportunities was part of a broader series of discussion and articles by the group, focusing on key issues that schemes and trustees are facing amid the pandemic.

As part of this, the firm has also highlighted opportunities in the investment space, including the potential for broader improvement in defined contribution (DC) investing following the pandemic.

In particular, the firm highlighted that whilst DC investments have historically been low cost, passive equity, members with this default arrangement have had "a really tough time so far this year".

It added that the pandemic should be used to "evaluate what can be done better in a post-Covid world", and that pushing to drive better DC outcomes was "certainly" something that should be added to this list.

Written by Sophie Smith

VIEW FROM THE PLSA

With the coronavirus causing havoc on the economy, we can expect defined benefit (DB) funding to be under scrutiny for some while schemes face a triple whammy of jumpy markets, lower interest rates and weakening employer covenants.

It seems likely that, even with substantial ongoing packages of government support, we will see greater employer insolvencies across multiple sectors, higher scheme deficits, and lower interest rates for the foreseeable future.

Our work with the DB Taskforce highlighted the limited choices and tough compromises that schemes and employers have had to make since the last financial crisis. Between closing deficits and company survival or growth; between former employees, and new and future ones.

It also highlighted the risks future economic disruption would make or accelerate, and the need for bolder action.

The government has promised change in the form of superfunds for some time, but has stalled its progress.

If the government wants to help schemes and stressed sponsors, now must be the time to press on with a regime that can offer a win-win for savers and employers.

Because, if things turn out to be even half as bad as the projections, having as many options available to provide savers with their full benefits is the only sensible course of action.

PLSA head of DB, LGPS and Standards, Joe Dabrowski

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

VIEW FROM TPR

I want savers to be confident that, even during the pandemic, workplace pensions and pensions operated by regulated providers are a safe long-term investment for their retirement.

That's why TPR joined six other organisations in publishing a 26-page guide that tells savers, in plain English, about the work being done by organisations including TPR, the Financial Conduct Authority, and the Pension Protection Fund, to protect pensions during the pandemic.

TPR has been quick to point to the free and impartial support savers can still access to even while under lockdown, such as the Money and Pensions Service and The Pensions Advisory Service.

But organisations such as TPR can only go so far. It's important for pension savers to see and absorb the message that they don't have to rush big decisions and that there is still help available to allow them to properly consider these important choices about their money.

To that end, I ask trustees and scheme managers look at guidance on our website, which highlights how to help savers avoid rushed decisions through their communications with scheme members. Our guidance can be found in the Covid-19 section of our website's homepage – www.thepensionsregulator.gov.uk.

Together, we can help ensure that, despite the difficulties this pandemic has brought, savers continue to see their pensions as a safe, long-term investment for retirement.

TPR chief executive, Charles Counsell

Employers to pay furloughed workers' pension contributions from August

The government announced an extension to the Coronavirus Job Retention Scheme until October, although employers will be responsible for furloughed workers' pension contributions from August

Employers will be required to resume the payment of minimum workplace pension contributions to furloughed workers from August.

Chancellor, Rishi Sunak, announced that the Coronavirus Job Retention Scheme will continue until October, but the government will begin phasing in a shared cost arrangement with employers from August.

The scheme allows employers to furlough their employees with the guarantee that the government will pay 80 per cent of their wages, up to £2,500 a month, as well as their National Insurance and pension contributions.

Employers will be required to pay minimum pension contributions of 3 per cent and National Insurance contributions from August, before the government reduces its salary payment down to 70 per cent, up to £2,190, in September.

In September, employers will have to pay the remaining 10 per cent of salary under the Coronavirus Job Retention Scheme, as well as National Insurance and pension contributions.

The government will then reduce its salary payments under the scheme to 60 per cent, up to £1,875, in October, with employers required to pay the other 20 per cent, before the scheme is phased out completely at the end of October.

Commenting on the announcement, Aegon pensions director, Steven Cameron, said: "It's welcome news that as we transition to a shared cost furlough scheme, affected employees will continue to receive pension contributions into their workplace pension on top of up to 80 per cent of their salary.

"It would have been all too easy for the Chancellor to have forgotten about workplace pension contributions for furloughed employees, but that would have had long-term negative impacts for the retirement prospects of many millions."

Meanwhile, the government, financial bodies and regulators have joined forces to publish a guide for pension savers in response to an increase in enquiries during the Covid-19 pandemic.

The seven bodies' guide seeks to answer some of the most commonly asked questions at this time and hopes to reassure scheme members amid concerns about the impact of the crisis on people's financial wellbeing.

The bodies involved are the Pension Protection Fund, the Department for Work and Pensions, Financial Services Compensation Scheme, Money and Pensions Service, The Pensions Regulator, the Financial Conduct Authority, and The Pensions Ombudsman.

The guide outlines all of the protections available to pension savers, and directs them where they can go to seek free and impartial guidance.

Written by Jack Gray

TPR tells MPs it expects employer requests for DRC deferrals to rise

Speaking to the Work and Pensions Select Committee (WPC), The Pensions Regulator (TPR) stated that it expected the number of employers that are asking for a suspension or reduction of its deficit recovery contributions (DRCs) due to the Covid-19 crisis to increase

The number of employers requesting DRC suspensions or reductions will continue to rise, according to TPR.

In a meeting with the WPC, TPR executive director of regulatory policy, analysis and advice, David Fairs, said that the proportion of employers with deficit recovery plans in place requesting deferrals or reductions "may have just crept over 10 per cent".

"Intelligence says to us that about 5 to 10 per cent of trustees have received an application from an employer to reduce or suspend contributions," he stated.

"As lockdown continues, we expect that percentage to increase. Some intelligence is emerging that it may just have crept over 10 per cent and be heading towards 10 to 15 per cent."

Fairs also told MPs that TPR had received around 60 notifications of employers that are renegotiating their recovery plans with trustees.

WPC chair, Stephen Timms, queried whether the regulator has seen much "falling away" of auto-enrolment contributions during the Covid-19 crisis.

TPR chief executive, Charles Counsell, responded that although it was "early days", it had not seen evidence of a reduction in auto-enrolment contributions and that it had not seen many problems with the contributions being made.

Furthermore, Counsell noted that there had not been a "major uptick" in scheme opt-outs, but that "one scheme provider" had seen a small increase.

He added that the regulator had received very few approaches from struggling employers but noted that they had been advised to contact their provider first if they were facing difficulties.

Counsell warned that, although TPR had put easements in place and was being more flexible in the use of its powers, if it sees serious failures it would still be using enforcement activity.

Meanwhile, Lane Clark and Peacock (LCP) warned that trustees of defined benefit schemes must give careful consideration as to how contributions will be 'switched on' again when considering a potential delay in payments.

LCP partner, Steven Taylor, said that deciding whether or not to allow an initial deferral of DRCs is only part of the challenge, with previous guidance from TPR indicating that part of this process also includes giving "serious consideration" to the mechanism through which the shortfall will be recovered.

Taylor stated that it was unlikely to be a "simple matter" of waiting for the next valuation and taking account of any missing contributions in any subsequent recovery plan, especially with the next valuation still years away for many schemes.

Written by Jack Gray and Sophie Smith

VIEW FROM THE PMI

It is widely acknowledged that pension scams have been around since long before the advent of online technologies, Covid-19 and pensions freedoms. For years, the industry has worked together to prevent scamming. However, Covid-19 has brought the issue into focus once more.

Scammers prey on vulnerable people and target where they suspect a weakness. In our current situation, members are more at risk than ever as struggling employers leave staff and scheme members fearing for their job security and financial wellbeing.

Members will often first be targeted with illegal cold calls and offers of a free pension or a financial review. There are a range of new, innovative ways to protect members from these threats. We recently saw the launch of *Scam-man and Robin*, an app-based game that alerts people to potential scams, and does a great job of getting this serious message across. But how do we drive members to information and apps to make sure they can properly educate themselves?

As an industry we must proactively push the message out among members. When opening a banking app, the first thing I see is a scam/fraud warning. When members go online to their pensions portal, they should see something similar. DC members should also see a statement reaffirming the message that the market will recover and if they are near to retirement their default funds are in a more stable type of investment created to withstand these sorts of market disruptions. Perhaps, like scammers, we need to be much more aggressive.

PMI president, Lesley Carline

VIEW FROM THE ACA

I became ACA chair on 1 June, following our outstanding first female chair, Jenny Condron. The ACA's policy priorities for my two-year term centre on a single goal: An intergenerationally coherent UK saving strategy.

The four components needed for this are already underway.

Adequate savings: Individuals need to understand the cost of a good retirement and the online tools to help them plan for it financially. This inextricable from later life social care costs.

Taxation and products: Our message is simple; society needs a simple, intergenerationally fair tax system. Short-term cuts to the tax incentives to save help nobody.

Balancing costs between current and previous workers' pensions: The new funding code of practice must go ahead, delivering simplicity for small schemes and flexibility for large schemes. It will also need to balance pension costs with business recovery following Covid-19.

Tackling climate risk: Climate risk is an existential threat to us all. Actuaries have a unique role to play, specialising in long-term risk, with oversight of trillions of pounds of long-term savings.

The UK faces economic challenges not seen in generations. The ACA will work with the government to keep momentum with existing policy agendas and deliver an intergenerationally-coherent UK savings strategy. We see a future where everyone can save for their future easily, digitally and in environmentally-conscientious ways.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

LGPS funding deficit falls by £31bn over three years

The Local Government Pension Scheme (LGPS) revealed that its funding deficit fell to £6bn between 2016 and 2019 in its Advisory Board's report. Meanwhile, the Co-operative Pension Scheme (Pace) completed its fourth buy-in deal of 2020

The LGPS has seen its funding deficit fall from £37.2bn in 2016 to £6bn in 2019, according to its Advisory Board's annual report.

The total assets of the LGPS increased by 5.9 per cent in 2018/19 to £289.7bn, with this figure constituting a £73.3bn increase over its assets recorded in the scheme's last triennial valuation in 2016.

Its liabilities were estimated at £295.7bn, up from £253.6bn in 2016, indicating an overall funding level of 98 per cent compared to 2016's 85 per cent.

The next triennial valuation of the LGPS will take place as at 31 March 2021.

The LGPS said its assets were invested in pooled investment vehicles (66 per cent), public equities (17 per cent), bonds (7 per cent), direct property (3 per cent) and other asset classes (7 per cent).

The Local Authority's return on investment over 2018/2019 was 6.6 per cent, which was reflective of the market conditions during the year and set against the UK Return of 6.4 per cent.

Total membership of the scheme stood at 5.89 million at 31 March 2019, up by 0.6 per cent from the 5.86 million members registered at 31 March 2018.

LGPS stated that the greatest increase in absolute and relative terms was to deferred membership, which increased by 2.1 per cent over the year ended 31 March 2019, however, this was due in part to the reporting of undecided leavers previously not included in deferred totals.

Deferreds made up the largest portion of LGPS membership, constituting 37.5 per cent of total members, while actives and pensioners made up 33.2 per cent and

29.3 per cent respectively.

In other news, Pace completed its fourth buy-in deal of 2020, securing a £350m deal with Aviva.

This is the scheme's second buy-in transaction with Aviva this year, after a £1bn deal with the insurer in January.

This buy-in was completing using a pre-agreed 'umbrella contract', designed to support a "quick and efficient process", according to Aviva.

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

Aviva said that members will see no change in their benefit values or the way in which they are paid, with the deal forming part of Pace's trustee's de-risking strategy.

Assistance for the trustees in the selection of insurer and the negotiation of terms was led by Aon, while they received legal advice from Linklaters and investment advice from Mercer.

Pace trustee chair, Chris Martin, added: "The trustee board is delighted to have been able to take this further step in enhancing the security of our members' benefits."

Written by Duncan Ferris and Jack Gray

Appointments


Alastair Aird

Premier has named Alastair Aird as its chief executive officer. Aird will work alongside managing director Paul Couchman to lead the firm's strategic growth plans and expansion of its trustee, wealth planning and employee benefits arms. He has been a non-executive director at Premier for 16 years, having previously worked as global chairman of media agency Wavemaker, a division of WPP, held senior roles at WPP, and worked at Leo Burnett and The Walt Disney Studios.

Following Aird's appointment, Premier executive chairman, Dai Smith, has become non-executive chairman, whilst continuing to be actively involved with Premier's client base and the business.

Smith said: "As a proven leader, Alastair is the ideal person to lead the company in its next phase of growth. He brings a wealth of experience to the role, having been involved in Premier since 2003, and understands the core values Premier upholds as a first-class pensions and benefits consultancy."


Akash Rooprai

Independent Trustee Services (ITS) has named Akash Rooprai as director. Bringing over 25 years' experience to the role, the qualified actuary has expertise across all aspects of pensions risk management. Previously, he was scheme actuary and corporate actuary at Mercer and currently chairs both the Institute and Faculty of Actuaries' Bulk Annuity Group and the data sub-group of the industry-wide GMP Equalisation Working Group.


Helena Dumycz

TPT Retirement Solutions has appointed Helena Dumycz as head of employer relationships. Her new role will see her supporting TPT's 52 DB and DC schemes and 2,600 employers. With almost 20 years of experience, Dumycz is a qualified actuary and has held a number of actuarial and client relationship roles with firms such as LCP, Deloitte and Aon. She has since held roles with BT, ITV, Grafton Group and GSK.


Virginia Burke

Aon has installed Virginia Burke as a senior public-sector pensions consultant, a role within the public-sector benefits and governance team that will see her lead the delivery of Aon's McCloud implementation services for clients, particularly the Local Government Pension Scheme. Previously, Burke served as a client development consultant at ITM and spent time with Equiniti and Hymans Robertson.

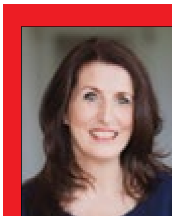

Ben Stone

Mercer has hired Ben Stone as a partner in its risk transfer team. The role will see Stone advising clients on how to effectively manage their pension risk.

Stone joins from PwC, where he led the pension risk transfer team, and has previously served as an actuary at Willis Towers Watson, as well as leading transaction projects for the Lehman Brothers Pension Scheme, the British Airways Pension Scheme and the ASDA Group Pension Scheme.


Mary McLeod

XPS Pensions Group has promoted Mary McLeod and Ben Fisher to the role of partner. McLeod, regional operations manager with XPS Administration, has aided management of XPS's growth in the pensions administration business and developing the firm's administration service delivery to clients. Fisher, as scheme actuary, has helped in developing the firm's service to help pension schemes protect their members against the threat of scams.


Sandra Robertson

Momentum Pensions has appointed Sandra Robertson as group chief executive officer (CEO) as the firm prepares for a new phase of growth focused on market-leading technology and new product development.

Robertson has worked at the international pensions specialist as a consultant for the past year, and brings extensive experience as a group CEO and business adviser from a 30-year career in financial services. She has also run her own business for three years, advising clients such as Momentum and the Isle of Man Government Department for Enterprise. Previously, she worked for the Knox Group, was group chief executive at Charterhouse Group International, and worked at Scottish Provident International and Canada Life Assurance.

Robertson replaces Stewart Davies, who is stepping back after six and a half years in the role. Davies will remain in place as a board director and will be working with key intermediaries in conjunction with the wider team in the Malta office.

VIEW FROM THE PPI

The government has been amassing a large debt these past Covid-filled months. A leaked treasury document dated 5 May considered how to fill this gap. "To raise fiscally significant amounts, we would either have to increase rates/ thresholds in one of the broad-based taxes … or reform one of the biggest tax reliefs (eg pensions tax)."

A change to the system of tax relief could offer an opportunity to address the philosophy of the current system. It might also allow for the opportunity to alter the parameters to lower cost, better target incentives, or close loopholes.

For a lower cost it would be possible to offer a higher benefit to basic-rate taxpayers through a flat rate of tax relief, while still retaining some tax advantage for higher and additional rate taxpayers. This would improve outcomes achieved by a large proportion of the new pension savers brought in through automatic enrolment. Women, in particular, would stand to benefit due to their higher likelihood of being a basic rate taxpayer.

However, implementing any change to the tax-relief system would present challenges and could be associated with significant cost to industry. It would introduce uncertainty and confusion, at least in the short term.

Right now, in the midst of a global pandemic, it would be reasonable to consider what capacity industry has for any additional uncertainty and confusion.

PPI head of modelling, Tim Pike

PENSIONS POLICY INSTITUTE
PPI

Market commentary: What goes down must come up?

In late February and early March, when it had become all too clear that Covid-19 was going to spread worldwide, global stock markets plummeted. Since then, oil prices have stolen the headlines by sliding into the negative and inflation took a dive amid store closures and job losses. But how are the markets looking now and what is set to happen next?

Speaking in early May, Nuveen chief equity strategist, Robert Doll, set the scene as he said: "Markets have stalled in recent weeks, after a sharp setback for stocks and other risk assets in March and a subsequent sharp recovery through much of April.

"Although volatility remains elevated, stock prices have struggled to move significantly higher or lower. At this point, investors can either bet on a positive outcome marked by a steady return to economic activity or a negative one in which economic re-opening struggles due to further rounds of infections and lockdowns."

Furthermore, investors are seeing their income cut by a reduction in dividend payouts, with an AJ Bell survey finding that the average investor was gaining 27 per cent less than normal through the payments.

AJ Bell personal finance analyst, Laura Suter, says: "Dividend cuts and deferrals have now topped £30bn, leaving income investors with a large hole in their portfolios.

"While some investors might be hoping the end is in sight for these cuts, they could actually increase now the government has brought in stricter measures banning firms using its loan scheme from paying out dividends to investors."

In terms of individual sectors, Janus Henderson Investors head of global equity income, Ben Lofthouse, points out that leisure, financials and energy have been "the three areas that are most impacted by Covid-19", he adds that some sectors are performing "pretty well" in the crisis.

Lofthouse singles out technology companies peddling services such as data storage and online communication, as well as food companies that have benefitted from increased supermarket usage.

Janus Henderson European equities portfolio manager, Jamie Ross, says: "Our worst-performing positions have been those with leverage, such as Unicredit, oil exposure (Total) or those who are clearly and directly impacted by the ongoing spread of Covid-19 such as Getlink, the Eurotunnel operator."

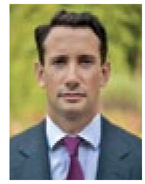
But when might we see stock markets recover?

Looking to the future, Doll comments that investors "appear to be growing more confident that the global economy will soon be emerging from recession" after the S&P 500 index rose by 3.3 per cent in the week ended 22 May, although he cautions that "the economic reopening could be slower and more uneven than many expect".

Ross states: "Over the past month or so, we have been taking the view that the economic impact of Covid-19 will be largely a 2020/21 issue and that, especially for the high-quality companies that we favour, longer-term earnings have not been structurally impaired.

"If we are right, then the recent market weakness should prove to have been a significant buying opportunity for longer-term investors. With the global, coordinated effort to slow the coronavirus pandemic, we can take the threat both very seriously and be optimistic about the future."

Written by Duncan Ferris



Global equities: Current perspective and outlook

In *Pensions Age*'s latest podcast series, Laura Blows speaks to Christopher Rossbach, CIO and Portfolio Manager of the J. Stern & Co. World Stars Global Equity strategy, about the investment opportunities for global equities in these unprecedented times

"Equities are absolutely key to generating real returns for pension funds and to offset the challenge of increasing long-term liabilities. They have a strong track record of delivering annual total returns of 8-10 per cent or more over decades with moderate risk and that is because investing in equities is investing in the best of global growth."

The CIO of J. Stern & Co. Christopher Rossbach makes an impassioned case for the role of equities within a pension fund.

"I think that global equities continue to be the only asset class that is large and liquid enough to generate those returns, because in the current interest rate environment bonds are not generating the returns that we need and I think won't for the foreseeable future," he continues. "And there's only so much private equity, venture capital or alternative investments that you can have because of the risks around leverage, structure and liquidity that we saw in the global financial crisis and are seeing today."

The coronavirus pandemic we are currently dealing with however has seen equity investors face a bumpy ride since mid-February. "It's going to take a while to recover back to normal, although we are seeing clear signs of improvement, led by consumer activity in China, and we are constructive about a sustained and broad-based recovery starting around the end of this year," Rossbach says.

With the World Stars strategy the investment philosophy is research-intensive and highly selective, choosing no more than 30 stocks from a global pool of over 1,600. Rossbach believes that this active approach will continue to deliver in the post-crisis environment.

"We anticipate a period of accelerated developments and disruption, which has already started. The shift to on-line; major increases in investment in health care, infrastructure and automation; accelerated decline in fossil fuels and a tighter focus on sustainability across all sectors. We expect that competitive advantage will increasingly be built on intellectual rather than physical capital."

At J. Stern & Co. 'quality' is the defining condition for investing in industries and companies. Rossbach looks for "companies that are operating in a good and growing industry, with a strong and sustainable competitive position, a management with a track record of value creation, and a balance sheet that can weather any kind of adversity".

"It is also critical that these companies are managed in a way that is sustainable, not just in the way they operate their business, but in the way they treat their suppliers, customers, employees, and their other stakeholders."

Using this framework of 'quality and value' in the World Stars has delivered strong annualised returns of 14.3 per cent in sterling from inception in October 2012. And this year, also to 31 May, the strategy is up 6.2 per cent compared to the MSCI World index down -0.9 per cent and the UK equity market down -18 per cent.

Rossbach accepts that there will always be volatility in markets every decade or so, but "it is something that as investors we have to take into account". The key to accessing the long-term returns of equities is "to invest in quality, to avoid weak businesses and excess leverage, and to avoid distressed sales – or even to buy more – during bouts of volatility".

Whilst Covid-19 is unprecedented in the scale and speed of its impact, Rossbach still views it as an externality against the backdrop of a solid global economy. "We believe that the combination and the scale of central bank resources, science, technology and human endeavour will overcome it in time. This will restore global growth and rebuild the growth prospects of the companies in which we invest."

J. Stern & Co

J. Stern & Co. is an Investment Partnership, based in London and Zurich, which builds on the 200-year old banking heritage of the Stern family. Since 2012 it has managed the World Stars Global Equity strategy, a concentrated group of quality large and mega-cap companies, with a long runway of growth, a record of delivery, strong cashflow and a robust balance sheet.

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

VIEW FROM THE SPP

The world has changed. Will we return to what was 'normal' before Covid-19? I suspect not as many expectations and certainties about our society have been challenged.

Many of us in the pensions industry are in a relatively privileged position of being able to work from home fairly effectively, thanks to embracing modern technology, and thus have been largely shielded by the direct impact of the epidemic. So, I should state that the following thoughts are trivial compared to the losses suffered by families who have been directly affected. But we should reflect on what this experience is teaching us about how we work.

Since the start of the epidemic, regulators have announced several changes to their expectations. Some of these are to protect members during this upheaval and others are to reduce the pressure on trustees, sponsoring employers and administrators.

I suggest that when life returns to 'normal' it will be a unique opportunity to examine the pensions regulatory model and consider how it worked with these changes and whether some of them should be made permanent. Commentators have noted for years the build-up of legislative requirements and complexity can hinder trustees and employers from focusing on effective governance and protecting members. (The DC chair's statement is my favourite drum to bang about this.)

The world has changed and the pensions industry and legislators should acknowledge and react to this.

SPP Defined Contribution Committee chair, Tim Box

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On whether the triple lock should be scrapped

"We'd encourage the government not to rush through changes and to think about the long-term implications of this type of reform. The logistics of changes to pension tax relief for example are fraught with complexity such as how it would be applied to defined benefit pensions. And it will be vital that changes which focus on particular age groups such as state pensions are not only fair but perceived as fair by the wider population."

Aegon pensions director, Steven Cameron

On DC to DC transfers amid the Covid-19 crisis

"Our latest guidance should help trustees of DC schemes prioritise what's most important – such as ensuring DC to DC transfers are completed in a reasonable time, so savers don't lose out. As well as carrying out their due diligence on transfers, trustees should help protect members by highlighting the risk from scammers in their own communications."

The Pensions Regulator executive director of policy, David Fairs

On the news that older women could be missing out on £100m in state pension uplifts

"It is truly shocking that thousands of women are being short-changed on their state pensions. Whilst the DWP is willing to put things right on a case-by-case basis when individuals get in touch, there is clearly a systematic problem here. It is time for the DWP to take this issue seriously and launch a full investigation into how so many women have been missing out for so long."

LCP partner, Steve Webb

On the *Adams v Carey* Pensions ruling

"The decision brings much needed clarity on the duties of self-invested personal pension providers, and for all financial institutions as to the parameters of 'execution-only' instructions, and the scope of COBS 2.1.1. More broadly, the court's approach to determining the scope of COBS rules will have far reaching consequences for all financial institutions. In particular, that the scope of COBS must be considered through the lens of the individual contractual arrangements with customers."

Eversheds Sutherland head of pensions disputes, Claire Carroll

On upcoming priorities for the Association of Consulting Acutaries (ACA)

"The ACA's single goal is for the UK's policy response to Covid-19 is to help deliver an intergenerationally-coherent UK saving strategy for our society. Without doubt the UK faces challenges, the scale of which we have not seen for generations. Fortunately, UK savings policy has undergone an evolution in recent years. The ACA will help maintain this momentum and assist the government to deliver an intergenerationally-coherent UK savings strategy."

ACA chair, Patrick Bloomfield

Increased focus on RPI/CPI increases

Matthew Swynnerton looks at some of the recent High Court cases in relation to pension increases

Since 1997, occupational pension schemes have been required to increase pensions in payment to account for the effects of inflation. Back then, the approach was relatively simple: under statutory revaluation orders, pensions were increased in line with the retail prices index (RPI) subject to a cap. However, in 2011, the measure of inflation under those revaluation orders switched from RPI to the consumer prices index (CPI) and, ever since, employers have been keen for their pension schemes to follow suit. Whether or not this is possible depends on the wording of a scheme's rules. The interpretation of those rules has been the focus of a slew of court challenges in recent years and with three High Court judgments handed down already in 2020, this year looks to be no different. In this article, we consider these judgments, as well as the government consultation on RPI.

The Atos case

In a High Court judgment in relation to the Atos pension scheme, the employers sought declarations as to the true construction of the pension increase rules. The judge was of the view that (i) the expression in the rules, *"the general index of retail prices (all items) published by the Office for National Statistics"* did indeed mean RPI and not some other index; and (ii) the words *"or where that index is not published"* meant where that index is not published for any purpose. Since RPI was still published by the UK Statistics Authority, the trigger condition that would enable a switch to the use of an alternative index had not been met.

The Thales case

This High Court judgment, relating to the Thales UK Pension Scheme, concerns whether the calculation of pension increases had automatically switched from RPI to CPI in 2011. The relevant rule provided that annual pensions must be increased at:

[Limb 1]... the percentage increase in the retail prices index over the year ending 30 September in the calendar year prior to that in which the increase is due to take place subject to a maximum of 5 per cent **[Limb 2]** as specified by order under Section 2 of Schedule 3 of the Pension Schemes Act.

At the time that the rule was drafted, the revaluation order specified RPI but from 2011 onwards it referred to CPI. From that point, the two limbs in the rule were inconsistent, with Limb 1 referring to RPI and Limb 2, in effect, referring to CPI. The issue in this case was whether Limb 1 or Limb 2 was to be given primacy.

The judge concluded that Limb 1 should be given primacy. His reasoning was that Limb 1 was a *"detailed, clear and unambiguous statement of the rate"* of increase. It was *"complete by itself"*. Limb 2 was simply there to describe *"an attribute of the rate that had been so identified"*.

The Arup case

Finally, in a case relating to the Arup UK Pension Scheme, the Court held that, under the relevant rule, RPI was *"replaced only if it is discontinued and another similar index is introduced or declared by the responsible body to be in its place"*. The rule in question did not provide for any sort of *"functional replacement"* of RPI that would have allowed for a switch to an alternative index.

In all three cases, the Courts held that a switch from RPI to an alternative index was not possible under the schemes' rules. This is a disappointing result for employers facing ever increasing scheme costs. However, is there change on the horizon?

A consultation is currently taking place on a proposal to move away from the current formulation of RPI by 2030. RPI will not be abolished but, instead, it will align with CPIH, a housing-cost based version of CPI, which could see its annual measured rate of inflation being lower, on average, by 1 per cent per annum. The consultation also considers whether the change should be brought forward to a date between 2025 and 2030. This change could have a material impact on pension schemes, in particular, in relation to index-linked gilts, buy-ins and buyouts, long-term funding and, of course, pension increases.

Written by Matthew Swynnerton, pensions partner at DLA Piper

In association with

DLA PIPER

VIEW FROM THE ABI

The disruption caused by coronavirus has required everyone to adapt their lives.

Naturally, many stakeholders had concerns about the immediate risks to customers arising from coronavirus. There are reasons to be reassured about these for now, but to remain vigilant as the crisis evolves.

Our data shows variations between firms, but with a general view that more customers are holding off on accessing their pensions due to market volatility. This will need to be monitored as customers' financial needs change. Firms have also seen little or no new scam activity specific to pensions, though with unresolved questions about practices on the fringes of regulation.

Firms have made adjustments to support vulnerable customers, despite the challenges of maintaining customer contact remotely. Firms have taken more flexible approaches to proof of health conditions and proof of death, with more focus on the financially vulnerable.

The short-term impacts have been huge but proven the industry's ability to adapt. The next question we should ask ourselves is what changes the crisis will spark in the longer term. It has shown the inter-relationships in the value chain, particularly the reliance on third-parties. It could accelerate the shift to paperless communications and remote working, and if it does, raises the question of how all customers can be supported.

ABI assistant director, long-term savings, Rob Yuille

Pensions – Too much of a good thing?

Can you do too good a job of saving for your retirement?

This is a question that has been increasingly on my mind since the start of the current pandemic, as many people find themselves in a position they could have never predicted, and sadly without the financial backstop they so desperately need.

But many of those who are struggling will have a pension pot that could be holding large sums of desperately-needed reserves. And while the reasoning behind why a pension has to stay 'untouchable' may seem simple for those 'in the know', it can be a hard thing to communicate with a member facing another month of unpaid bills, and another month of uncertainty.

With recent research from the Institute for Fiscal Studies (IFS) warning that further auto-enrolment increases could be "potentially worrisome" for the least financially secure savers, the issue of balancing future needs with present-day demands is increasingly prevalent.

This isn't a new problem though, and while the current pandemic may have brought these concerns to the fore, striking this careful balance has long been a challenge for savers. This is especially true for younger people, who may struggle to prioritise their pension when so many other financial obligations are calling their name. It's not a far stretch to say that many young people will see saving into a pension as taking directly from their future house deposit. For many, that is a much more pressing need then planning for something 50 years away.

In fact, employers already know that they need to change how they are supporting their workers' financial wellbeing. Research published by Smarterly over six months ago revealed that an increasing number of employers were keen to offer a two-pronged approach, with 88.2 per cent of HR professionals believing it is their responsibility to provide support across all aspects of financial wellbeing.

Ensuring adequate retirement savings is important, but it is not the only financial concern. Industry experts often push the figure of 12 per cent as an ideal amount to be saving into your pension, but for many, this is simply too big an ask, and it can quickly become overwhelming or alienating.

However, the current crisis has seen younger people saving more, simply because they can. So, the issue is not a lack of desire to save or an apathetic attitude (despite what the stereotypes may be), but rather that pensions simply needs to find their place in the broader financial picture.

With the pandemic also expected to bring huge shifts in working patterns, as more people look for greater flexibility at work, could it also be a chance for the savings industry to show a bit more flexibility, and empathy, to members?

Existing pension structures work, don't get me wrong, but they need to work for more people. More flexible solutions are needed to meet the growing and diverse needs of the workforce and encourage long-term saving that works on an individual level. Whether this is in the form of an ethical fund, which is closely aligned with member values and encourages them to stay enrolled, or a sidecar savings vehicle that allows them to save for their immediate goals, such as a house, without sacrificing their future retirement provisions, change is needed.

Nest first launched its sidecar savings trial in 2018, two years ago, and whilst pensions have never been the speediest area for change, the current crisis has shown that when rapid change is demanded, it can be achieved. This is a time of unprecedented change, so let's make the most of it.

Written by Sophie Smith

In association with

JUST.
RETHINK RETIREMENT

Bulk annuities during coronavirus

Laura Blows speaks to Just business development manager Prash Mehta about the impact of coronavirus on transactions

It was all going so well for bulk annuity transactions. And despite the unusual start to the year, this continues to be the case...

The start to 2020 was already busy with a number of request for bulk annuity quotes issued in late 2019 from schemes that were ready to transact.

But then, Covid-19 took hold and nobody knew what impact this would have. Since the start of the pandemic Just has completed over £250 million of bulk annuities, including The Leonardo Electronics Pension Scheme; a £160 million buy-in that covered all the non-trivial pensioners.

The Leonardo deal has gone through smoothly, but since Covid-19, 'ready to transact' covers some additional factors for those looking for bulk annuity deals, Just business development manager Prash Mehta explains in the latest *Pensions Age* podcast, *Bulk annuities during coronavirus*.

According to Mehta, schemes are broadly falling into three groups.

The first, including the Leonardo Electronics Pension Scheme, had de-risked their assets in preparation for a transaction before markets became volatile in mid-March. This meant their funding level was less impacted by the Covid market volatility and so they can continue to de-risk if already on this journey.

"For the Leonardo transaction, the trustees benefited from a bespoke price-lock formula implemented before Covid, which took into consideration what de-risked assets were held and how the value of liabilities had been calculated," Mehta explains. "This gave the trustees transparency for how our price would move with market conditions until the transaction took place. It also gave them an opportunity to hedge their asset position against movements in our price."

The second group have been exposed to growth assets and as a result need to wait for market prices (and their funding level) to recover, liquidity to return to the market, or they need to seek additional funding from sponsors.

The final group are those with sponsors heavily impacted by the Covid pandemic and as a result, focusing human and capital resources on their core business. So de-risking is no longer their priority and plans have been put on the back burner.

"Interestingly, we've also seen a few projects come back to the market that hadn't transacted last year due to affordability," Mehta adds. "They hope that pricing is now affordable and they've filled the gaps left by projects taking a pause. And so we're as busy as we were pre-Covid, albeit on different projects."

Bulk annuity pricing has been affected by the pandemic, which as it developed, saw spreads between gilt and corporate bond yields widen on the fear of defaults. This fed through to improved bulk annuity pricing, Mehta says, but with more than normal variation between insurers, driven by differing views on credit defaults. "This resulted in some great value for schemes that were ready to transact, according to the broking consultancies," he adds.

However, the subsequent intervention by global central banks (the scale of which is unprecedented) has squeezed gilt and corporate bond yields back together and pricing relative to gilts has returned to pre-Covid levels, which were attractive in the first place, Mehta continues.

So from a business development perspective, projects now sit in two camps:

Camp one includes projects that were already in the market before the Covid pandemic. "Here, much of the preparation on organising assets, cleaning data and collecting marital information had taken place. For these projects the decision to continue the tendering process depends on which of the three groups that I described earlier they sit in," Mehta explains.

The second camp includes projects that were yet to come to the market or hadn't yet had their first round of insurer pricing. "Here, there has understandably been a pause while they reassess their priorities and deal with their new circumstances. It's too early to tell if they will resume their processes or not," Mehta says.

With many bulk annuity transactions having still occurred during the height of the crisis, and with a solid pipeline of deals on the horizon, Mehta is confident that this year is still set to be a strong one for the market.

"Don't take your foot off the gas if you're preparing to de-risk," Mehta advises. "Indications are that 2020 will draw to a busy close."

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

From telesales to tutus

Redington integrated consultancy practice leader, Marian Elliott, chats with Duncan Ferris about disco outfits, space exploration and Netflix binges

What's your employment history (including jobs outside of pensions)?
Having had a go at telesales and nightclub promotion in my younger years, I then turned to actuarial studies. I qualified whilst working rather than going to university and have worked as a scheme actuary, an independent trustee and an adviser to corporate sponsors. I now spend most of my time on strategy development and risk management.

What's your favourite memory of working in the pensions sector?
Whether it's catching a single carriage train with a colleague to visit a client in the middle of nowhere, or raising a glass of (probably coffee!) at midnight when a deal has gone through, all my favourite memories are of the experiences I've had and things I've learnt working with the brilliant people across the pensions industry.

I have to say, one memory that I didn't expect to have working in the pensions sector, is standing outside Guildhall dressed as a 70s disco singer in a neon tutu and a huge wig, all in the aid of Shrove Tuesday and raising money for the Lord Mayor's charity!

If you did not work in pensions, what sector do you think you would be in instead?
I've always been interested in corporate governance and not just the decisions we take but why and how we take them, so perhaps broader company strategy and risk management.

What was your dream job as a child?
I always wanted to be an astronaut – what child doesn't?! Maybe Elon will make the space travel dream a reality in time for me to have a go one day.

What do you like to do in your spare time?
Running and cycling are my go-to activities, usually followed by a glass of wine in the garden with a good book. We've even managed to maintain a virtual Redington cycle club during lockdown!

Do you have any hidden skills or talents?
I play the piano, but I'm not sure whether those listening would categorise this as a skill nor a talent!

Is there a particular sports team that you follow?
Born and raised in South Africa, I have tried to integrate myself into English culture as much as I can and will happily discuss the weather at any opportunity and support the England cricket and football teams. But when it comes to rugby, my loyalty will always be to the Springboks!

If you have to choose one favourite book, which would you recommend people read?
So many good books to choose from, if I were to recommend one it would be *The Book Thief*. It's a very readable and quite original take on a difficult subject.

What film/boxset should people see?
I'm sure there are plenty of people having a Netflix binge at the moment! My recommendation would be *House of Cards* – the story of a congressman who created an elaborate plan to attain power.

Is there any particular music/band that you enjoy?
Much to my family's disdain, I will always turn up the volume for 90s house music.

Editorial credit: Andrea Raffin / Shutterstock.com

Who would be your dream dinner party guests?
James Corden, Condoleezza Rice, Sir Ranulph Fiennes and Will Smith would make for a really interesting and entertaining evening. Ideally, Ollie Dabbous could pop in ahead of time and help prepare the meal!

Is there an inspirational quote you particularly like?
"When you reach the end of your rope, tie a knot in it and hang on." — Franklin D. Roosevelt

Written by Duncan Ferris

Staying positive

Nico Aspinall explains why he remains optimistic in the midst of Covid-19 shockwaves

The coronavirus crisis has provided a profound shock to the global economy, to financial markets, to the model of a non-interventionist government of a free market, and of course to us all as individuals and society as a whole.

Everything is being transformed by this crisis, but I remain optimistic that we could see a better society as a result. However, the course through will be painful and highly uncertain. We should expect the unexpected and can only do this with a realistic assessment of the predicament we find ourselves in.

The lockdown has brought the global economy to a grinding halt, with estimates of the impact on global GDP for 2020 looking far worse than the global financial crisis of 2008-09, and possibly overtaking the depression of the 1930s in terms of sheer economic destruction.

In the UK there have been a number of policy interventions that are aimed at softening the blow, including a government guarantee of new lending to business, the government's job retention scheme to pay 80 per cent of wages of staff who are 'furloughed' and the Bank of England's acceptance that it should be financing the fiscal deficit by essentially printing money rather than relying on tax rises.

Similar measures are being pursued around the world. The state is intervening directly to support business and employment and printing money to do so. This is not what our recent experience of capitalism has looked like.

All in all, radical policy interventions are taking place much faster than in response to the great depression of the 1930s; and indeed faster than in the financial crisis in 2008-09. Ultimately the model of private enterprise and employment that has flourished since the industrial revolution is severely challenged. Financial markets are based on this model of the economy.

In the face of this uncertainty it was no surprise that the steepest ever decline in global equity values occurred between 19 February and 23 March.

Bonds have had performance generally divided between lending to governments, which acted as safe havens and went up in price; lending to well-rated corporations, which have held up or improved in value; and lending to poorly-rated companies, which have fallen in price. Both equities and bonds have had distinct sectoral impacts within the broad analysis with healthcare and groceries booming and tourism, entertainment and energy crashing.

When the economy's in bad shape and markets are volatile, there's a knock-on effect on pension savings, which are invested in shares and bonds. So it's a worrying time and investment decisions should not be taken without realism, but at the same time I believe there are reasons for us to count our blessings here.

At no other time in history could humans have provided such a deep and extensive resource of academic medical, vaccine and drug development research to search for preventative measures and treatments and such a deep and well-resourced network of healthcare professionals to reduce the mortality of infection. And to so comprehensively abandon outdated understandings of the meaning and role of money such that the money presses can be set to address the economic effects. "We will do whatever it takes" is a mantra of this new era.

Meanwhile, people have coped marvellously with enforced lockdown, and much of that is down to revolutions in information technology bringing us closer together despite our physical distance. Like many others, our team has been working remotely throughout lockdown. Technology means we can keep in touch and monitor everything in real time on a global scale, and that simply wouldn't have been possible just 20 years ago.

There are grounds to hope that we will look back on this as a blip, possibly a long one, in an otherwise uninterrupted journey of human progress. We cannot know for certain what comes next – and much depends on scientific developments. We should recognise we are lucky to live in these times and come together to make the world a better place, in whatever ways we can.

To find out more about how The People's Pension can support your clients, go to www.thepeoplespension.co.uk/CV/PA or please call on 0333 230 1310.

Written by The People's Pension chief investment officer, Nico Aspinall

Soapbox: Bringing down barriers

We've been here before in recent years. 1981, 1995, 2011 and now 2020 sees protests line our streets, shouting out against the implicit and explicit racism facing black people.

Progress against racial discrimination has been made between each protest, but arguably too small and slowly do these incremental achievements occur.

This time of mass disruption takes us out of our comfort zones, forcing us to consider the simplistic, not overtly discriminatory views we (I sincerely hope) all hold and makes us all look for injustices and imbalances that are insidious within systems and society.

Closer inspection of the pensions industry may make for some uncomfortable viewing.

Research at the beginning of the year from The People's Pension (TPP) found that ethnic minority pensioners are an average £3,350 a year worse off in retirement than others their age.

Its report, *Measuring the Ethnicity Pension Gap*, found that the average ethnic minority pensioner's retirement income is 24.4 per cent less than the average white pensioner.

The gap is even larger when gender is accounted for, with TPP finding that a female ethnic minority pensioner is on average 51.4 per cent worse off in retirement than a white male pensioner.

These findings echo that of the Centre for Research on Ageing's 2014 report, entitled *Ethnicity and occupational pension membership in the UK*, which found that ethnicity remains a strong determinant of a working-age person's chances of being a member of an occupational pension scheme, controlling for other key demographic and socio-economic characteristics.

There are six years between the reports. Not enough has changed between them.

This is not to simply conclude from the above statistics that the industry is overtly racist, or deliberately placing barriers to hinder the opportunities for black people to save for retirement. Yet without meaning to, this can sometimes be the result.

For instance, last year, firefighters and a group of 230 judges won their legal case against the 2015 government pension changes requiring newer scheme members to be part of a career average scheme, instead of final salary.

The judges argued that this was discriminatory on the grounds of age. Because of recent drives to increase diversity in the judiciary, many more of those in the younger group of judges are female and/or from a BAME background, and so claims were also pursued for indirect race discrimination and a breach of the principle of equal pay.

Meanwhile, TPP's research stated that the ethnicity pensions gap was driven by lower average earnings, variable employment rates and ethnic minority workers more likely to be self-employed. So, we as an industry must go beyond looking at race as a separate issue and instead consider how we can help mitigate societal factors that disproportionately affect ethnic minorities.

To understand the scale of these underlying issues – and to understand the disproportion generally – more research into the saving levels of ethnic minorities desperately needs to occur. There have been several great pieces of research and serious efforts made to address the pensions gender gap, but nowhere near enough work on tackling the ethnicity pensions gap. More needs to be done.

Within the pensions industry itself, while still mainly focused – and I feel successfully – on increasing female voices, we are however starting to see steps to improve ethnic representation.

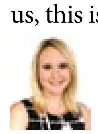
For instance, in 2017 the PLSA launched a campaign called *Breaking the Mirror Image*, to lead and encourage a more diverse workplace within the pensions industry, and in February this year, The Pensions Regulator confirmed the creation of an industry working group focused on diversity.

Last month, the Pension Protection Fund (PPF) launched a five-year diversity and inclusion strategy, as the organisation admitted that it does not currently have a workforce that reflects the diversity of its local area.

Almost a quarter (24.1 per cent) of PPF employees and 15.4 per cent of PPF senior managers are from black, Asian and minority ethnic (BAME) backgrounds, yet 50.7 per cent of Croydon – where the PPF is based – is BAME.

These efforts are a great start. But they are exactly that, a start. Despite this work, no one can reasonably say that we are close to solving the under-representation of ethnic minorities within the pensions industry and within retirement saving generally. The consequences of this, from the loss of potential talent for the industry to the increased risk of poverty at retirement for ethnic minorities, need to be addressed urgently.

Now, more than ever, is the time to examine and take efforts to remove the overt and implicit barriers to retirement saving, and to career progression within the pensions industry itself, facing ethnic minorities. As the recent protest remind us, this is no time for complacency.



Written by Laura Blows

Shaping the future of fiduciary management

In *Pensions Age's* latest podcast, Laura Blows speaks to River and Mercantile Solutions co-head, Ajeet Manjrekar, about the future of fiduciary management in the UK

The Covid-19 pandemic has created challenging times for all of us, but that is not to say that all have been affected in the same way. As a fiduciary manager, River and Mercantile Solutions co-head, Ajeet Manjrekar, highlights in the *Pensions Age* podcast *Shaping the future of fiduciary management*, that he has seen quite a range of experiences.

"Our clients, from a fiduciary and funding level perspective, held up reasonably well during the crisis. Funding levels went down 3-5 per cent, in contrast to the sharp market falls that we have seen. That has mainly been driven by us being dynamic in our approach, but also having segregated liability hedging, to maintain that high level of hedging and liquidity," he explains.

According to Manjrekar, the key challenge going forward is that the funding progress for many schemes may have been knocked off course, meaning journey plans need to have a rethink.

"Many of the conversations I have been having with clients lately focus on a shorter-term period, so the next 12-18 months, and how they are positioned from a cashflow perspective. What are the drains on their liquidity and do they have enough cash available?. Many sponsors, I think about 30 per cent, have requested contribution holidays. That has a big implication for how pension schemes manage their shorter-term cashflow," he says.

To help with this, Manjrekar urges clients to think about three things – their objectives, when they want to achieve them and the potential future risks.

"It's all about looking forward and in doing so we think about whether we are targeting the right level of return today, how are we thinking about our risks, eg liability hedging, strain on the sponsor covenant, and what does that mean in practice, and put in place a plan that really addresses those needs, alongside managing day-to-day needs such as cashflow requirements," he explains.

Helping clients make long-term plans is nothing new for River and Mercantile, having provided fiduciary management to UK pension fund clients for nearly 18 years. The company has seen many developments occur within fiduciary management at this time, including the impact of the recent CMA review.

"The review should help to address some of the concerns trustees previously had because there is clear guidance for how trustees need to review, not just their existing fiduciary arrangements, but future ones. A mandatory tendering process provides a much better governance framework to trustees to evaluate a fiduciary management capability and to take away that conflict framework that may have existed for some providers," Manjrekar says.

The subsequent increase in third-party evaluators to support trustees is excellent, he adds, as is the standardisation of presenting performance. This is crucial to ensure trustees are able to compare "apples with apples", albeit anecdotal evidence shows that the industry is not there yet.

Most important for Manjrekar is fee transparency.

"The CMA has provided some guidance around this, but it is something we have been very proactive about, in terms of encouraging clients, prospects and intermediaries to really look at a full breakdown of fees. To understand what the fiduciary manager is getting paid, what the underlying managers are receiving, and other costs and expenses, such as custody and transaction costs. Fund performance should always be shown net of fees."

The result of these changes is a 'new dawn' for fiduciary management.

Manjrekar expects the fiduciary management sector to move away from a single multi asset fund combined with pooled-LDI models. "It takes a too simplistic approach to just wrap a fee around a pre-packaged set of components and then dress that up as fiduciary management," he explains.

There will be a more **consultative approach**, with an ongoing dialogue between the fiduciary manager and trustees, Manjrekar predicts, along with **utilising all the tools at the manager's disposal**, including both liquid and illiquid assets, niche opportunities and the use of derivatives.

Transparency and prompt communications will also be expected by trustees, he adds, along with **full ESG integration**, both within the portfolio building and reporting back to clients.

"ESG is much more than manager selection and effectively just scoring managers against a set of criteria," Manjrekar says. "In some respects that is very backwards looking. It is all about looking forward."

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

The right time

Stephen Purves asks if 2020 could be the bulk annuity market opportunity that smaller schemes have been waiting for

2019 was a record-breaking year in the bulk annuity market, with transaction volumes reaching record-breaking heights of almost £44 billion in a market dominated by the so-called 'jumbo' transactions.

But what is not so widely reported is levels of activity for smaller transactions. Despite bulk annuity market volumes increasing overall, for transactions at the sub £100 million level, there has been a reduction in the number of transactions completed in recent years. This is highlighted by a doubling of the average deal size in the market – from c£150 million in 2018 to £300 million in 2019.

However, as we progress through 2020, there are some positives for smaller transactions and a greater market opportunity for transactions of this size has emerged.

Increased insurer capacity opening up the market

Many insurers have increased resource allocated to smaller transactions to help address the growing demand at the smaller end of the market. Specifically, many of the prominent insurers have increased team sizes and established more automated pricing engines to help fulfil demand. In addition, while 2020 is unlikely to surpass 2019 market volumes overall, with fewer large transactions currently in the market, this is helping to free up both people and capacity among insurers.

Current market volatility improving affordability

Recent widening of credit spreads has helped improved affordability levels for some schemes. Those which are well hedged and already de-risked have seen solvency funding improvements and an acceleration towards the 'end game' of buyout. Volatile market conditions have also helped smaller schemes to become more appealing to insurers concerned about executing on large trades on specific days; smaller transactions allow insurers to spread this market risk across multiple transactions and dealing dates.

Smaller schemes have also helped themselves by approaching the market using streamlined bidding processes and pre-negotiated contracts, such as Aon's Pathway. By approaching the market in this way, insurers know that they are unlikely to have to commit to holding their pricing over lengthy and protracted contracting periods and expose themselves to market volatility. Aon has completed transactions in less than two weeks by utilising its pre-negotiated contracts, which also ensure that trustees achieve robustly negotiated contractual terms.

Operational readiness enables transactions

The Pensions Regulator has helped many schemes improve the quality of member data, enabling them to become 'transaction ready' well in advance of buyout. While some in-house pensions departments have furloughed staff and are rightly focusing on paying members' pensions, smaller pension schemes typically outsource to third-party administrators, who are still able to provide sufficient bandwidth to support bulk annuity exercises.

Opportunities for the rest of 2020?

It is important for smaller schemes to approach insurers in the right way in order to maximise insurer engagement and to achieve competitive pricing. Now – more than ever – well-prepared schemes, adopting streamlined auction and contracting processes, will be prioritised over those proposing bespoke and people-intensive processes.

There are lots of positive signs for smaller pension schemes currently contemplating buy-in or buyout transactions. The outlook for the market is that there will be reduced overall volume in 2020, something likely to give rise to opportunities for smaller pension schemes not seen at this end of the market in recent years.

Now is the opportunity that smaller schemes have been waiting for in the bulk annuity market.

To request a copy of Aon's 2020 Risk Settlement research, please email talktous@aon.com.

Written by Aon risk settlement team partner, Stephen Purves

The new normal

As face-to-face meetings and travelling into the office has declined, *Pensions Age* asks for your tips to make working from home run that bit more smoothly

Technology

Meeting papers had already gone online for many schemes and trustees were using tablets in meetings to access papers. Where this technology is being used for the first time, it will be important to familiarise trustees with what is available online and with any options in the meeting pack software to annotate documents and make notes if they need to. During meetings speakers should be clear about which documents/pages they are referring to seeing as looking at a colleague's tablet to see the page numbers is no longer an option!
Sacker & Partners partner, Joanna Smith

When working remotely, such as the majority of trustees currently are, you need a tool set that works consistently, and brings together all of your work needs into one place to enable efficient and collaborative decision making. This should include the ability to access up-to-date information, not just on their live funding levels, but how this will be impacted through potential evolving market scenarios.
Redington chief technology officer, Adam Jones

Security

Security obviously needs considering from an IT perspective but home printing needs thought too. During 2018 when GDPR was new, trustee boards were focusing on scanning in or destroying duplicate paper copies, especially anything that was being kept at home. Now the whole industry is largely based from home, thought should be given to the secure destruction of any confidential information in hard copy – bringing it back to the secure shredding facilities in the office, once that is possible, is one option.

If you know that legal documents will need to be executed then it is wise to make a plan for doing this well in advance. Many are using secure electronic signature software for the first time but those who need to use a 'wet ink' process are well advised to check the process with their lawyers and check the printer and scanner can cope, well in advance of any deadlines.
Sacker & Partners partner, Joanna Smith

Virtual meetings

Turn on the video! Whether it be a formal client update, a team meeting or an informal catch-up with a colleague, having the ability to read a person's expression, see their gestures and combine all of this with a voice makes the conversation much more personal, engaging and dynamic. It may seem more awkward in principle but in fact, it's the opposite.
River and Mercantile Solutions, co-head Ajeet Manjrekar

Speaking on video calls can be tiring. The faces staring back at you don't always react when you need them to, you don't always know when you can speak, and sometimes lags on calls can make the process tiresome. Nodding along, smiling and reacting puts speakers more at ease.
CEM Benchmarking analyst, Joao Barata

Make sure there are 'vanilla' dial-in options for the Luddites out there and have a back-up option conference call facility just in case you need to abandon the video function. Make sure you have a good speaker/headset so that you are loud and clear. How close are you getting to the camera? Maybe prop up the laptop on a couple of dictionaries to get the right angle.
Sacker & Partners partner, Joanna Smith

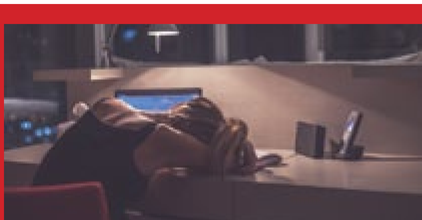
Timing

The days of marathon all-day trustee meeting are over – temporarily at least. We are seeing boards consider what the

right length is for virtual trustee meetings and then split them up into manageable time slots focused on particular issues. This can have the advantage of making meetings focused and productive – even if more diary management is needed.
Sacker & Partners partner, Joanna Smith

Have a definite action plan for the day. If you are not careful you can spend all your time doing nothing but work. Give yourself a list of things that can be realistically achieved in your day. Work hard and get these things done – and then give yourself a well-deserved break.
Salvus Master Trust head of sales, Bill Finch

With many UK employees working remotely, it's easy to overlook the value in taking regular breaks. Employers should be encouraging their teams to book out slots in their diaries and step away from their desks for short periods of time throughout the day. Staying safe while observing some sort of daily exercise is important for physical and mental health.
Unum UK HR director, Natalie Rogers



Boundaries

You don't have to be 'online' to be working. You can be offline and take that time to focus on a piece of work that needs attention without being distracted by your inbox or Microsoft Teams chat. Once you have completed your tasks, then you can come back online and focus on responding to your emails.
CEM Benchmarking analyst, Joao Barata

It is important to know when to stop. I start early every day, and at 5.30pm my son and I go for a bike ride. That doesn't mean that I won't come back and log back on to my laptop – but it does mean that I have told myself that my working day is over, and that whatever I do after that I am doing 'voluntarily'.
Salvus Master Trust head of sales, Bill Finch

Working remotely for long periods of time can lend itself to bad working habits. For example, late-night emails can make employees feel pressured and can be a trigger for workplace stress. Leading by example is the best way to promote healthy work/life balance.
Unum UK HR director, Natalie Rogers

Team

I have found it really useful to be part of a virtual team meeting at the start of each working day. Quite apart from the opportunity to discuss ideas and share experiences, it is reassuring to be reminded that we are not ploughing a lone furrow, and that there is a bunch of people out there who have got your back.
Salvus Master Trust head of sales, Bill Finch

Obviously if we were all in our offices there would be many conversations happening (on work and non-work topics) in the kitchen and around the office. Colleagues would pop by to ask a quick question or a steer on a particular issue or give a quick update on something. We need to make sure these conversations happen virtually now and not just by email. It is of course incredibly important to exchange ideas with colleagues and make sure more junior colleagues are supported. We are using video conference technology for this purpose as well as 'formal' meetings.
Sacker & Partners partner, Joanna Smith

Take time to ask 'how are you coping?' and listen to the answer. Members of our exec leadership team have been calling staff from across the business, who they may not have ever met, just to let them know that everyone matters.

Keep the channels open and don't make it all about work. We have created a virtual pub with different rooms where staff can gather for a chat, in or out of work time. We all meet there on a Friday following an all-team, end-of-week briefing. We start and end the week with a briefing to keep everyone in touch with each other and the business. Furloughed staff are encouraged to join too.

Take extra care of furloughed staff. Many may be left with a feeling of being inadequate by the fact they have been furloughed.
AHC head of engagement strategy, Karen Bolan

Now more than ever, it's vital that employers are tuned in to how their employees are feeling whether they are working remotely, remain on site or have been furloughed. Symptoms of stress can appear physically, behaviourally or cognitively via a noticeable dip in performance and productivity, but it can be hard to identify the signs, particularly from a distance.

Get to know each team member so you can spot when there is a change. When you see each other pretty much every day, a change in people's appearance or moods are more obvious. When working remotely, be aware of how they speak on the phone, the tone of their emails and keep an eye on performance. And where appropriate, use video tools for meetings to help feel more connected with your team and watch for any warning signs.
Unum UK HR director, Natalie Rogers

Going for gold

Two-thirds of [pension funds] are deeply concerned about the future of the global economic and financial system: How might gold help?

Even before the Covid-19 global pandemic and its seismic impact, deep-seated concerns about the health of the global economy, historically low or negative interest rates, and geopolitical uncertainty have weighed heavily on investors' and asset managers' outlook for some time.

Now more than ever, the question for investors and asset managers is how to chart the best course through these unprecedented times and beyond by selecting the most appropriate assets and investments.

Covid-19

The Covid-19 outbreak has become the world's leading threat, placing additional stress on a weakened financial system, and upending financial norms and life as we know it. Central banks and governments around the world have responded to this issue head on, with a financial response on an extraordinary scale led by a raft of unscheduled rate cuts.

On top of this, central banks and governments globally are injecting trillions of dollars into their economies – far in excess of the levels seen in response to the Global Financial Crisis in 2008. But these historic actions to maintain the flow of credit, in the hope of limiting the damage to the economy, could profoundly distort asset prices and allocations in the years to come.

These concerns were highlighted by a recent survey commissioned by the World Gold Council and conducted by *Pensions Age*, which found that two-thirds (67 per cent) of respondents agreed that they were deeply concerned about the future of the global economic and financial system.[1]

Pensions funds face challenges

Questions around the challenges pension funds are facing, and their ability to meet their long-term liabilities, have been swirling for some time. As people live longer and spend more time in retirement, pension schemes have seen their liabilities grow relative to their assets. According to the SkyVal index, UK defined benefit schemes had a £290 billion shortfall at the end of March 2020.[2]

Heightened volatility – a prevalent feature of 2020 so far – also presents a risk for pension schemes looking to achieve their funding target and manage their costs. The low/negative interest rate environment, which has depressed yields on bonds, has inflated future liabilities. As such, pension schemes have been forced to search for returns greater than those from traditional assets, often in illiquid investments that can carry higher risk.

The role of gold

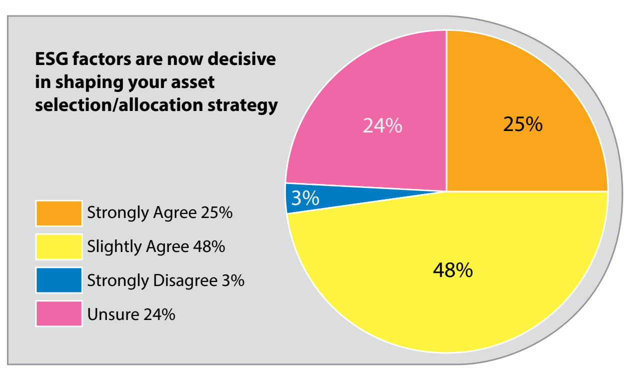
In the face of these challenges, pension schemes need ways to not just manage risk but minimise it – and this is where gold might play an instrumental role. This is reflected in the survey where nearly half (47 per cent) of respondents agreed that gold helps to decrease the risk within a portfolio.

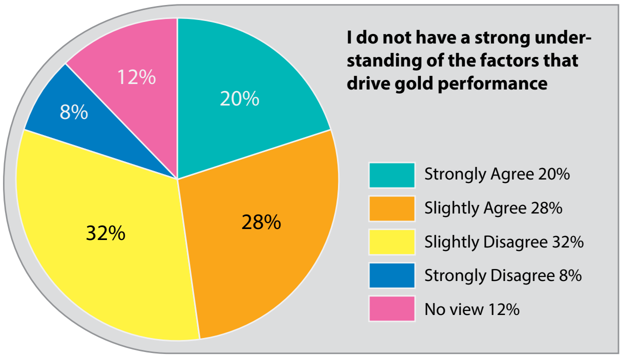
Gold historically benefits from flight-to-quality inflows during periods of heightened risk. By providing positive returns and reducing portfolio losses, gold has been an effective diversifier during times of systemic crisis when investors tend to withdraw from equities. The large and liquid market for gold means it can be sold to meet liabilities while the values of less liquid assets correct. The greater a downturn in stocks and other risk assets, the more negative gold's correlation to these assets becomes.

But gold's correlation doesn't only work in investors' favour during periods of turmoil.

Due to its dual nature as an adornment and an investment, gold's long-term price trend is supported by income growth. Only 28 per cent of respondents disagreed that gold delivers poor returns over the long-term, with 48 per cent holding no view. In fact, its price, measured in pound sterling, has increased by an average 11.6 per cent per year since 1971 when it began to be freely traded following the end of Bretton Woods. And it has outperformed many stock, bond and commodity indices over multiple periods since then. This is even more significant given gold does not pay a coupon or dividend because, as a hard currency, it carries no credit risk.

Gold's price performance is a result of its multiple sources of demand. Gold is used by investors to protect and enhance wealth over the long-term, and it is no one's liability. It is also sought after as an adornment, valued by jewellery buyers across the world. And it is a key component in electronics. These diverse sources of demand, combined with its relative scarcity, give gold a resilience: the





potential to deliver returns in good times and in bad.

Like any investment, an allocation in gold is not risk-free. Its value will fluctuate in the short-term, and potentially more so than other assets. But over the long-term, its volatility has averaged 16-17 per cent, significantly less than other traditional assets such as equities or bonds

Gold goes beyond commodities

Another common belief amongst investors and investment practitioners alike is that gold is just a component of the broader commodity complex. Two-thirds (68 per cent) of survey respondents agreed they viewed gold as a subset of commodities.

While gold undoubtedly shares some similarities with commodities, a very cursory look at the make-up of supply and demand highlights that differences outnumber similarities. For example, the supply of gold comes from both mining and recycled sources, helping to quell uncertainty and volatility, while gold is not consumed like typical commodities because gold is virtually indestructible.

Gold's unique attributes set it apart from the commodity complex. From an empirical perspective, including a distinct allocation to gold has been shown to improve the performance of portfolios with passive commodity exposures.

Gold & ESG

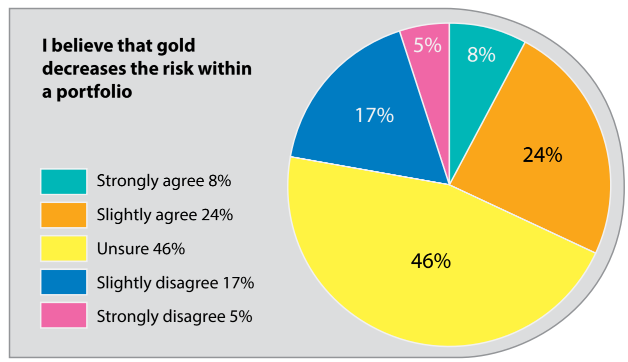
Respondents overwhelmingly agreed (85 per cent) that environmental, social and governance (ESG) issues are now decisive in shaping asset selection or strategies. This is in line with wider societal expectations but also driven by a host of legal and regulatory changes. In September of 2019, UK pension trustees became obliged to have a strategy recognising ESG factors, including climate change, as 'financially material' considerations. The following month, regulations were introduced requiring pension schemes with more than 100 members to disclose an understanding of the potential impacts on their investments from ESG-related risks.

The moves towards an increased understanding of this wider set of risks, and actions to mitigate their negative impacts, have also been key factors shaping the evolution of the gold supply chain, and gold's developing role as a portfolio and risk mitigation asset.

To ensure that gold is produced sustainably and responsibly, key market participants across the supply chain have evolved a range of industry initiatives and standards to give investors greater confidence in the provenance of gold as a responsibly sourced asset.

Most recently, the World Gold Council launched the Responsible Gold Mining Principles, a comprehensive framework that sets out clear expectations for consumers, investors and the downstream gold supply chain as to what constitutes responsible gold mining.[3] Independent validation of company conformance will provide further confidence to investors that the gold production process adheres to high ESG standards, reinforced by external assurance on performance, which should help minimise the risk of 'greenwashing'.

But of all ESG risks, perhaps the most substantial and urgent are those relating to climate change. There is strong evidence that gold can play a constructive role in contributing to the mitigation of climate-related risks and support greater resilience in investment portfolios in the face of potentially destructive climate impacts. Gold has a comparatively low emissions profile and immaterial downstream impacts, potentially reducing the overall carbon footprint for an investment portfolio.[4]



Conclusion

The challenges and risks facing pension schemes have been mounting for some time. And this has only been exacerbated by the events of 2020 so far. But while pension schemes may be fully cognisant of these risks, they may not be fully aware of the assets which can help.

Gold's unique portfolio characteristics, which set it apart from other mainstream assets and commodities, could be well suited to help manage those risks going forward.

Written by Krishan Gopaul, Market Intelligence, World Gold Council

In association with WORLD GOLD COUNCIL

[1] The survey was conducted between 24th February and 10th March 2020, with over 100 respondents covering consultants, trustees, pensions managers, and asset managers.
[2] www.pwc.co.uk/press-room/press-releases/uk-pension-funding-volatile-over-first-quarter-of-2020.html
[3] www.gold.org/about-gold/gold-supply/responsible-gold/responsible-gold-mining-principles
[4] www.gold.org/goldhub/research/gold-and-climate-change-current-and-future-impacts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ESG focus:

A multi-generational concern

LGIM head of DC, Emma Douglas

Finding the greenest generation

Emma Douglas explores how ESG views and identity intersect for three generations of savers

The "OK Boomer!" retort from the Instagram generation has been levelled at out of-touch parents on everything from Trump to tidying their room. But does it apply to responsible investing?

In the wake of the coronavirus pandemic, we have been sharply confronted with the environmental, social and governance (ESG) impacts that global capitalism – and its corollaries: trade and travel – has on the earth we inhabit.

Few disagree that it is time to do things differently. But with so much to achieve in so little time, how should we decide what's most important now?

LGIM's research into the ESG views of 1,000 savers examined the sharp generational and gender divides that exist on this question, and offered valuable insight into how to reflect a diverse set of views in savers' pensions. The respondents were drawn from three generations: Baby Boomers (aged 55 to 65), Generation X (aged 40 to 54) and Millennials (aged 25 to 39)[1].

Our key findings were:

- Boomers don't want to go bust over climate change: Over twice as many Baby Boomers as Millennials would prioritise investment performance over environmental considerations
- Now is the 'Age of Influence': Millennials were the most likely to want their investments to reflect climate change concerns
- Experience matters: Nearly 75 per cent of female 'Boomers' and 'Generation Xers', or 'Generation gender pay gap', would divest over poor pay and governance

Greta Expectations

High-profile campaigners of all ages are raising the alarm about the climate emergency and other societal issues. Initiatives range from Greta Thunberg's iconoclastic "how dare you?" address to UN delegates to the Bill & Melinda Gates Foundation. But are different generations concerned about the same subjects?

When asked about how they would like to allocate their money, Baby Boomers were more likely than any other generation to want to prioritise investment performance by keeping their investments diversified – even if that meant staying invested in fossil fuels. 30 per cent of this cohort – over double the percentage of Millennials – selected this option.

In general, environmental concerns struck more of a chord with those who identified as women, especially Millennials, even when balanced against financial performance. Given the choice between divesting from the fossil fuel sector irrespective of performance, divesting if there was no performance detriment, and staying as diversified as possible in order to maximise performance, nearly twice as many self-identified men (27 per cent) as women (14 per cent) prioritised investment returns.

Younger women were the least likely to prefer diversification, overall. Respondents cited their likelihood of being around to see the long-term effects of environmental degradation as central to its importance:

"For me, environment is more important. It's what we're handing on to our children, grandchildren and future generations." (Female, younger)

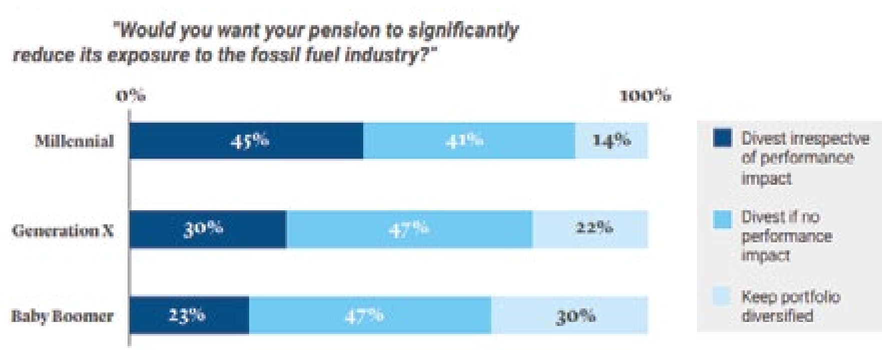
There was also more idealistic language in some statements from this cohort, in terms of making the world a more habitable place for the future. For some, broader topical issues, such as generational inequality, took precedence over the specifics of personal wealth and the implementation of investment ideas into pensions:

"I don't want my money to make rich people even richer." (Female, younger)

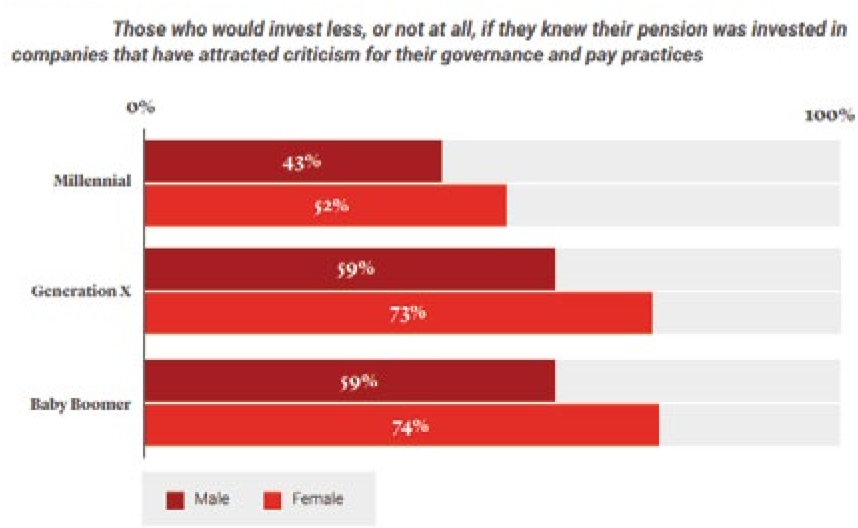
OK, Boomer?

But are Boomers really the 'baddies'? When considering any group's investment preferences, we need to be aware of where they are on their journey to retirement.

Being that much closer to leaving work, the financial performance of their



Source: LGIM data, as at 29 October 2019. Figures may not total due to to rounding.



Source: LGIM data, as at 29 October 2019.

pensions was top-of-mind for many Baby Boomers.

And some Boomer respondents perceived a separation between ESG investing and financial returns, which then needed to be balanced against other considerations:

"It's a balance, isn't it? You want things to be ethical but you still need an income to retire on." (Female, older)

That's not to say that older generations did not feel connected to ESG issues. Rather, for Boomers and Generation X, the connection to ESG investing was often felt when the questions focused on social and governance impacts, which respondents may have witnessed or experienced during their own lives.

For example, the preference for excluding companies that lagged on ESG was particularly pronounced amongst those who may have experienced significant gender pay gaps during their working lives. When we looked at governance factors, 74 per cent of female Boomers and 73 per cent of female Xers would divest over poor pay practices, compared with about 59 per cent of men from the older two generations, and about half of all Millennial women.

"This session has highlighted stuff I haven't bothered about in the past, but these things are important." (Female, older)

Meanwhile, social concerns, especially human exploitation and community issues, stood out as important for older men. When it came to excluding poor performers, around 64 per cent of male Boomers and Xers chose to invest less, or not at all, in companies with a perceived negative social impact, compared to 50 per cent of Millennial men.

Looking beyond labels

Our findings highlight a need to look beyond the label when discussing ESG with savers.

The need for a stable pension naturally looms larger for certain groups. To engage Baby Boomers and Generation X as they near retirement, there may need to be further communication about the financial case for responsible investing. These cohorts need reassurance that their pension's primary purpose is still to save for the future.

For younger cohorts, it is important to engage members by showing a thorough comprehension of ESG concerns reflected through meaningful action, rather than just describing ESG issues or the virtues of responsible investing.

Of course, savers' views are unlikely to stay consistent throughout the course of their lives. There is already a disparity within the views of the cohorts themselves along gender lines.

However, a deeper understanding of these divides may help us make sense of an increasingly complex world, where we are forced to make era-defining choices in just a few years.

For more information on our findings, and how respondents wanted their views reflected in their pensions, please visit our website[2].

Written by LGIM head of DC, Emma Douglas

In association with Legal & General Investment Management

Important Information: ***Past performance is no guarantee of future results. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.*** *Views expressed are of LGIM as at 29/10/2019. The Information in this document (a) is for information purposes only and we are not soliciting any action based on it, and (b) is not a recommendation to buy or sell securities or pursue a particular investment strategy; and (c) is not investment, legal, regulatory or tax advice. Legal & General Investment Management Limited. Registered in England and Wales No. 02091894. Registered Office: One Coleman Street, London, EC2R 5AA. Authorised and regulated by the Financial Conduct Authority, No. 119272. DC26652020*

[1] Source: LGIM data, as at 29 October 2019.
[2] https://update.lgim.com/dc-esg

ESG in DC – heading in the right direction

Francesca Fabrizi looks at how ESG is evolving in the DC space and why this new world could represent a turning point

Environmental, social and governance (ESG) investing has had its fair share of attention in the UK pensions arena over the past few years. Prior to coronavirus taking hold and dominating all topics of conversation, ESG was one of the biggest themes discussed at any pensions event. It was a prominent agenda item at all trustee board meetings, and the term 'ESG' garnered more column inches than even Brexit in the pensions press.

But while DB schemes may now be more familiar with the term and what it might mean for their investment portfolios, what has the spotlight on ESG meant in terms of DC investment?

"ESG in DC has evolved considerably", says Legal & General Investment Management (LGIM) head of DC, Emma Douglas. "A few years back, it was all about having a self-select option and that was very much an ethical fund. You would have your range of equity and bond funds, then maybe an ethical fund and the Shariah fund, and those were the main components of what made up DC self-select choice. Occasionally, you would also have a green fund."

Consequently, as a self-select option, ESG tended not to attract very much in the way of assets, continues Douglas. "These options were there as lip services; they weren't very well used. Now, things have changed and what we are seeing is that those ESG considerations are being built into defaults."

Mercer principal and European head of responsible investment, Kate Brett, agrees that ESG in DC has evolved in recent times and things are moving in the right direction. Given the increase in transparency of how schemes are implementing their approach to ESG, she expects further improvement across the market over the next few years.

"We are seeing DC offerings move away from a single ethical self-select fund to integrating ESG more broadly throughout the offering, including within the default," says Brett.

This move towards incorporating ESG into defaults however has been gradual, having been led by some of the larger schemes which, alongside their consultants, managers and index providers, have developed bespoke propositions that reflect their own views. For example, explains Douglas, the Future World Fund that LGIM created with HSBC was designed with much more of a climate-focused tilt than a focus on the 'S' or the 'G'.

"This is the period I call '50 shades of green' – everyone wanting to do something, but everyone doing something different; there has been a massive expansion of interest in how we get these sectors reflected in a default fund, but with so many different ways of doing it," she says.

There are other barriers to this development, of course, cost being one of them and, until member demand steps up, PwC head of DC pensions and benefits, Saq Hussain, argues that, while discussions may be rife, practical progress will be slow: "From a DC perspective, I would argue we have not seen huge demand just yet. Employers and trustees are certainly discussing the use of ESG funds and interestingly, from an employer's perspective, these discussions have also focused on how introducing ESG fits in with their broader sustainability and corporate goals. However, whilst there is plenty of discussion, employers and trustees are less eager to introduce ESG funds as default funds due to the higher cost. If there is increased demand from their scheme members, we may begin to see this change," he says.

Brett concurs that, despite all the noise around ESG, actual industry response has been measured and while there has been innovation in product offerings, particularly on the index tracking side where there has been a wave of new solutions, there is still more to be done. Importantly, there remains an opportunity for investment managers to improve their offerings and reporting, particularly with respect to impact.

"Communication to members, in particular, is an area where we should see increased innovation in terms of impact reporting," she adds.

ESG – the hidden superpower

Effective communication continues to

be crucial when it comes to ESG and, in some cases, the industry will need to start with the basics. While a well-informed trustee might understand what ESG means, Douglas argues that there is still confusion among members: "As a term, ESG isn't understood by members very well. Our recent research, '*Finding the greenest generation*', highlighted that some people weren't really sure what was meant by ESG or even responsible investment, so we need to spell out what this means in nice, simple terms."

The key here is getting away from jargon – something the pensions industry has always struggled with. "ESG or responsible investing might not mean much to some people, but if we talk about climate change, human exploitation, pay gaps, not enough women on boards – these are all tangible issues that people can relate to," she says.

Once members start to understand ESG better, this then opens up a whole new opportunity for the future of DC – once they start to understand where their money is invested and what impact it is having either in relation to environmental, social or governance issues, members are more likely to engage with their pensions.

Douglas explains: "This is potentially a hidden superpower that can help us get members more interested in their pensions. If we can tell stories about how members' money has been put to work, what it has achieved – whether that's in relation to regeneration, affordable housing, or clean energy – we are bringing the investment side of DC to life for members in a way that has never happened before. They have watched their money go up, they have seen it fall, but, beyond that, investment is largely a black box for most people.

"Here we can open up that box, make it more relatable for people. Then, as they start to care more about what their money is doing, they will start to feel a greater sense of ownership for it."

Willis Towers Watson senior director, DC Investment, Anne Swift, agrees that this could represent a turning point in the world of DC: "From a member perspective, it feels like there is a real chance here to re-energise and re-engage members because ESG gives us a positive way of looking at investment in a way that members perhaps haven't quite thought about in the past.

"It starts with getting more messaging around engagement and the work that their DC investments are doing – whether that's in relation to the environment, within their social communities or around the governance structure," she says.

Willis Towers Watson head of sustainable investment, Adam Gillett, adds that ideally this would lead to increased contributions: "There are some interesting studies as to how better communication and improved engagement might even increase members' willingness to contribute and the amount they would be willing to contribute, which would be a phenomenal outcome in a DC context," he argues.

Coronavirus – playing its own part

The coronavirus pandemic is already acting as a further catalyst towards change in the ESG space – while pre-Covid-19, environmental issues were gaining a lot of attention, one side-effect of the current crisis has been that the 'S' and the 'G' have been pushed further into the spotlight.

Gillett explains: "Previously, the 'S' was the one that fewest people had got to grips with and had been harder for people to fully understand or engage with. But Covid-19 and the associated impacts of it have brought 'S' issues right to the fore."

That includes, he says, broad issues like inequality or more specific issues in terms of how companies treat their workers. "There is a whole raft of 'S'-based case studies and topics of conversation that are at the forefront of people's minds today whereas, rewind six months, a lot of ESG discussions were dominated by the 'E' part of ESG."

Brett comments that the current pandemic has also highlighted the importance of financial resilience of individual savers. "Stewardship and ESG integration is vitally important for the industry to maintain trust with savers given financial pressures and strains as a result of the pandemic. Engagement with members will be critical at this time."

A more concerning side effect of the pandemic could be that discretionary spend is halted temporarily, Hussain warns: "Inevitably we will see employers look to focus on business critical operations at this time, so we could see them rein in discretionary spend in areas such as investment reviews, possibly delaying the adoption of ESG approaches. At this stage we do not see employers wanting to pivot to ESG funds due to the pandemic, but it will be interesting to see how this may evolve."

All in all, however, the general feeling is that the future presents new opportunities for the DC pensions space. As Swift concludes: "Everything changed so quickly with the virus but, looking ahead, we must consider the opportunities – opportunities to invest in a sustainable way that is going to achieve success for members. If you think about this in a DC context, for most members, this is a long-term arrangement and if you are looking ahead the sustainability agenda is essential."

As BESTrustees president, Alan Pickering, reflects: "I was very uncomfortable in a world where 'ethical' was used as a prefix. This had more to do with marketing spin than investment content. There is greater definitional clarity in the world of ESG.

"There will be different approaches but trustees, together with their investment consultants, will be able to determine what ESG approach most clearly meets the needs of those members for whom they are responsible," he concludes.

Written by Francesca Fabrizi

In association with

A holistic approach

Covid-19 has pushed money into the limelight, with many affected financially by the pandemic. Natalie Tuck examines whether now is an opportune moment for the industry to financially educate members and why a holistic approach may be the most useful strategy

Summary
• The economic impacts of the Covid-19 pandemic have forced people to take stock of their finances and educate themselves on financial matters.
• Experts believe a holistic approach is a more effective way to educate people on financial matters, so they can understand how things are intrinsically linked.
• Employers appear to be stuck in their ways when it comes to financial education matters but are having to adapt in the face of the pandemic.
• As well as the efforts of individual employers, there have been some useful wider industry initiatives aimed at engaging and educating the public.

Social distancing. It's a term we've all become too familiar with in recent months. Whilst most of us are not fans of this unnatural physical distance, some have always distanced themselves from their finances. Unfortunately, the impact from Covid-19 means, for many, money concerns can no longer be kept at arm's length.

Financial expert and a former Pensions Minister, Baroness Ros Altmann, notes that the "rainy days have arrived" but most people "do not have the resources to protect themselves". But if there is ever an opportune moment for change, it's a crisis.

Standard Life head of proposition development, Donna Walsh, says: "Naturally people are taking stock of their financial situation and as a result, many of our scheme members have been looking to learn more about their pension – in particular to understand any financial impact on their savings, and to consider their options."

With many employees furloughed on a reduced wage, and the self-employed waiting for their government grants, Wealth at Work director, Jonathan Watts-Lay, says there is growing evidence that shows some members are seeing their pension as a way of supplementing their income to bridge their income shortfall. "The pensions industry has a duty of care to ensure that members have an understanding and awareness of the implications of early withdrawal and the potential risks involved," he says.

"Financial education and guidance can help members understand the tax implications of their decisions and explain the other options available to help manage money when household incomes are under severe strain, such as reducing costs through mortgage holidays and debt repayment deferrals. It can also help members look at alternative savings, which may be more appropriate to access than their pension."

A holistic approach

'A holistic approach' has become a buzz-phrase in recent years, as everyone wants to be seen offering a comprehensive package. There is a rising trend among experts that financial education is better when it involves all aspects of a person's financial life.

"Financial wellbeing is about feeling secure and in control. It is knowing that you can pay the bills today, can deal with the unexpected, and are on track for a healthy financial future," Money and Pensions Service (Maps) head of pension policy, Carolyn Jones, explains.

"As pensions are entwined with other money issues, such as debt, mortgages and credit, we believe in a holistic approach to improving financial wellbeing. If people do not understand the trade-offs they make when it comes to spending and saving, then it will be difficult to engage people in retirement saving."

This is an approach that Standard Life takes, says Walsh. For example, its customer website includes blogs on all aspects of saving for the future, and has information on managing debt and other areas of financial planning too, such as wills and power of attorney.

"We focus on ensuring that we can provide expert guidance on saving for the long term, pensions and retirement, to help people understand what their options might be. At the same time we signpost where scheme members can access further information and support online, which includes our blogs and other sites," she says.

There is also a growing demand for financial education; Aon's *UK Benefits and Trends Survey 2020* found that 48 per cent of employers said employees now expect access to financial education. In response to this, 52 per cent of employers surveyed offer financial education as part of their health and wellbeing programmes.

A language barrier

While an all-encompassing approach looking at financial wellbeing is important, the pensions industry has a unique role in educating people on something that, traditionally, savers haven't had to get so involved with.

Altmann thinks it's "strange" that people are not expected to understand how pensions work. "The normal position is that they either rely on their employer and trustees to produce the pension when they reach later life, or rely on default funds and investment returns to top up state pensions. People need to learn about the power of long-term returns, investment risk, 'free money' from employers or tax relief and why pensions can offer such good value, relative to ISAs or cash saving," she says.

However, the pensions industry has created itself a challenge with its collection of complex jargon such as uncrystallised funds pension lump sum (UFPLS), annuity, default, commutation and net-pay arrangements – just some of the industry's most confusing terms.

"I believe the language used by the pensions industry and the complexity of the whole system is not in the customer's interest," Altmann says. "Educating savers and investors about the benefits of putting money away for their future, rather than spending it all today, is crucial, but is hampered by baffling jargon and complex rules."

Education methods

Following its *UK Benefits and Trends Survey 2020*, Aon said it was 'surprised' that there had been no significant change in the methods used by employers to educate and engage their workers over the past couple of years. For example, 78 per cent of employers continue to focus on email, despite a growing demand for more innovative content.

Online self-service portals came in as the second most common method (66 per cent) with face-to-face in third place (53 per cent) up from fourth in 2019. Printed communication came in at fourth place this year (47 per cent), dropping from joint second in 2019 at 63 per cent.

Looking at pensions education specifically, 49 per cent of employers offered pension seminars, and 35 per cent offered retirement planning seminars. Just 15 per cent of employers offered employees access to an independent financial adviser, and 33 per cent of employers offered no pensions education at all.

Watts-Lay believes face-to-face seminars are effective, as the presenter can make sure that attendees understand what is being discussed. This, he says, quite often comes from body language. "In a seminar if someone is sat there looking a little bit confused, it allows the presenter to adapt language style or go through the topic again. It also allows for group interaction and discussion, which helps understanding," he explains.

However, with social distancing currently in place, Watts-Lay says that other forms of communication such as live webinars or online seminars are proving to be an effective alternative.

"Virtual one-on-one guidance sessions, which could be a video call or on the telephone, is also particularly useful as it offers the support employees and members need to help them clarify elements of their financial situation and to gain a deeper level of knowledge around their options," he says.

In addition, Walsh says that technology enhancements continue to provide new opportunities to communicate and engage scheme members. "As members' needs will differ based on a multitude of factors, it is clear that a one-size-fits-all approach will not work. Personalised videos are just one example of recent developments that are building better engagement and as a result, helping members learn more."

Industry initiatives

Whilst individual employer initiatives play a key role in financial education, there are also several wider industry initiatives. For example, last November, the FCA's new pension wake-up packs were introduced; employers now have to send out more concise and frequent communication to members.

Walsh believes it is a "real positive" that the wake-up packs have been introduced across the industry. In addition, in light of Covid-19, Standard Life is now including additional information with the wake-up packs covering market volatility, guidance and support, as well as links to the Money Advice Service and The Pensions Advisory Service.

However, whilst Watts-Lay sees the wake-up packs as a "step in the right direction" he does not think they are enough to "help people maximise their income at retirement". Therefore, employers and scheme providers should not be solely relying on the wake-up packs to plan for retirement, he says.

Organisations such as Maps are also looking at ways to educate the wider public. Last year, it launched its 'Talk Money, Talk Pensions' week to encourage more people to talk about financial wellbeing.

In addition, Jones says Maps has brought together challenge groups tasked with making recommendations to address the financial wellbeing challenge. "One of these groups is specifically looking at how we can encourage and support employers to address the financial wellbeing needs of their employees. Employers can be a driver and a delivery channel for financial wellbeing throughout people's working lives."

Written by Natalie Tuck

Pension administration in times of chaos

The nation remains in lockdown and pension administrators are among the employers that have had to adapt to new ways of working. Duncan Ferris investigates some of the problems they have faced and finds out that some of the solutions might be here to stay

Summary
• Lockdown conditions have posed a number of problems for administrators, from access to technology to the difficulties of using hard copies of documents.
• These challenges have highlighted the importance of the digitisation of certain processes and the need to replace or update archaic technologies.
• Some administrators appear open to increased home working in the future, while employee wellbeing and productivity are top priorities for others.

Supposedly, the phrase "may you live in interesting times" is an ancient Chinese curse used to wish disorder and an absence of peace on an unlucky victim. The phrase's true origins appear to be a little less mystical however, as it seems to be a slight simplification of 17th century historian and novelist Feng Menglong's quote: "Better to be a dog in times of tranquillity than a human in times of chaos."

The phrase's background might be cloudy, but what is clear is that we are now living in interesting times. Most industries have had to adapt in some form to the ongoing global pandemic and pension administration is no different, having encountered new obstacles and challenges. We might even find that these interesting times are set to reshape the landscape of pension administration.

Obstacles

As an initial step, it's probably best to wise up on what difficulties the coronavirus crisis has caused for pensions administrators. The majority of issues stem from the fact that the workplace has become a no-go zone for all but key workers, a category that administrators do not fall into. This lack of time in the office already poses a clear challenge.

HS Admin managing director, Graham Hickling, says: "Whilst increasingly administration is reliant on technology it is still in many ways a fairly traditional job, in it being office based with people working effectively and collectively in teams.

"All of the pension administration staff employed by HS Admin are office based and will have been so for their whole careers; working Monday to Friday from the office. They have had to adapt very quickly to a home working environment, which the vast majority will have no prior experience of."

Buck head of UK outsourcing, Lee Cook, adds to the importance of this issue, commenting that pension administration teams, which have historically been able to "physically collaborate", have found themselves under pressure to "adapt quickly to their new virtual operating models without impacting service levels, quality or introducing new delivery risks".

While employees have had to acclimatise to new workspaces that might also be occupied by children, games consoles and boxsets, employers have suddenly been required to ensure that everyone has the resources to get on with their jobs from the relative safety of their homes.

Spence and Partners director, Alan Collins, highlights some of the major

technological requirements, stating that "the main obstacles to overcome were ensuring that staff had access to equipment and telephony systems, using Microsoft Teams and changes to operating methods".

Cook agrees, noting that: "With a prevalence of laptops some organisations could quickly pivot to a temporary home-working solution, but even so, there remains the potential for over-reliance on office-based assets, such as printers, servers, desktop computers and access to paper member files, which presents challenging operational issues to deal with sustained periods of remote working."

Aside from the problems caused by employees working at home, Collins explains that there has also been an increase in enquiries, with worried members checking "on what they can get and what might happen to their pension on death".

Finally, he adds: "The other issue we identified was that people were struggling or reluctant to get out and post certificates for retirement or death."

These issues and concerns all make sense, as each one stems almost entirely from the fact that both employees and members have been instructed to remain cooped up inside and safe from harm.

Responding

Now that we understand what the most pressing issues have been for administrators, it's time to examine how administrators should conduct themselves during the pandemic and how the pitfalls that they face can be negotiated.

First off, it's important to note that The Pensions Regulator (TPR) and the Pension Administration Standards Association (Pasa) have released guidance that emphasises the need to pay promised benefits, ensure sufficient funds are available, and keep accurate records of any ongoing work.

PensionBee reported a 24 per cent increase in customers completing their first pension transfer in April 2020, showing that staff will still be busy dealing with members moving from scheme to scheme.

However, dealing with defined benefit (DB) transfers is likely taking up less time than ever before, as XPS Pensions data from May showed that DB transfer activity has fallen to record lows and TPR has confirmed it will not use its powers for a period of three months where trustees suspend transfer values.

Pasa called for daily leadership and operations calls to keep employees up to speed with developments, while also stressing the need to communicate with members, to use straight-through processing to adhere to investment instructions as quickly as possible and to review cashflow policy.

Overall, investment in technology also appears to be key in heading off obstacles, allowing employees access to everything that they might take for granted in an office environment. At the most basic level, this means ensuring staff had access to necessary equipment and systems, but there is added complexity beyond this.

Aon UK pensions administration partner and co-lead, Gary Cowler, comments: "Our 650 administration colleagues operate on one software platform, with a single operating model, they've all had laptops for some time and we test home-working and business continuity capability regularly.

"This means that we were able to shift 100 per cent to a remote working model in under a week in March and, crucially, every team in each of our locations has remained fully operational throughout the crisis."

In response to the issues surrounding post from members, Collins states that Spence and Partners "accelerated a plan to introduce online identity verification", which means that members "can now settle most benefits without having to send us certificates".

He adds: "In relation to treasury management, we have also adopted Adobe Sign for electronic completion of investment and disinvestment instructions."

Technological adaptations of processes appear to be the name of the game, with hard copies of all manner of documents falling by the wayside due to the lack of convenience under pandemic conditions.

Cook explains that some of Buck's operations have been tweaked in order "to digitise wet signatures and to streamline the various approvals", while he adds that the firm also "added some prudence to our cashflow modelling and available reserves to counter any liquidity or disinvestment concerns".

Pasa board director, David Pharo, highlights "requiring members to send certificates on benefit settlement, submit paper forms by post, investment managers requiring instructions by fax, or a reluctance by trustees to embrace offering members the option of self-service via a website" as practices that now appear to be "stuck in time".

"Solutions are also being evolved to address the challenge of making cheque payments to pensioner members who are reluctant (or unable) to move away from receiving a physical cheque," he adds.

Cowler states that, once the fundamental operational needs have been fulfilled, businesses can turn their attention to other important issues that their employees might be struggling with.

He comments: "For instance, colleagues are operating effectively so we have considered what we can do to ensure they are comfortable when home-working; providing monitors to support working with laptops has helped with this.

"We've also been able to focus on wellbeing, supporting flexible working patterns and keeping people connected regularly. It's interesting that, although we've had the supporting technology in place for some years, it's taken this crisis for us to embrace it fully and so many of us have been more connected to colleagues than ever before."

Buck senior pension administration manager, Ross Wilson, agrees with this focus on wellbeing, stating: "Perhaps most importantly, we are keen to reinforce our cultural values in this difficult time. Technology has enabled us to keep close to our teams through daily huddles to ensure everyone feels supported and no one feels alone, irrespective of their circumstances."

Long-term changes

With such a litany of changes having been made in order to adapt to life in interesting times, it appears that a number of administrators are now questioning which changes they might keep hold of in the long term.

The matter that appears dominant in the mind of administration firms is whether working from home could be increasingly adopted once society goes back to something that we might refer to as normal.

Cowler states that it has become clear that "we can make a more flexible model work better and in the interests of clients and colleagues – and that's the intent we will take into the future".

Collins agrees, commenting: "Working from home is really working for us and our staff. We invest heavily in technology and this has paid back. We are actively reviewing how we work in the future post-Covid. It will certainly provide us and our staff with more flexibility and has clearly demonstrated that remote working works.

"It also demonstrates that location is likely to become less and less of an issue going forward – very much "work from anywhere" rather than say 'work from home' or 'work from office'."

While this sounds like an enticing prospect, as I'm sure many of us would love our working day to take place by a pool and a plateful of calamari in Santorini, not everyone is quite so excited about the idea.

Hickling states: "We don't envisage that there will be any major changes once the crisis is over. Whilst home working is working well, we see definite benefits of our administration staff being office based in terms of working collaboratively together in their respective teams. This is most easily achieved by employees being together physically."

With opinion split on the benefits of working from home, or sun-kissed Hellenic isles, most administrators seem to agree that their coronavirus adaptation measures have highlighted other ways in which their operations could be improved.

Pharo sees the importance of this, as he says: "Reflecting on the situation we have all found ourselves in, we shouldn't lose sight of the fact that this has presented the industry with an opportunity to review certain practices."

Collins says the situation has increased the importance of the development of a new phone and web app, which is designed to offer members everything they need for self-service and will reduce the need for administrators to field routine enquiries.

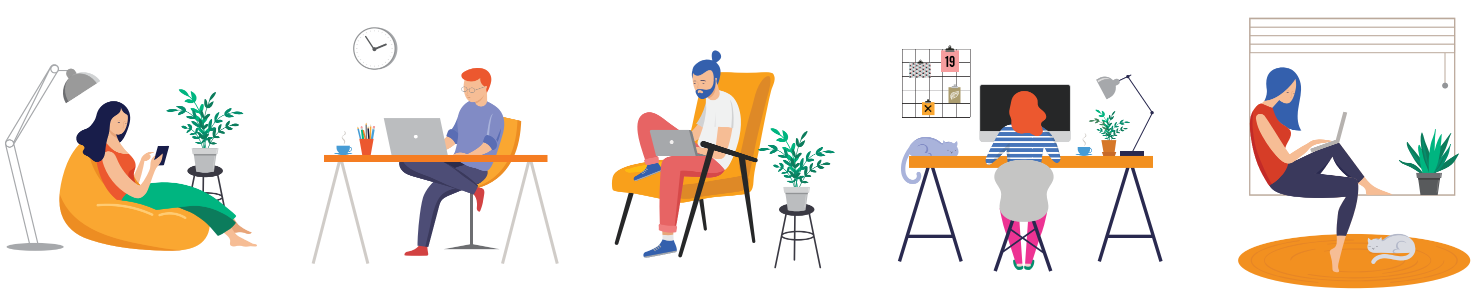
Hickling comments: "We do see that virtual meetings will continue post coronavirus. These have generally worked well during lockdown and are much more effective than voice-only conference calls.

"Whilst regular quarterly trustee meetings may well continue face-to-face post-lockdown, we see that many other face-to-face meetings and voice-only conferences can be carried out at least as effectively, if not more so, by video calls."

It seems that, as humans living in chaotic and interesting times, pensions administrators can now examine how they will adapt to a 'new normal' where there are new opportunities to improve the wellbeing of their employees and members, alongside improvements to archaic processes.

Cook sums up the situation well as he says: "Through what has undoubtedly been a horrendous and uncertain time for many, there are many opportunities for us to learn and support better work-life balances, open up new talent pools and continue to innovate and drive more efficient ways of working."

Written by Duncan Ferris

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Driving pensions data forward – Another Ford first

Four months on from the launch of the first worldwide pensions data analytics tool, Sophie Smith talks to Ford EMEA pensions manager, Oliver Payne, to discuss how the system has helped the firm analyse its company pension schemes globally, and the key findings so far

Ford may well be best known as the manufacturer of the world's first automobile to be mass-produced on a moving assembly line, but now, it has turned its attention to the individuals and employees behind that assembly line. Becoming somewhat of a guinea pig earlier this year, the firm was onboarded to Redington's technology platform, ADA, creating the first worldwide pensions data analytics tool.

In February, the two firms launched a unique analytics and scoring system, designed to allow side-by-side comparison of the value of Ford's pension provision across both defined benefit (DB) and defined contribution (DC) schemes on a global scale. The platform allows Ford to collate and compare its pension provision data for over 120 schemes across 36 countries, covering over 200,000 employees.

Based on key factors such as investment performance, costs and charges, contribution rates, and retirement outcomes, the system uses a pension scoring system across all schemes. The platform provides one central point for data and analytics, acting as a visualisation of how assets and costs are distributed across countries, and schemes, to show areas for improvement as well as aggregate value. Now, almost four months since the launch of the system, Ford EMEA pensions manager, Oliver Payne, sits down with *Pensions Age* reporter, Sophie Smith, to discuss the findings so far, and the key lessons already learned.

How has the digital platform supported you since its launch?

ADA has been very helpful in lots of different ways for various projects. Overall, the main benefit is that it acts as a single source of 'truth' for useful, comparable pension plan information (rather than having to access multiple data items from a variety of sources).

Equally, what initial findings have you been able to pull from the new scoring system, has anything surprised or disappointed you?

Most surprising to me is the overall diversity of all of the pension systems around the world. At the start of this project, I naively assumed that most pension plans would follow similar models. In general they do, but it's surprised me how (pretty much) every country's pension system has unique aspects.

There have been lots of interesting and surprising results. I was particularly surprised by which plans stood out versus others, but I'm not sure anything has disappointed me (yet).

How has the system helped from a governance and data perspective?

Our pension scheme governance has always been strong at Ford (as you would expect from a process-driven manufacturer). What's been great about the ADA platform is that it brings all of our data into one place and allows us to sort and compare the information in multiple ways. This has helped easily highlight data items that stand out, and also point to where is best to focus our attention. For example, we can prioritise pension plans by size or amount of risk to easily quantify potential impacts.

What benefit has the system had for both the scheme itself, and for individual members?

Overall, we now have a much more pro-active, forward looking way of analysing our pensions around the world. Before ADA, our pension scheme information came from multiple sources, currencies, languages etc, so a lot of work would often go into looking back at what we had for each scheme and making various adjustments to align data.

Editorial credit: D K Grove / Shutterstock.com

Now ADA gives us all the useful data for each scheme in one place and in a format that allows for easy comparisons around the world and multiple ways of drilling down to the required level of detail.

The other main benefit of ADA is that it is very transparent. So, we can always drill down plus download to excel for further calculations to fully understand our own data and scoring. It is also very easy to upload new data either through Excel or manually through ADA – with a useful audit trail feature for tracking updates.

From an employee's perspective, we now have a much better understanding of the value of each of scheme. We are conscious there are many aspects to value, for example the amount the employer pays in, what members get at retirement, impact of tax, state pensions etc.

We have built the ADA platform to give us a much better understanding of the value of all of these aspects so we are much better placed to help our employees around the world.

What are the next steps for both the scoring system and digital platform?
The next step for the scoring system is to review the weightings we have applied to each of the key metrics that add up to get the overall score out of 100. We always intended the weighting of the scoring system to be an iterative process, so the platform was set up so that we can always breakdown exactly how the score is calculated and make adjustments to the overall weighting (if needed).

My hunch is some slight tweaks to the weightings could improve the distribution and sensitivity of the scores to give a better reflection of the cost and value of each scheme. We have had lots of great discussions about expanding the platform to increase functionality and pull in other sources of data and I'm really excited to see where this might lead.

One of the initial aims was to provide analysis of employees' retirement readiness. But what does retirement readiness look like, and how is it communicated with members?
The current approach to retirement readiness, and how it is communicated, varies around the world with each country applying different levels of focus. But the general aim is that we would like employees to be able to retire when they are ready without any major surprises.

Exactly what retirement readiness looks like will be different for each individual but, to simplify the analysis, we used replacement ratio calculations (effectively showing how much less income employees might get in retirement). This gave us really useful data that could be used for comparison purposes across all schemes/countries.

There have been surprises when considering this, both in how generous some schemes look and how low some of the replacement ratios are.

Written by Sophie Smith

Time to step up

Summary

- Motivation and action taken by pension scheme trustees in relation to ESG concerns varies greatly.
- Regulatory and policy change is coming, but trustees shouldn't necessarily wait.
- Pension scheme trustees should accept that they are merely on the start of their ESG journey, and look for opportunities, as well as mitigating risks.

Sophie Smith considers to what extent pension scheme trustees are proactively engaged with ESG concerns when investing, or if they are just responding to regulatory pressure, and whether their focus on ESG is likely to increase in the post-Covid 'new normal'

"Pension schemes hold almost £2 trillion in assets. They have tremendous influence in our fight against threats as large as climate change, and their financial returns will be impacted by the decisions we take as government and society. So how their investments are affected by climate change, and the actions we take to limit it, should be central to what trustees consider when they come to invest."

These are the recent words of Pensions Minister, Guy Opperman, who, in March of this year, described climate change as probably the largest threat facing pension schemes. It's perhaps no surprise then, that environmental factors have increasingly been moving up the agenda. Especially considering the recent joint report from the Association of Luxembourg Fund Industry and PwC Luxembourg, which described the UK as the "leading European market" for environmental, social and governance (ESG)-related investments.

However, research has consistently shown that trustee engagement may be little more than surface level, with 95 per cent of pension schemes surveyed in a recent report by the Society of Pension Professionals (SPP) having made no ESG changes to their portfolios. Furthermore, 57 per cent stated that whilst schemes had shown "a genuine interest" in ESG, they had made no changes to their investment portfolio to reflect this.

Starting the journey

"Trustees have recognised the relevance of ESG issues for some time, but were often unsure about the genuine difference they could make," explains Insight Investment senior ESG analyst, Josh Kendall. He clarifies however, that while there is a genuine interest from all trustees, their approach can vary greatly. For instance, whilst some utilise effective questioning of their portfolio managers and have a clear understanding of what they want, others may rely on more blanket industry guidelines.

Dalriada Trustees investment specialist, Vineet Sood, highlights a similar disparity in terms of motivation, noting that whilst regulatory changes have driven some, others have taken this issue more seriously, as it aligns with their "broader business beliefs".

However, Sackers partner and Pensions Climate Risk Industry Group (PCRIG) chair, Stuart O'Brien, points out a "common misunderstanding" around whether regulations introduced a new requirement on trustees to factor ESG into their investment decision making.

"They don't," he clarifies, "they simply require trustees to disclose their policies on them. And to the extent that such factors are financially material to trustee investment decisions, they should always have been taking them into account.

"But it's often said that the sunlight of transparency is the best disinfectant, so no doubt many trustees have had to up their game in response to a regulatory obligation to disclose", he adds, predicting a move "on apace" once the requirement for annual implementation statements comes into force in October.

Whilst the SPP research did reveal that over two-thirds of scheme members are only reacting to regulatory changes as a tick-box exercise, UN Principles for Responsible Investment (PRI) director of climate change, Sagarika Chatterjee, stresses that this approach could actually be making their life harder.

"It's actually quite hard to do Task-Force on Climate-related Financial Disclosures (TCFD) reporting, unless you actually are doing something about climate and are looking at it in a serious way," she explains, stating that these types of disclosures look closely at how scheme boards are thinking about climate. This in turn, requires schemes and trustees to have genuinely taken a closer look at the impact of climate risk on their portfolio.

She adds: "It's very short-sighted not to consider these factors for any pension scheme that has a global portfolio, that's investing across asset classes, regions, and sectors, as all of these will all be impacted by climate risk and opportunity."

Kendall emphasises that ESG investing is not about applying an ethical criterion to mandates, but rather should be considered "a core part of the evaluation of managers", giving a "window into the culture and purpose of a fund manager", and how diligently they consider the needs of asset owners.

However, a recent report from AMNT, PLSA, PMI and Mallowstreet found that 21 per cent of trustee chairs actually believe ESG investment would detract from returns. However, Sood notes that whilst trustees often continue to view ESG factors as a "secondary consideration" when seeking to achieve good returns, the outperformance of some ESG funds throughout the pandemic could serve as evidence of enhanced returns in future.

Picking up the pace

He explains that this strong performance throughout the market volatility could see ESG issues brought to the forefront of trustees' minds, a stance echoed by various industry experts.

Kendall for instance, adds that whilst there has been a long-standing trend of engagement by clients on ESG, this has accelerated throughout the crisis. Equally, Chatterjee says she has been surprised by the traction the PRI has seen from some "fairly large asset owners, post Covid-19".

However, as Sood highlights, the crisis has also thrown up a lot of issues in the day-to-day running of schemes, as well as the long-term sustainability for some sponsoring employers. While Chatterjee agrees that pension schemes must first tackle the challenges arising amid the current pandemic, she adds that they might also take it as an opportunity when having conversations with portfolio managers, to start engaging climate issues, as well as potential prospects.

"There's a real opportunity set there," she explains, "we're going to see some sectors and funds go through massive changes, so it could be a good moment to start thinking about these broader issues."

Indeed, PLSA policy lead for investment and stewardship, Caroline Escott, adds: "ESG is already playing a role in policymakers' thinking about a post-Covid recovery. I think we may see the government look to kill two birds with one stone in getting the economy up and running, while also ensuring progress towards a net-zero economy."

With a recent Ipsos Mori poll revealing that 65 per cent of savers support a green recovery following Covid-19, Chatterjee agrees that this could be a "strong driver" for more climate aware investing. She adds that whilst there will be regional differences in policy response, it's likely that some governments will see this as an opportunity to potentially restructure the economy, and to think about areas such as fossil fuel subsidies or carbon pricing, and how they can be "stepped up".

Covid-19 has also had an impact on timelines, with Escott predicting slight delays to the Pension Schemes Bill and the ongoing consultation on TCFD requirements. But this doesn't mean that trustees should also postpone their plans.

Awaiting the inevitable

"The trustee duties to act prudently and consider relevant factors in their investment decision making remain unaltered," clarifies O'Brien, "on that basis, it wouldn't be wise for trustees to use any regulatory delays as an excuse for inaction in tackling the big issues."

This perhaps seems a wise attitude to have, as Opperman states that despite delays, change will likely come sooner rather than later.

"I intend to use powers included in the Pension Schemes Bill, currently progressing through parliament, to mandate schemes to produce annual reports in line with the TCFDs' recommendations. We will consult, but I want to move quickly," he states.

"We need these requirements to capture as much of the occupational pensions market and as many pension savers as possible – and without delay," Opperman continues. "We want to further accelerate pension schemes' governance considerations and disclosure on sustainability. The urgency of action on climate change demands it."

Escott adds that trustees should also be mindful of broader policy changes, highlighting what the UN PRI has named the Inevitable Policy Response (IPR).

The IPR states that there will be "forceful, abrupt and disorderly" policy response from governments by 2025. And whilst UK regulation may be delayed by the Covid-19 pandemic, Chatterjee states that analysis has found that timings for the IPR are not, meaning that the 'run-up' period of 2023-2025 will likely see an increase in activity.

"Even the few sceptics who don't believe climate change is happening, need to understand that policy makers know it is happening, and regulating accordingly," Escott states. "All this regulation will have a knock-on impact on the sectors affected. Trustees should now be keeping a close eye on what policy makers and regulators are committing to do both now and in the future."

One step at a time

"The subject can feel pretty overwhelming when starting out," acknowledges O'Brien however, emphasising that trustees should be realistic and accept that this will be the beginning of their journey.

"A good starting place," he continues, "will often be to understand what you have…After that, trustees should consider whether these are compatible with their own investment objectives and get a better handle on what risks are lurking in the approach they have."

In addition, Chatterjee highlights climate scenario tools and carbon footprinting as key measures in evaluating your scheme progress, emphasising that the increasing number of off-the-shelf tools designed for this task means there is no need for a giant price tag.

She adds that 'baby steps' in three key areas, invest, engage and policy advocacy, can play a crucial role in approaching the issue of ESG, even when starting small, such as opening a dialogue with portfolio managers on ESG issues.

Chatterjee also highlights the role of organisations such Climate Action 100+, urging schemes to use their existing partnerships to better engage with corporates and influence change. The effectiveness of these 'baby steps' is already evident, with the Brunel Pension Partnership, for example, engaging with mining firms to drive the creation of the first global database of tailing dams, designed to help avoid a repeat of the Brumadinho dam tragedy.

The exclusion of especially problematic sectors has become more commonplace, with USS Investment Management recently announcing the removal of a number of "financially unsuitable" sectors, such as tobacco.

Sood meanwhile, calls for greater education on ESG issues, urging trustees to use firms that have a history of integrating ESG and have not simply jumped on the bandwagon. "Working with knowledgeable and skilled advisers can help trustees to see through 'greenwashed' funds," he adds.

Kendall also highlights "robust due diligence" as essential for trustees to avoid falling victim to greenwashing, adding that greater transparency is needed on all levels, to ensure that investors can gain truly relevant information when comparing ESG performance.

"Our own research has shown sub-optimal data to be an industry-wide problem that must first be addressed," he explains. "For example, increased investment in data infrastructure would help facilitate the necessary disclosure and allow managers to be even more efficient in their reporting. Only by asking questions can trustees truly have confidence in their portfolio managers."

While they may seem small first steps, trustees need to start taking these baby steps now or face a "forceful and abrupt" change further down the road.

Written by Sophie Smith

Engaging with a Trojan horse

Newly-elected Society of Pension Professionals (SPP) president, James Riley, talks to *Pensions Age* about engagement successes and potential improvements, the impact of Covid-19 on the progress of increasing engagement, and why ESG investing may be a Trojan horse in encouraging people to take an interest in their pensions

What has been done successfully to increase pension engagement and what can still improve?
The big success with engagement is auto-enrolment (AE). You have got 10 million people who are making pension savings that otherwise might not have done. AE has been a massive success. We now have an opportunity to extend the range of people AE is available to.

The challenge with AE is that contributions that are being made are not enough. To properly make sure people have the savings they need in retirement we need to look at the amount of money that goes into AE, which is going to be hugely challenging with where we are with Covid-19 and coming out the other side of it. The message that corporates and individuals need to spend more on pensions is not necessarily going to be particularly popular in the current climate, but there is this underlying issue when it comes down to engagement that employees turn to their employer for financial education. There is an underlying risk when the employer is contributing the statutory minimum under AE, individuals may well perceive this as being enough. The challenge comes in how to get members to voluntarily save more.

People need to understand the amount of money they might need in retirement and how they might go about achieving that. There are a lot of levers to pull here. You look at people, they retire later now, they phase out of working, it is not simply that everyone needs to save more, although clearly that would be good. It is about knowing when they want to retire and what they want their retirement to look like. We as an industry and as a country therefore need to help people better understand pensions.

Is the current AE system too voluntary for members and should it become more conscriptive?
I think it is less about conscription, it's more about how we make sure as many people as possible are using guides and tools to better understand the standard of retirement they want and how to get there. When it comes to the education it is less about the conscription being prescriptive and more about making it available in a way that people want to understand that information. Part of that, fundamentally, comes down to financial education. The industry can do things like retirement guidelines, but we need to have a look at how successful we are as a country about broader-based financial education. When you talk about that, it all feels quite difficult and that is a challenge we need to overcome.

What do SPP members believe can be done to improve AE?
We did a survey of our membership a while back and 80 per cent of our members favoured removing the minimum age criteria and two-thirds favoured increasing it to include all employees up to the age of 75. Then there is a whole host of things you can do to make things easier for the employer, which has a knock-on benefit for the member. Nearly 85 per cent of the members surveyed supported PLSA's suggestion of increasing contributions over time. We accept that, as how you would do that was probably a challenge before Covid-19, it is clearly going to be a challenge after Covid-19.

What impact has Covid-19 had on the progress of engagement?
It is one of those where you could look at it with a 'glass half empty' or 'glass half full' view. I would like to take the glass half full view, which is if you think about all the engagement that has happened during Covid-19. You have seen some really good and really bad corporate behaviour, and what we have seen is that the public do not necessarily want to go back to the way things were and I think good responsible behaviour will be remembered. The relatively good financial returns from environmental,

social and governance (ESG) funds, and the focus on good corporate behaviour, is going to drive people to think more about their pension pots. If you want to take a positive out of this, I think people will become more aware of ESG factors and that could be the Trojan horse in getting people to engage with their pension a bit more. Once people cotton on to the fact that they have this money that they could invest in a way that sits well with them, that could really drive engagement.

On the other hand, you are going to see tightening household budgets and tightening corporate spending and, while we will see that over the short term, how long that will last, I do not know. The willingness of government to encourage corporates to spend more on pensions may be somewhat limited, we shall have to wait and see.

Has the progress of campaigns and initiatives been hampered?

While a lot of these consultations have been delayed, they still seem to be pushing forward. Things like the dashboard seem to be moving forward and are not just being swept away as a result of the pandemic.

We as an organisation are hugely supportive of the dashboard. Because, how do people make sensible decisions if they do not know what their pension is likely to be? In the past, people moving employers and losing touch with their pension pots was fairly commonplace. So, the dashboard as an idea that, in due course, you can see everything and understand what you might get at retirement, is hugely valuable to individuals and will indirectly improve engagement. Once you can engage with it electronically, I believe people seeing how much they will get in retirement will be much more likely to then instinctively pose the question of how much they will need in retirement. Whereas, I think in the past as an industry, we have provided fairly infrequent and static indications of what people might get at retirement.

But the beast big question is how long will it take? I think the Money and Pensions Service (Maps) has said it may be three years. We did a survey of our membership about this, which is due to be published fairly shortly, but I think you could probably get defined contribution pensions on there in the next couple of years, but with defined benefit pensions and their data challenges it would take three or more years. You would need meaningful data on it to avoid people going on and being disappointed. What you want is people to go on wowed, and I worry that if there is not a significant amount of data on the dashboard, people might feel a bit underwhelmed by what they see. There is this tension in that you want it as soon as possible but you want that critical mass of data so that when it is public, it gives at least the majority of people most of what they need.

What is SPP doing now and in the future?

Some of the indirect things that we have been really focusing on have a more indirect impact on engagement. These are around simplifying and extending AE, supporting the dashboard in any way we can, and I think that the ESG agenda is a way to meaningfully engage people. There are ways here that we can drive really meaningful engagement with people's pensions.

Written by Jack Gray

Summary
- Whilst progress has been made on improving diversity within the pensions industry, it remains a sector dominated by certain demographics.
- Some have been critical of the policies designed to increase diversity, with it being argued that surface level 'tick-box' exercises do not address the underlying issues.
- However, awareness of the benefits of diversity and inclusion has increased, and the Covid-19 crisis may present an opportunity to improve things further.

A work in progress

Improving diversity of all kinds to make the pensions industry more representative of society is a goal it is striving to achieve, but how much progress has been made and has it been stifled or aided by the ongoing Covid-19 crisis? Jack Gray investigates

Diversity in all guises is something that the pensions industry is striving for. Whether this is ethnic, gender, disability, sexuality or cognitive diversity, or all the above, it is something that improves the representation of members and promotes an effective working culture.

Research from Aon and Leeds University, published in 2017, highlights the lack of diversity on pension trustee boards. It finds that 81 per cent of trustees are male, 78 per cent have a university education and around 70 per cent are over 50. Just 2.5 per cent are under 30 years old.

Meanwhile, industry statistics on ethnicity, sexuality and disability seem difficult to come by.

There has been progress in this area, but people's opinions of how much has been achieved, and how quickly, varies.

A Thinking Ahead Institute (TAI) survey finds that the most popular opinion was that the current pace of action on diversity was 'far too slow', with 41 per cent responding with this answer. A further 34 per cent feel that it is 'a little bit too slow', while 19 per cent believe it is 'about right'.

However, 3 per cent of respondents say the pace of action was 'a bit fast' and a further 3 per cent think that is it is moving 'far too fast'.

"A sizeable majority of respondents felt that progress on diversity continued to be too slow," comments TAI co-head, Marisa Hall. "It is also worth pointing to the roughly 5 per cent of respondents that noted that the pace of action on diversity was too fast.

"Regardless of how you look at it, there is a general frustration, on both sides, that we are just not quite getting this right."

Setting a trend

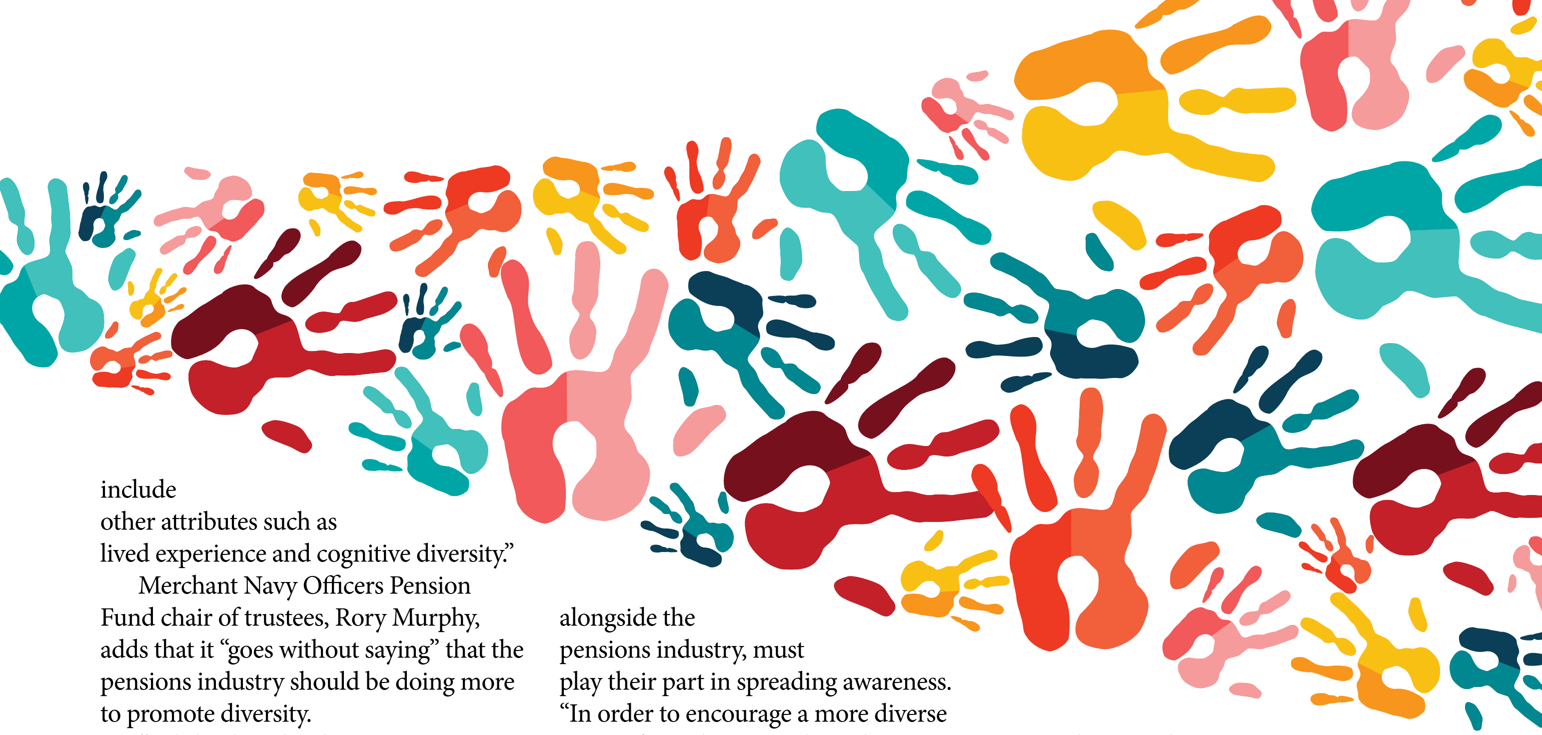
Despite perceived frustration on the methods of improving diversity, the wheels have been set in motion for a more inclusive industry. Although this may not be achieved overnight, many think it is heading in the right direction.

"Good progress has been made in raising awareness of the benefits of diversity and inclusion within the pensions sector, and many organisations are doing some really good work," begins Hymans Robertson partner and people director, Gill Tait. "The issue, however, is that the pace of change is slow and can be frustrating."

Tait suggests that it was important for the sector to discard "anchored thinking" when looking for ways to encourage applications from a more diverse pool of candidates and adopt policies that give applicants confidence that they won't have to give up flexibilities or that demonstrate a commitment to ensuring everyone can "be themselves and do their best work".

Hall notes that some of the policies implemented, however well intentioned, can be polarising if they are based solely on "surface level indicators", such as gender or race.

"They fall short as they create a false dichotomy between 'diverse people' and 'the other'," she continues. "Stronger diversity policies look to gain a deeper understanding of individual identity and who their employees really are, and



include other attributes such as lived experience and cognitive diversity."

Merchant Navy Officers Pension Fund chair of trustees, Rory Murphy, adds that it "goes without saying" that the pensions industry should be doing more to promote diversity.

"Whilst there has been some progress in recent years, there remains a fundamental lack of diversity within our sector. This needs to change," he states.

Achieving diversity aims

There are many levers than can be pulled to achieve greater diversity, although there are differing opinions on which are the most effective. Another TAI survey finds that 29 per cent of industry figures believe that increased education on inclusion and biases is the best way to improve diversity. This was the most popular response, followed by targeted training programmes, which is favoured by 22 per cent of respondents, then the measurement and reporting of progress, which is favoured by 20 per cent.

The study reveals that the more prescriptive methods are less favoured, with less than 2 per cent saying that they believe setting quotas would be effective.

Redington chief operating officer, Lee Georgs, recommends tackling the issue with a focused plan to achieve the best results. She says: "The best way to start is by designing an action plan specific to what you are trying to solve. Once you have agreed on this, you can then determine which level in the organisation to focus on first."

Murphy adds that other groups, alongside the pensions industry, must play their part in spreading awareness. "In order to encourage a more diverse range of people to join the industry, we need to involve employers and trade unions and other activist groups in spreading the word," he states.

Maintaining the trend

Attracting a more diverse pool of candidates is one thing, but once people are included in the industry, they must feel welcome and heard or long-term diversity will not be achieved.

"Improving diversity representation is just the beginning of finding a solution; ensuring the retention of diverse candidates is another one entirely," says Georgs. "And there is no 'one-size-fits-all' solution. What works to improve the hiring of a racially-diverse workforce will not necessarily achieve diversity of gender, religion or cognitive ability."

Hall adds that taking remedial action and planning ahead can help achieve diversity over the long term. "Consider implementing a maximum appointment term, but balance this with the need to maintain continuity of knowledge, and think about informed succession planning and develop a robust and inclusive recruitment process," she says.

The impact of Covid-19

Despite the terrible impact that the Covid-19 pandemic has had on people's health, finances and working life, it could open the door for some people that may not have been able to work in the pensions sector to be included. Those with physical disabilities or care commitments may find it easier to seek employment post-pandemic.

"The current crisis and different working patterns present an opportunity to bring in talent that may be better suited to remote working," notes Hall.

Tait continues: "We have found a new and higher level of engagement with our colleagues. We are enjoying greater flexibility over when to work, and sometimes where. We run 'diversity dialogues' in our firm, opportunities for groups of colleagues to hear directly from people who have a diversity story to tell."

However, she says that the pandemic may have also made it harder to increase diversity in the workplace.

"Unfortunately, another downside to the Covid experience is the possibility that people will not move jobs so readily. We rely on natural attrition across our firm to provide opportunities to reshape teams from a diversity perspective. I fear that a stagnant recruitment market will stifle that ability."

Written by Jack Gray

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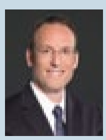
PANEL

Sheridan Bowers, Head of UK and Ireland, Vontobel Asset Management
Sheridan joined Vontobel Asset Management in 2011 as a relationship manager for its UK/Ireland institutional business. He was appointed head of UK in 2015. Sheridan has 23 years investment experience, across sales, consultant relations and client relationship management. He started his career at Fidelity Investments, later moving to Threadneedle Asset Management. Prior to joining Vontobel, he worked at Hermes Investment Management where he was responsible for developing UK client and consultant relationships.

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.

Reza Mahmud, Senior Investment Consultant, PwC
Reza represents PwC's investment consulting business, advising institutional asset owners in the UK and worldwide on strategy, governance and implementation. He sits on PwC's multi-disciplinary investment committee (pensions, insurance, sovereign wealth, private wealth), and also its firm-wide sustainable investing working groups. He was previously a multi-asset investment manager at Aviva Life and Pensions, and before that served with Brunei's sovereign wealth fund as a portfolio manager and asset allocation analyst.

John Reade, Chief Market Strategist, World Gold Council
John joined the World Gold Council in February 2017 as chief market strategist. He is responsible for producing strategy and developing insights on the gold market; leading the council's global dialogue by engaging with economists, academics, policymakers, fund managers and investors on gold; and leading the research team. John has over 30 years' experience in the gold industry and related fields, most recently as a partner and gold strategist with Paulson & Co. Prior to that, John worked as a precious metals strategist at UBS.



Daniel Seiler, Head of Multi Asset, Vontobel Asset Management
Daniel heads the multi-asset boutique at Vontobel Asset Management. In this role, he oversees systematic and fundamental investment solutions, which are offered by the Vescore and multi-asset brands respectively. He is responsible for the investment processes, driving innovation in product development and managing the investment teams Previously he was head of Vescore, the quantitative investing franchise of Vontobel Asset Management. Daniel became CIO at Vescore Solutions AG in 2009.

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.

Stéphane Vial, Managing Director, CFM LLP
Stéphane is the managing director of CFM LLP and head of investor relations, EMEA. He is based in London and is in charge of CFM's EMEA client base. He spent his first two years at CFM in Paris where he was responsible for European client coverage. In 2009, Stéphane moved to Tokyo where he was the director of CFM Asia KK, before moving to London in 2013. Stéphane has 20 years' experience in trading capital markets having worked for Chase Manhattan Bank, Renaissance Technologies and Commerzbank over the years.

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Spotlight on multi-asset investing

Our panellists look at how multi-asset investing has fared in recent months and what the future might be for multi-asset strategies going forward

What is the current sentiment among the pension funds you are working with, given the unprecedented situation we find ourselves in?

Mahmud: For many, this crisis involves a very busy and stressful period of adjustment to new working and living arrangements, while focusing on identifying and addressing near-term industry issues in light of rapid developments and material uncertainty. Some pension funds have already positioned defensively (maybe even years before), some regret not making changes sooner, and others wish they hadn't acted so early before the crisis profoundly changed the whole situation and outlook.

As an example, one of our clients has been much more active than usual and is positive. We have helped them track the evolution of the markets for several years now; looking at medium-term risks and opportunities on a monthly basis, preparing for emergent issues such as Brexit disruption. Last year, we supported them in implementing an investment protection strategy and exited out of some illiquid positions. They are now sitting on some cash, reviewing their strategy, and assessing new opportunities.

Another international pension client is looking even longer-term, and we are in talks about developing a sustainable investment framework to address future high-impact risks.

Bowers: Yes, this is a very challenging time and, as Reza *[Mahmud]* highlights, it is not just about investment performance. Trustees are having to assess the impact of recent market volatility on both their funding positions and their covenant strength. The Covid-19 crisis is likely to have long-lasting impacts on company balance sheets, with some sponsors at risk of collapse, which puts many schemes at risk.

Vial: I agree there will be some long-lasting effects, but to a certain extent the dust is still settling. Investors are still trying to figure out how much damage has been done. Some investors, especially in certain regions, have had to raise cash quickly. One example is in Australia where the government allowed individuals to withdraw a certain amount from their superannuation pension so, consequently, they had to create liquidity within the portfolio, redeeming the most liquid portion of the portfolio (and this may have been the liquid alternative bucket).

Most investors, however, have been cautious and re-allocation work has generally been halted. I don't think investors are allocating to new managers because they don't have the governance to do the necessary due diligence because of the pandemic – those who have re-allocated money are doing so by allocating to existing managers. But we do see people trying to put things in place so that they can do investment due diligence or operational due diligence.

But generally, we did not see investors panicking – they are trying to hold off and wait before making any rash decisions.

One other point worth mentioning here is that the crisis we are faced with today is very different to the 2008 crisis. Back then we saw a lot of businesses

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and managers going bankrupt; it was more of a liquidity crisis. That is not the case this time. We haven't seen people panicking and feeling that they need to sell everything immediately.

Reade: I would echo the sentiment from my fellow panellists. We've been quite busy over the past few months, as many of the pension funds we've been working with over the past couple of years have been thinking more actively about gold. We've had two types of conversations with pension funds as a consequence of the unprecedented situation. For those that have had an allocation to gold, we spent quite a lot of time explaining the reason for the sell-off in gold in late March, when other assets were getting hit hard, and discussing our views on gold's outlook. But interestingly, we've also had a lot of interest from pension funds that had not yet made an allocation, and they are especially interested in gold as a diversifier and hedge during sudden risk events, such as we've seen recently.

What have been the main investment challenges for pension funds?

Bowers: The most important challenge has been to keep focused on where real risks lie within portfolios and identify the areas where taking action is warranted. In most cases, this involves considering and reviewing the most suitable asset allocation for a pension scheme given its liabilities, degree of hedging and the health of the scheme sponsor. With each asset class being impacted to different degrees, reviewing the scheme asset allocation and sticking to portfolio rebalancing guidelines remains important. Schemes need to act on the plans they have in place.

Smaje: I would add that a significant challenge has been to ensure that portfolios have been sufficiently robust to the increased volatility in markets and, for DB schemes, that assets have kept pace with movements in liability values. In particular, the crisis has once again highlighted the benefit of having a high level of liability hedging, coupled with a truly diversified growth portfolio. Those schemes that have protected capital better will not have to chase higher returns (or contributions) to close the gap. A 20 per cent fall needs a subsequent 25 per cent return to get back to where you started, whereas a 5 per cent fall needs 5.3 per cent.

Maintaining sufficient liquidity and not having to realise depressed assets to meet cashflows has also been a challenge. This is particularly important for more mature DB schemes with negative cashflow.

Vial: Another investment challenge for pension funds is that a fair amount of strategies that were not meant to be so correlated to the stock market did not do particularly well. That's not to say they failed, but they demonstrated the fact that not being correlated doesn't mean that every time the stock market falls, the investments will go up. They have a chance of going down as well. Going forward I think investors will be a bit more cautious when it comes to distinguishing between uncorrelated and anti-correlated.

Reade: I'd agree that the nature of the sell-off, when hedges fell at the same time as risk assets, raised a lot of eyebrows and created challenges. But many of the hedges performed better over a slightly longer-term perspective – gold, for example, is healthily higher this year, up 14 per cent to the end of May in US dollar terms. More generally, I think pension funds are still grappling with two trends that started well before Covid-19, but that have been exacerbated by the pandemic: 1) How much equity exposure to hold when fundamentals are uncertain and valuations high; and 2) How best to replace or at the very least complement their bond exposure amid ultra-low – now we can formally say in the UK, negative – interest rates.

Do pension funds understand the difference between uncorrelated and anti-correlated and what this could mean in tough times?

Vial: Consultants certainly do – even before the crisis they were saying that, while diversification and non-correlation is one thing, what they really want for their clients is something that protects the portfolio during tough times. UK pension funds also were already receptive to this idea before the crisis, but now this has happened – and there are a few products of this nature out there that have shown good performance during the crisis – they are going to be even more interested.

Reade: Diversification is an overused and often misunderstood concept in finance. Pension funds intuitively understand what they are trying to do, but in practice it is common to focus on well-established but misleading metrics such as long-term correlations. One of the most compelling arguments we use for including gold in a portfolio is that the correlation with equities generally

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changes during extreme sell-offs. While gold is normally uncorrelated to the S&P like many other diversifiers', when the S&P falls by two standard deviations or more, gold is then reasonably negatively correlated with US equities. This type of 'negative correlation at the right time' doesn't happen often in financial assets, and it enhances portfolio performance considerably.

Have pension funds to date been open to the idea of multi-asset investing?

Bowers: Yes, pension funds are interested in the opportunities that multi-asset strategies should provide for their portfolio. Managed well, this can be a dynamic allocation for a client, where an experienced investment manager can apply tactical management to capture investment opportunities and reduce downside risk. In this way, multi-asset portfolios can overcome a traditional challenge faced by many pension schemes around timing and how quickly trustees can react.

Cheseldine: I would say many DC schemes have a multi-asset fund (MAF) of some description available on at least a self-select basis. In DB schemes it is more dependent on size. Relatively small schemes don't have the economies of scale available to properly diversify in indiscrete asset cases for their growth portfolio. So, a MAF can be a useful facility to spread risk while limiting costs. Equally, even when very large overall, if your DB scheme is very mature, your growth portfolio is likely to be relatively small and a MAF may again be appropriate.

Smaje: I would say that schemes that have a meaningful allocation to growth assets have generally been open to multi-asset.

Reade: Based on the conversations we have had with pension funds globally, we also believe there is a growing interest in genuine diversification and that multi-asset investing is becoming more popular.

What sorts of questions do pension funds ask around multi-asset investing? Do they fully understand the variety of options available and how to access them?

Smaje: The main questions are does it work and are the (high) fees and additional governance worth it? How will the strategy perform in various market scenarios? What evidence can you show us that your approach is better than another?

Trustees are normally guided by their investment consultants and so, to some extent, the options presented depend on the consultant used. Pooled funds like DGFs are easily accessible, including through platforms.

It is a big challenge for lay trustees to fully understand the differences between the various approaches and what exposures or techniques are worth paying higher fees for. Development of a set of investment beliefs founded on a base of solid understanding is especially useful here.

Cheseldine: In my experience the key questions are around risk management and cost. How active are the asset allocation decisions? Those MAFs that have a pre-determined and passive allocation between equities, property, bonds and gilts could suffer almost as badly as equity funds. On the other hand, those MAFs that can react to market volatility while taking a long-term view have a significant advantage.

Bowers: The universe of multi-asset funds is very diverse, with varying degrees of complexity and this can present issues for pension funds as they consider which type of multi-asset strategy they should invest in. A key criticism of many multi-asset funds is that they are too complex and can often be opaque, making it hard for pension funds to understand what's going on. We believe it is important that clients have transparency from their managers, so they can understand how their money is invested and the rationale for the underlying holdings.

Multi-asset funds have a variety of investment aims and differing degrees of complexity and cost and it is fair to say that many clients have been disappointed with the performance achieved by some managers within this asset class. It is therefore very important that pension funds work with their investment consultants to agree their aims and then to consider which investment managers are most appropriate to meet these requirements. Managed well, multi-asset funds can provide a stable core within the portfolio of DB and DC pension schemes.

Have those pension schemes with a multi-asset approach generally fared better before and during the crisis?

Cheseldine: There are two distinct communities to consider here – DC and DB.

In DC, it is difficult to say MAF have done better or worse because it depends on how close an individual member is to retirement. Typical multi-asset funds have performed better for members in their earlier years of contributing than lifestyle or target-date approaches, but not as well for those close to retirement. That is hardly surprising given the respective asset allocations.

What is clear is that those within a couple of years of retirement and invested in lifestyle options have typically weathered the volatility storm of the past few months and are sitting on positive

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investment returns. In short, lifestyling has worked – at least so far.

But that does not mean we should ignore MAF strategies.

Younger members will have experienced much less volatility than those in lifestyle (or self-selecting in equities or property funds) and that, anecdotally, has meant less worry and fewer kneejerk opt-outs.

In DB, an allocation to multi-asset funds is typically a strategic decision and those schemes that have switched from equity investment to MAF will have seen their funding levels remain more stable.

Smaje: I would say that experience to date, both before and during the crisis, has been mixed. DGF returns, for example, have been generally disappointing during a period of strong returns in equities and credit.

During the crisis, there has been a real difference between DGFs – those with a non-directional absolute return approach have fared pretty well, whereas those with high directional exposure to equities and credit have performed poorly.

Fiduciary managers have also been a mixed bag; those able to access genuine diversity have done a much better job. In the future, schemes are likely to seek out managers (traditional or fiduciary) that can access a very broad opportunity set, including illiquid and niche, and can demonstrate value for money.

Bowers: Generally, multi-asset as an asset class outperformed equities during the sharp market falls in February and March. However, many clients are disappointed that their managers may not have provided the degree of protection that they were expecting. Indeed, this represents a significant challenge to the perception clients have of multi-asset investing and its role within their portfolio.

What has been the impact of the crisis on other pockets of the multi-asset space?

Mahmud: Multi-asset funds follow a wide range of objectives, risk-appetites, constraints and benchmarks so performance can differ significantly from one fund to another.

Some multi-asset funds have been too risk averse in recent years due to a focus on high asset valuations and have underperformed during strongly rallying momentum markets but defensive diversification could have been advantageous in the market correction of recent months.

On the other hand, other investors responded to high asset valuations by taking up more risk in order to maintain returns, through increased leverage, taking a different set of risks or going higher in the risk spectrum of asset classes. While helpful on the upside in good times, the fear-driven and indiscriminate 'risk-off' nature of a market crisis can reverse the benefits of these positions.

Those following risk premia or quantitative strategies are also going through a real-life stress scenario that can validate (or repudiate) their modelling and back-tests. Other relative winners include funds that had an appropriate configuration of portfolio protection or were fortunate enough to be in asset classes that are bailed out by central banks.

Crisis events will also test wider organisational resilience, in terms of operations, personnel, technology etc, while at the same time government and monetary authorities in every country will affect the investment environment by prioritising different and significant financial, legal and regulatory interventions to mitigate domestic stresses caused by the global pandemic.

Vial: Multi-asset, as Reza *[Mahmud]* mentions, is broad as a term. I would argue however that, generally, it has not done very well even though it has done better than the stock market. Is that, however, enough to justify having so much in that bucket? I am not sure.

Liquid portfolios have certain benefits – one of which is, as it is liquid, investors can redeem immediately and get fresh cash for other opportunities or to do other things – that is very valuable and too often forgotten. But being down 5 per cent on your multi-asset when the stock market is down 20 per cent, while that is relatively good, it is not what investors are looking for.

Let's consider CTAs, for example. This is a diversifying strategy. You could put it in a multi-asset bucket because it trades many different asset classes. It has been around for a while; people are somewhat familiar with it; they take it for its diversification benefits; and it did remarkably well in 2008. People in fact piled up on CTAs after an 2008 outlier performance that showed so much negative correlation to the stock market and sometimes they just bought the CTA because they thought it would help them in a crisis. There has even been talks about CTAs being the 'crisis alpha' strategy – I don't think that's the right approach for CTAs. They have other benefits, and they are de-correlated from the market, so they can go down in equity downturns as well and this is what happened this time.

CTAs in fact have not done poorly this year – they are just treading water. Some are down, some a little bit up, but they have done nothing spectacular by any means. This will make people look into what CTAs are, and whether you are better off to use something a little bit more elaborate than CTAs should you want the strategy to be defensive.

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You could even twist the CTA to make it defensive or protective, meaning that it helps you not lose money in equity downturns and have a much better chance of making money.

Have some multi-asset solutions actually fallen short of their promises?

Vial: I wouldn't say they have fallen short of their promises. If you read what it says on the tin, it will state what it is meant to do – and it will not say that it goes up when the stock market goes down. But perhaps this time around, too many of these types of 'uncorrelated' strategies did go down together with the stock market, albeit not as much.

Also, with multi-asset, broadly, everything liquid had a price quite quickly, so people knew relatively quickly how much they'd lost or gained. Outside multi-asset, there are many other diversifying strategies (eg credit, infrastructure, real estate, private equity) for which the effect of the crisis is not yet known. It is unfair to blame multi-asset solutions as one does not know how the rest of the pack has performed.

Seiler: Due to the prolonged low-yield environment, some multi-asset strategies moved away from their invincible core of equities and sovereign bonds for additional yield pick-up in the corporate, emerging markets and other higher-yielding spaces. This asset allocation shift actually came at the expense of diversification and therefore crisis resilience.

However, multi-asset risk-parity strategies that follow a risk-based rather than a capital-based approach to allocation have fared better in the current crisis than some others. This is because these portfolios have no tilt towards equity risk, like a 60/40 portfolio, which results in lower volatility and a better Sharpe ratio. If leverage is applied, these strategies can achieve the same risk profile as pure equity investments but at a better Sharpe ratio which smooths over the path of returns.

Reade: I agree with Daniel *[Seiler]* that the hunt for yield and returns has taken some strategies in riskier and less liquid directions, the returns of which are highly correlated to equities in many cases. The consequences of such decisions make it likely that such strategies may be re-evaluated.

How might investors change their approach to multi-investing going forward?

Bowers: You could almost say that the investment industry is at a crossroads for multi-asset strategies with clients and their advisers questioning whether the majority of the funds used by pension schemes are able to deliver on their investment aims. Many of these funds are targeting total returns (cash plus) similar to the long-term expectation of equities but with lower volatility.

Part of the assumption here is that performance should be positive over rolling three-year periods and yet, for many clients, their multi-asset funds have delivered a negative total return over the past three years. 2020 is likely to see the wheat is being separated from the chaff by revealing which multi-asset strategies are able to live up to expectations, or even exceed client requirements.

Pension schemes will often have significant exposure to multi-asset funds and, managed well, these strategies can provide a stable element of a client's growth portfolio. The recent experience might lead clients to review their fund choices, using the scale of their investment and perhaps diversifying their exposure across two or three complementary funds to provide a robust portfolio for the future.

Mahmud: I would add that, regardless of the individual challenges, multi-asset funds that underperform both rising as well as falling market scenarios will face pressure, especially if they touted a defensive rationale for their diversified approach to weather tough times like these.

Vial: Multi-asset includes a wide range of strategies and, going forward, investors are going to be pickier when it comes to making their choices. They won't just go for a broad multi-asset strategy that has everything in it, but rather pick those strategies that have a much better chance of making money in equity downturns.

Within broad alternatives or multi-assets, there are defensive type strategies whereby you impose additional constraints on your strategies. For example, you can forbid a given strategy to have positive beta exposures, ie only allow negative beta risks. In doing so, you may give up performance in bull markets for gaining a real good chance of performing in equity corrections. This is all about tailoring risks to a desired outcome. So pension fund investors should be considering alternative strategies that protect their portfolio and match their needs – so, rather than just

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allocate blindly to alternatives or MA, they should look at those strategies that exhibit a chance to make money when stocks go down.

There are a few that work, or also your manager can put layers in your portfolio to prevent positive beta exposure while only allowing negative beta exposure.

Cheseldine: I suspect there will be greater diversity of asset allocation, a move away from static allocation and to incorporate a wider range of asset classes. Much will obviously depend on how quickly markets recover.

Smaje: I think schemes will be ever more sceptical about claims from managers (both traditional and fiduciary) that their approach is worth paying 70+bps pa. Those that failed to capture much of the market upside in the years before the crisis and then saw falls comparable with equity markets during the crisis are likely to see big outflows.

Given that future economic conditions coming out of the crisis are highly uncertain, schemes will be looking for multi-asset solutions that can demonstrate robustness and potential to perform strongly in a variety of future scenarios. That means constructing portfolios with genuine diversification, with access to a very broad opportunity set including private markets.

As I mentioned earlier, managers that truly embrace sustainability and ESG in their investment process are likely to attract more interest.

Mahmud: After the crisis, there could be increased emphasis on liquid assets, more dynamic investing or increased focus on downside management, especially if clients feel more comfortable with having more flexibility for unexpected scenarios.

With a reversion of asset valuations, some clients and funds may move back towards less complex asset classes to achieve their required returns but without the heavier governance and due diligence requirements.

However, more confident or sophisticated investors with surplus dry powder of uninvested cash will be keen to take advantage of the rare opportunities within the wide universe of the illiquid, private markets and move away from volatility risk to take other forms of risk instead.

As has been highlighted, there will be also more focus on sustainable investing and ESG-related disclosures, for better risk management, alignment with new regulatory requirements/client preferences and potentially enhanced returns.

Finally, the attractiveness of different investment sectors will change as consumers, businesses and governments enter a new post-Covid world.

Reade: We expect that we will find an even more receptive audience when we make the case for including gold as a strategic asset. In fact, in North America, we have already seen concrete examples in recent months when gold has moved from tactical buckets to forming a more strategic role in the portfolios.

Vial: We are seeing investors interested in picking defensive strategies within their multi-asset – making sure they pick strategies that perform in equity downturns. It may be at the expense of cutting the strategies' performance in equity rallies, but if you couple this with your long-only portfolio you are going to see a much better drawdown profile, and that's what drives them.

This is portable alpha in some ways, as investors are seeking to pick the alternative strategies that fit their portfolio, making the combination more robust and with better drawdown profiles, rather than picking off-the-shelf plain vanilla alternatives that may not be tailored to their particular needs.

That was something we saw developing before the crisis but it is very topical nowadays and suddenly investors would only be sorry not to have been invested earlier.

The multi-asset space has evolved significantly in recent years. Will the recent pandemic stop innovation or fuel the need for further innovation?

Seiler: Multi-asset investing has embarked on an innovation journey that actually started during the financial crisis, which laid bare the need for enhanced risk control and asset allocation approaches that deviate from the classic capital-based model that is capped at 100 per cent.

Systematic risk-based approaches emerged that are able to target desired volatility levels with the highest precision while keeping the risk contribution equal between equities and bonds.

In addition, the advent of the low-yield regime in fixed income brought strategies to the forefront that are able to dynamically navigate more risky fixed income segments by becoming more responsive to market movements and make tactical allocation changes depending on the market environment. These are strategies that shift their focus from a simple strategic buy-and-hold asset allocation to a more dynamic asset allocation incorporating tactical market moves.

Covid-19 and the extreme market movements emphasised the need to progress on the innovative push that has already been underway in multi-asset investing over the past decade.

Cheseldine: I agree – if anything, the crisis will prompt more innovation. We have (re)learned the important lesson that cashflow is king both for businesses and fund managers.

Reade: I think more innovation is likely but I also thing some strategies will be re-examined in light of recent performance. Exchanging (actual) liquidity for (potential) return may come under scrutiny depending on the eventual performance of less liquid alternatives.

Smaje: Looking specifically at the DGF space, I'm not aware of much innovation in the DGF market recently; managers have tended to maintain their existing approaches. Coming out of the crisis, we've seen shifts in asset allocation in many multi-asset portfolios, particularly increased allocations to credit as spreads have widened. I fear there could be some complacency about the level of defaults on the horizon.

Managers are also responding to the surge in interest in responsible investing; the best managers (particularly fiduciary) have embedded ESG principles in their manager selection and portfolio construction, although I think there is more to be done.

Interesting passive solutions have also come to market recently. Other managers have paid lip service to ESG, with a certain amount of 'greenwashing'. The crisis has, if anything, increased attention to investing in companies with sustainable business models.

What other future trends might we see?

Seiler: I would argue that the future lies with modern, systematic multi-asset investment approaches that can harness the power of technology. Artificial intelligence (AI) is able to improve asset allocation processes by removing any behavioural biases from a discipline that traditionally has been strongly dependent on human judgement. Algorithms are able to determine the optimal allocation mix for any market environment.

In addition, these algorithms can be used to improve the prediction of future developments of single asset classes and even securities. Therefore, AI has the potential to lead the way in improving the predictive power of multi-asset strategies.

Vial: As has been alluded to, DGFs were already under the scrutiny of investors before the crisis, as some hadn't done so well in recent years – so I wonder whether that space will have problems in the future. Before the crisis managers were looking to divert some of that money elsewhere, and that will continue. Investors will be looking at strategies that have certain behaviours in the tails of the market.

In terms of the day-to-day, it will be interesting to see at what point people are ready to start allocating to new managers. Are investors ready to handle new relationships? Will they ever be happy to allocate to a manager they have never seen physically? Or will all this be pushed to later in the year?

They will have to at some point because there is a fair amount of chance that they are going to be prevented from seeing managers face-to-face for a while, but I believe the industry is going to find ways to deal with this. Crises like these are accelerators – it will accelerate ideas.

Smaje: I would say looking into the future, the case for a diversified multi-asset approach remains strong, particularly as investment time horizons shorten. The bandwidth for many trustee boards to build a robust portfolio on a DIY basis is likely to be constrained, so delegation in one form or another is likely to be a continuing trend.

Reade: Covid-19 has been a salutary reminder that markets do correct and that its essential to have assets in your portfolio that can help protect the fund from sharp and unexpected sell-offs. In the aftermath of these unprecedented times pension funds will, we believe, critically examine the performance of their portfolios the costs incurred for the protection and/or diversification that may or may not have materialised.

Cheseldine: From my perspective, Covid-19 changes nothing and everything. The fundamentals of investing are the same, but it is already clear that there are winners and losers in different market sectors. I cannot see property funds specialising in retail stores prospering for a while. But big pharma and tech, together with any industry where employees can work from home, could do much better.

Mahmud: Every crisis feels different but there are often familiar responses in how investors, traders, regulators, authorities, in other words, people, behave and react in the face of major shocks and upheaval.

Innovation and disruption do not happen smoothly, and a crisis can be a catalyst for important changes in the world, both bad and good. The diversification and flexibility of a well-considered, robust and adaptive multi-asset approach can enable investors to participate effectively in the ongoing evolution and growth of the global markets over time.

The right support

As we adjust to the new normal following the pandemic, *Pensions Age* asks whether the level of attention and support given to the pension industry was sufficient, and what the sector needs from the government, regulators and industry associations in the near future

Like everyone else, the government and regulators have been scrambling to assemble a coherent strategy to deal with the sudden pandemic. The difficulty in balancing public protection against the damage to the economy has been illustrated by the provisions of the Corporate Insolvency and Governance Bill 2019-21, published on 20 May, which are good for distressed sponsors of defined benefit schemes, but not for their creditors including scheme trustees, or for the Pension Protection Fund (PPF).

The Pensions Regulator (TPR) has kept up a flow of guidance with relaxations where possible, but this does not extend to statutory time limits, such as in the disclosure regulations. Scheme administrators unable to comply for reasons such as delays in obtaining required data from employers would appreciate higher-level assurance that penalties will not be applied.

Meanwhile the industry as a whole needs clear alignment between the Financial Conduct Authority's (FCA) rulebook, TPR's guidance, and the legislation. For example, the FCA's conduct of business rules mandate a 14-day cooling-off period in which a customer may cancel a contract, but the pensions tax legislation contains no such provision.

Aries Insight director, Ian Neale

Government and pension regulators must give pension funds the necessary guidance on the value and merits of sustainable finance in comparison to a 'business as usual' approach. We could learn a lot from Canada where the federal government was the creator of the Expert Panel on Sustainable Finance whose role was to define the way forward for Canadian pension funds and institutions.

Earth Capital chief investment officer, Gordon Power

Diversity of impact on pension schemes has been the key experience from the pandemic so far. We have seen this with widely differing movements in schemes' funding levels and in the effect the pandemic is having on the strength of covenant of different employers. This diversity of circumstances will continue to persist as we look forward to an uncertain future.

Flexibility and pragmatism must be the watchwords of government, the industry and especially regulators in response to this. Fortunately, we have had that from TPR earlier on in the crisis with the welcome relaxation of several requirements. But there is no room for rigid rule-setting to return, squeezing out the use of judgement, as the new normal begins to settle down. We must all remain nimble and responsive as the impact of the pandemic works its way through the economy.

Aon head of UK retirement policy, Matthew Arends

During the early days of this crisis, some were concerned that the government might pause automatic enrolment, something that would have been damaging for pension saving. It would have been difficult to restart automatic enrolment at the end of the crisis. Retirement saving is a long-term enterprise and the government deserves credit for supporting auto-enrolment, not least in including the payment of statutory contributions within the Coronavirus Job Retention Scheme (CRJS).

How the CJRS is phased out will be important, not only for the UK economy but also for maintaining contributions into workplace pension schemes.

We expect that at some point, the DWP and TPR will work to normalise auto-enrolment enforcement and reintroduce the 90-day late repayment deadline, and we'd hope that the pensions industry and employers will unite in efforts to help those who have got behind with payments.

The People's Pension director of policy, Gregg McClymont

Pensions history

Pension fund investment in 1974

Speaking at Rothschild's Investment Conference on 18 June 1974 on 'Pension Fund Investment at the Present Time', George Ross Goobey said: "We have a situation today where practically no investment we make can really hope to compensate for inflation at the rate we are experiencing at the present time."

He felt the answer was to go on trying to bridge the gap as far as possible and hope the government might achieve some reduction in the rate of inflation to more manageable proportions. If they did not then companies would have to put their hands in their pockets even deeper for pensions and increases to them to keep up with increases in the cost of living.

He went on: "Some of you will know that for some time I have been advocating long-dated or even undated British government securities or other similar fixed-interest investments as the nearest we can get to contributing towards the costs of inflation of pensions."

It was clear that the 14 per cent return plus that could be obtained from these stocks could not compete with inflation at the current rate of 15-20 per cent. Neither of the other two main avenues of investment, equities nor property, could come anywhere near a 14 per cent return.

Increases in dividends were restricted by the government to 5 per cent although strong representations were being made to it, to remove or increase the 5 per cent limit due to the apparent abandonment of the incomes policy and because inflation was running at a rate so much higher than 5 per cent.

"I cannot believe in the present industrial climate that if dividend freedom was granted tomorrow then companies would, overall, be able to or willing, to increase dividends to match the present rate of inflation," he added.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

S	L	J	P	N	W	G	S	E	R	U	O	M	Y
I	W	R	E	G	U	L	A	T	O	R	S	T	D
B	N	L	F	D	S	I	K	T	G	A	I	F	D
X	I	H	T	S	W	R	F	T	E	L	T	I	S
P	M	V	R	E	S	O	Q	I	I	Z	V	S	Y
R	D	P	G	L	U	E	R	B	N	E	V	X	M
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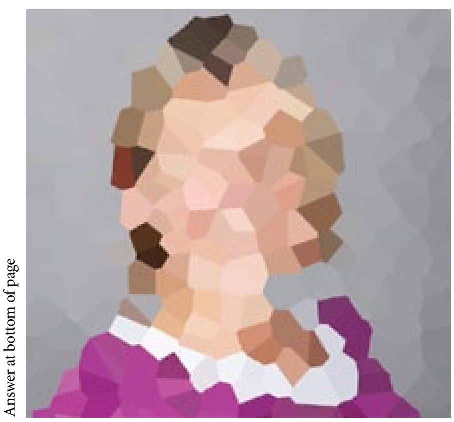

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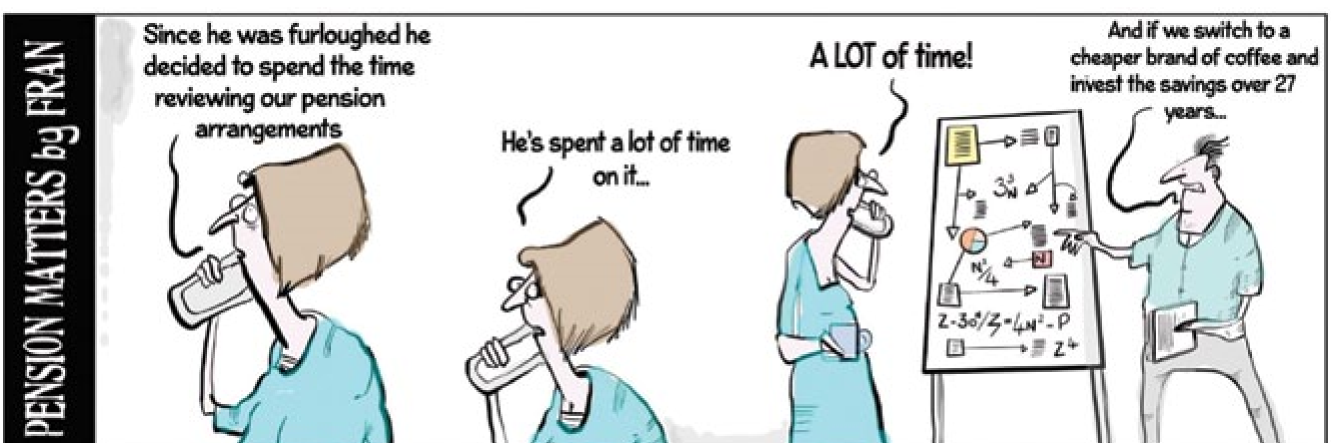

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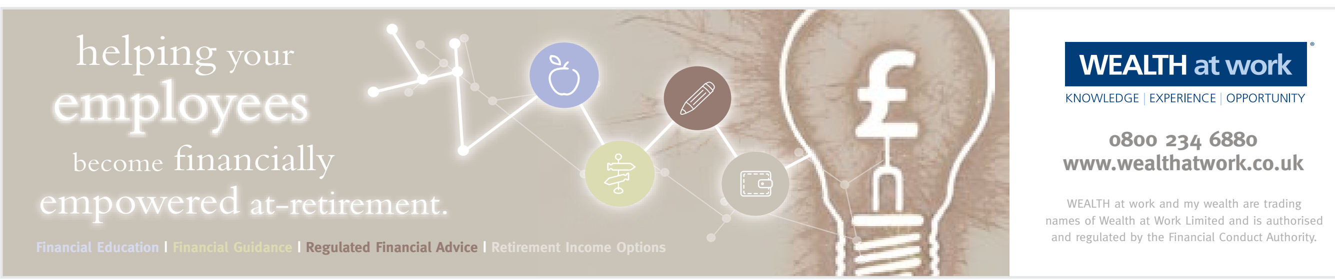

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