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June 2021
PENSIONSAge
The leading pensions magazine

What good is data without insight?

Consultations
A look at how the industry can best allocate resources to consultation responses

Employer covenant
The growing need for employers to truly engage with their pension schemes, if they want to see real results

Tracking pension pots
How the industry can help savers track down missing pension pots

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June 2021

PENSIONS Age

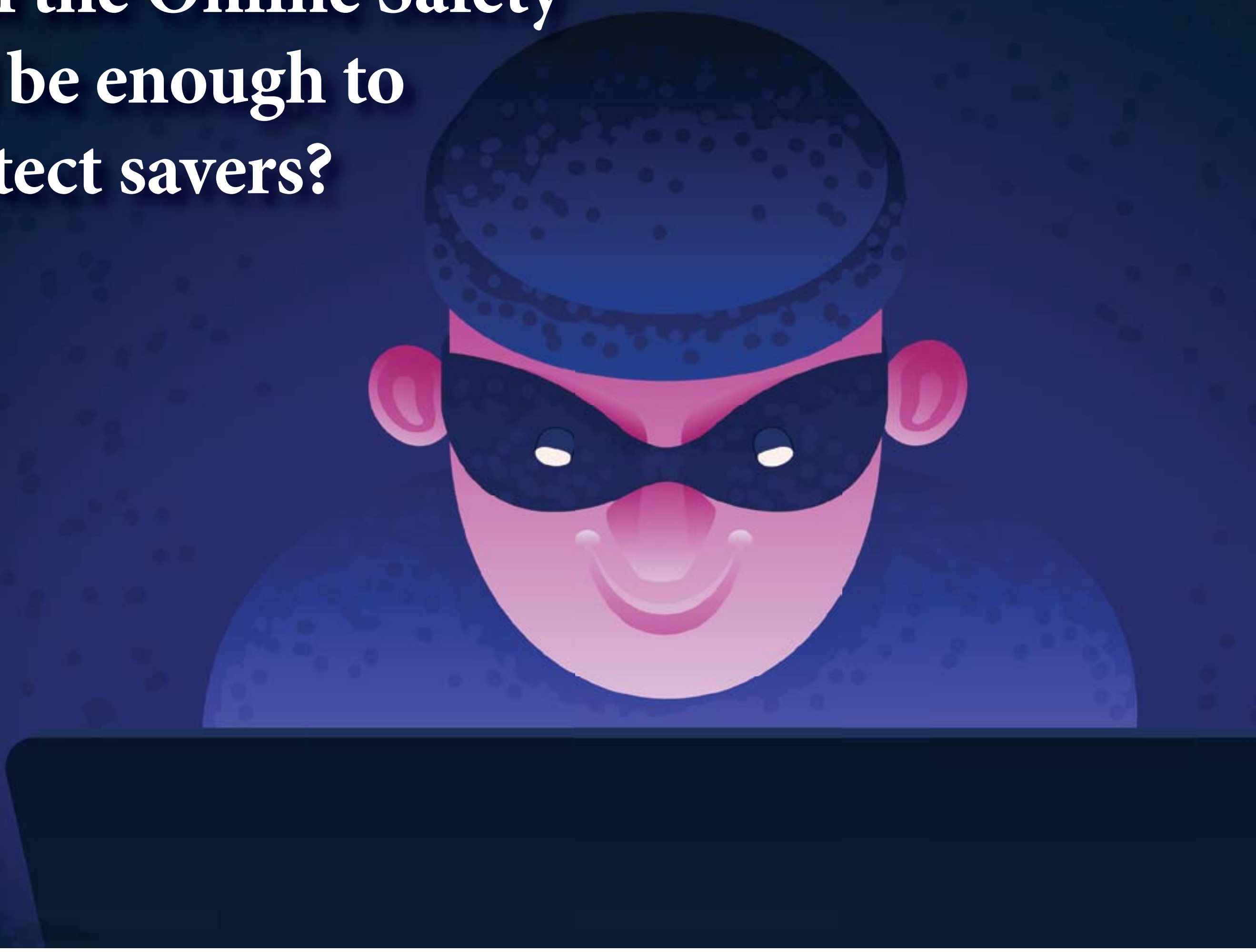
The leading pensions magazine

Social media: *The UK's pensions industry has yet to fully embrace social media; influencers have stepped in to provide financial information this way to a young audience*

Back into the office: *How employers need to prepare for staff returning back into the office as Covid-19 restrictions lift*

Scams special:

Will the Online Safety Bill be enough to protect savers?



PLUS: Pensions Minister, Guy Opperman, reveals the latest government efforts to fight pension scams, and the key findings of the Work and Pensions Committee's recent pension scam inquiry

INSIDE: Fixed Income Guide 2021

Editorial Comment

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

Be careful what you wish for. For years, the pensions industry – and wider financial sector – has lamented the general public's lack of understanding and lack of interest in saving and investments.

The financial industry continues to make great efforts to try to communicate and educate people about money matters, but, judging by the low levels of financial literacy in the UK, these 'top-down' messages can seem incomprehensible to confused or disinterested recipients.

However, a more 'grassroots' approach to financial education is having more success in engaging people.

As our feature on page 72 explores, people are turning to social media to get information and tips about money from their peers, or at least, from approachable and personable 'finfluencers'.

This impact of this is significant. For instance, a recent survey reports that almost half of 18-34 year olds have used this time in lockdown to improve their financial literacy. While this is good news indeed, the survey also reports that, despite this, many still do not understand the 'basics', such as how APR or payment holidays work, meaning they may have misplaced confidence in their abilities to make sound financial decisions.

The risks of this are clear. An engaged but misdirected individual can easily fall victim to the sophisticated traps scammers use to fleece people out of their money.

A great deal of effort is being taken to protect people from these criminals. Our special focus this issue, from page 52, explores the subject of scams. In particular, it explores the risks of people falling for scams online and on social media, and whether the Online Safety Bill is enough to protect savers. The Pensions Minister himself, Guy Opperman, also pens a piece about the latest steps the government is taking to help in the fight against pension scams.

While it is great that so much work is being done to protect savers, what would really help reduce this risk would be to improve people's financial knowledge.

As the significant rise in people turning to social media for financial information shows, they are engaged and willing to learn.

So, just as even the Catholic Church eventually stopped requiring services to take place in Latin, so too must the savings industry change its language and mode of address to a more conversational style.

Yes, it is more challenging for our regulated and risk-averse sector (eg can only provide guidance, not advice, with lots of legal caveats supplied with that guidance) to be able to talk personably on social media. But it is possible, as our case studies from the PPF and Teachers Pensions show, from page 72.

The time and cost may be a concern, as effectively engaging on social media is a commitment. However, once set up, social media enables schemes to easily speak directly to different stakeholders – young savers on TikTok, older ones on Facebook, colleagues on LinkedIn, for example.

The industry has wanted people to be more engaged, and it has got its wish. Just not via the engagement sources it would 'like' them to use, such as company emails and websites.

Like it or not, the finance industry is no longer the gatekeeper of money guidance – it is not the only, or even first, place people turn to for information.

Instead, people are having financial conversations on social media. We just need to join in. We have to meet them halfway by providing them with information in the ways they want to access it. After all, if we don't meet them there, we know the scammers will.

By using social media to ensure people receive accurate information, and to let them know where to turn to for more information, instead of accidentally turning to scammers, we can all get what we wish for – engaged savers for us, and a safe retirement pot for them.

Laura Blows, Editor

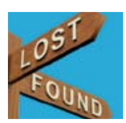
COVER FEATURE

Theme: Taking an interest

52

Scams special

Highlighted features



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Subscriptions
Tel: 01635 588 861
£149 pa within the UK
£197 pa overseas by air

NEW circulation figures

Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 14,481 (July 2019–June 2020) print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20). Our print circulation is around 300% higher than the next nearest title, and 500% higher than the third title.

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ISSN 1366-8366

www.pensionsage.com

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Dateline - May 2021

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

Editorial credit: Ascannio / Shutterstock.com

4 May The **Financial Conduct Authority** (FCA) launches a consultation on proposals that would require providers to 'nudge' members towards receiving guidance from Pension Wise before accessing defined contribution (DC) savings. The consultation outlines plans that would see providers refer members to Pension Wise, explain the nature and purpose of the service's advice, and offer to book appointments on behalf of the member.

7 May The **FCA** proposes lifting the 35 per cent cap on illiquid investments that can be held in workplace pension funds where a Long-Term Asset Fund (LTAF) forms part of the default DC arrangement. The proposals are intended to address the "market failure" that DC default pension funds do not invest in long-term illiquid assets, despite having the investment horizon to do so.

10 May The proportion of UK employees that have a workplace pension rose by just 0.1 percentage point in 2019/20 to 77.6 per cent, as participation increases "levelled off", according to figures from the **Office for National Statistics**. The proportion of employees enrolled in workplace schemes increased from less than half (46.5 per cent) of all employees when automatic enrolment was introduced in 2012. Pension participation grew by 3.3 percentage points in 2017/18 and 1.3 percentage points in 2018/19.

11 May A Public Service Pensions and Judicial Offices Bill is announced by the **government** in the Queen's Speech, as it looks to address discrimination found by the McCloud ruling. The government's aim for the bill is to ensure "equal treatment" for all members in main public service pension schemes, although further details are yet to be finalised. In 2018, firefighters and judges won a legal case against the government that changes made to their pension schemes were discriminatory on the grounds of age. Changes in 2015 meant that older members could stay in their existing and 'better' pension schemes. The government confirmed in July 2019 that the ruling would apply to all public sector pension schemes, and published guidance earlier this year on how to proceed with addressing discrimination. The government plans to bring forward the bill in this term of parliament.

13 May The **government** confirms that user-generated online fraud will be included in the upcoming Online Safety Bill. The move comes following sustained pressure from the financial services industries to include scams in the bill. The government states that the major online platforms will need to be clear about what type of content will be acceptable to post of their services, and enforce their terms and conditions "consistently and effectively". However, the draft bill does not include emails, text messages and paid-for advertisements.

14 May Trustees and scheme managers would have the power to halt pension transfers or seek further information from transferring members under new proposals from the **Department for Work and Pensions** (DWP). The proposals, which are expected to be implemented in the autumn and are being analysed as part of the DWP's consultation on dealing with pension scams, also outline the circumstances in which transfers would be permitted to proceed without incident. These include if the receiving scheme presents a low level of scam risk and if members are seeking to transfer to an occupational pension scheme that they have an evidenced employment link to. If neither of these scenarios apply, trustees or scheme managers would be required to search for scam 'red flags'.

17 May The **government** launches a consultation on the regulations to underpin simpler annual benefit statement requirements, which will see key information, such as the size of the saver's pension pot and a forecast for their retirement, highlighted in simple terms. The proposed changes for DC schemes are expected to come into effect in April 2022. The proposals place an initial focus on savings from automatic enrolment (AE), with a view to later improving simplicity across all schemes.

18 May The **FCA** and **The Pensions Regulator** (TPR) issue a joint call for input to seek views on how the consumer pensions journey can be improved, For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

and how savers make pension decisions at key points throughout their working lives. The call for input aims to prompt a "broad discussion" with the industry to help gain insights that will shape future targeted regulatory interventions, with views sought on how savers can be better supported to achieve improved outcomes.

Editorial credit: MOZCO Mateusz Szymanski / Shutterstock.com

19 May TPR chief executive, Charles Counsell, urges companies in the gig economy to proactively begin work on enrolling their employees into pension schemes, rather than dealing with the issue on a "case by case basis". The comments, made as part of TPR's podcast series, follow the High Court's recent ruling that declared that Uber's employees were classed as workers and are entitled to employment rights, including being enrolled in a pension scheme.

19 May TPR publishes its 2021-24 Corporate Plan, identifying the implementation of the Pension Schemes Act, combatting scams, and developing a framework for measuring value for money as three priorities following a Covid-19 recovery. The importance of flexibility amid the pandemic, and subsequent budgetary constraints, are also highlighted throughout the plan.

24 May The **DWP** proposes moving to a single, universal charging structure for use within default funds of DC pension schemes used for AE. Under the proposals, the universal charging structure would be based on a single percentage charge for member-borne costs and combination charging would be banned. The DWP is seeking views on whether it should move to a single charging structure and how it could best implement the changes. While the government acknowledges that the change would "inevitably impact" some providers, particularly master trusts, it said it is aiming to enable better member comprehension of the charges they pay and their pension's other features.

26 May Defined benefit scheme trustees should develop integrated risk management frameworks that consider factors such as climate change and long-term funding targets, according to **TPR's** new Annual Funding Statement. The funding statement states that climate considerations may impact on the assumptions used in actuarial valuations, the investment strategy and the sponsor covenant, with the regulator arguing that assessing, mitigating and monitoring climate risk was key to successful saver outcomes.

27 May TPR issues a consultation on changes to its Code of Practice 12, following the introduction of new tests in relation to its Contribution Notice powers by the Pension Schemes Act 2021. The legislation sees the introduction of two new ways in which TPR can assess the impact of an act, the employer insolvency test and the employer resources test, in addition to the existing main purpose and material detriment tests.

27 May The **Pensions Dashboards Programme** (PDP) launches a call for input on the order and timings for the staged compulsory connection of pension providers to the dashboards ecosystem, in what has been highlighted as a "huge milestone" by the industry. Running until 9 July 2021, feedback from the call for input will be used to help inform policy development ahead of the legislation that will bring the compulsion into effect. Wave one is expected to start in April 2023 and to run for up to two years, with a further three distinct cohorts recommended within this subset. This could mean that dashboards will be not be fully operational until 2025.

News focus

DWP proposes universal charging structure for AE default funds

The Department for Work and Pensions (DWP) has issued a consultation seeking views on how to shake up the charging structure of auto-enrolment (AE) pension schemes

The DWP has proposed moving to a single, universal charging structure for default funds of defined contribution (DC) pension schemes used for AE.

Under the proposals, the universal charging structure would be based on a single percentage charge for member-borne costs and combination charging would be banned.

The DWP is seeking views on whether it should move to a single charging structure and how it could best implement the changes.

While the government acknowledged that the change would "inevitably impact" some providers, particularly master trusts, it said it was aiming to enable better member comprehension of the charges they pay, and their pension's other features, to improve engagement.

Within the consultation, the DWP asked whether the proposal to move to a single charging structure would change the way employers select the scheme they use for AE and if an employer would continue to pay their 3 per cent minimum contribution if their employee moved their pension savings to a different provider.

It is also seeking opinions on the broader direction it should take on the future structure of charges that are permitted within the charge cap.

"We have considered the present permitted charging structures, and we believe there is a risk that these varied charging structures, within the same automatic enrolment market, may be acting as a barrier to members' better understanding and ability to compare the costs of their pension with other pension products and schemes," the consultation stated.

The consultation, *Permitted charges within DC pension schemes*, follows the government's *Review of the Default Fund Change Cap and Standardised Cost Disclosure*, and is seeking views on proposed policy for the implementation of the de minimis threshold outlined in the review.

It also confirmed that the ban on flat fees on pots worth less than the threshold of £100 would go ahead.

In the foreward of the consultation, Pensions Minister, Guy Opperman, said: "I believe that moving, in the future, to a single, universal charging structure could make a significant difference to the transparency of charges, make comparison easier, and unlock greater choice for members.

"I know, however, that the lowest price product may not necessarily always be the best one for the member. It may not deliver the required retirement income they need, or it may not fulfil other preferences, perhaps including how, or in what types of pension product, their money is invested. We will use this consultation to consider your views on how these wider considerations could inform our policy on a single charging structure."

Opperman acknowledged that providers using combination charges are the most likely to face challenges in adapting to the changes, and was "keen to hear the views of the industry" on how the transition could be managed.

The consultation is open to responses until 16 July 2021.

The government also launched a consultation on the regulations to underpin simpler annual benefit statement requirements, which will see key information, such as the size of the saver's pension pot and a forecast for their retirement, highlighted in simple terms.

The proposed changes for DC schemes are expected to come into effect in April 2022, whilst the consultation will be open to responses until 29 June 2021.

As previously confirmed, the proposals will place an initial focus on savings from AE, with a view to later improving simplicity across all schemes.

They will also show members how much money they have in their pension and what has been saved in the statement year, how much money they could have when they retire, and what they could do to give themselves more money at retirement.

However, displaying information on charges was not included in the proposals.

The consultation seeks views on the draft regulations and accompanying statutory guidance, including the illustrative statement template, following which the government will mandate the approach to simpler statements for DC pension schemes used for AE.

The DWP highlighted the announcement as demonstration of the government's ongoing commitment to encourage savers to build up their pension pots by ensuring they can easily see vital information in a simple format.

In other news, the Public Service Pensions and Judicial Offices Bill has been announced by the government in the Queen's Speech, as the government looks to address discrimination found by the McCloud ruling.

The government's aim for the bill is to ensure "equal treatment" for all members in main public service pension schemes, although further details are yet to be finalised.

In 2018, firefighters and judges won a legal case against the government that changes made to their pension schemes were discriminatory on the grounds of age.

Changes in 2015 meant that older members could stay in their existing and 'better' pension schemes.

The government confirmed in July 2019 that the ruling would apply to all public sector pension schemes.

Earlier this year, the government published guidance on how to proceed with addressing the discrimination, following a consultation that confirmed its intention to use the deferred choice underpin approach for most schemes.

The government plans to bring forward the bill in this term of parliament.

Many within the pensions industry had also called on the government to include scams in the Online Safety Bill.

The bill was confirmed in the Queen's Speech, and Aegon head of pensions, Kate Smith, urged the government to not "miss this opportunity" to include scams in the bill.

Shortly following this, the DWP published proposals that would give trustees and scheme managers the power to halt pension transfers or seek further information from transferring members.

The proposed regulations, which build on legislation in the Pension Schemes Act 2021, are expected to be implemented in the autumn and are being analysed as part of the DWP's consultation on dealing with pension scams.

The government outlined the circumstances in which transfers would be permitted to proceed without incident.

The first of these would be if the receiving scheme is of a variety that presents a low level of scam risk, while the second is if members are seeking to transfer to an occupational pension scheme that they have an evidenced employment link to.

If neither of these scenarios apply, trustees or scheme managers would be required to search for 'red flags', the presence of which would lead to them halting the transfer, or 'amber flags', the presence of which would require them to ensure that the transferring member has received scams guidance before proceeding.

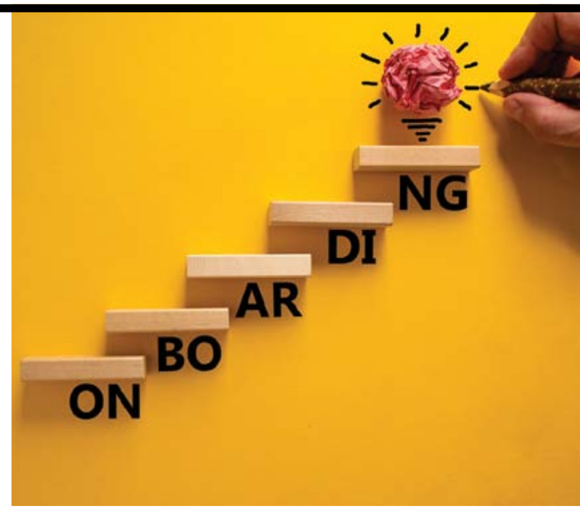
DWP acknowledged that these proposals, which would apply to all members without exception, would lead to extra costs, but argued that the measures would protect both pension savers and trustees or scheme managers.

The government department called for more comments from businesses about how the proposals and the possible transfer delays which they might lead to were likely to impact business operations and costs.

Other questions included in the consultation, which runs until 9 June, called for input into how 'red flags' should work in practice, with the list of warning signs including members being offered free pension reviews and receiving unsolicited contact from the receiving scheme.

Written by Duncan Ferris, Jack Gray and Sophie Smith

PDP launches staging call for input for pensions dashboards



The Pensions Dashboards Programme (PDP) issued its call for input on the staged compulsory connection of pension providers to the dashboards infrastructure, and will use feedback to help develop policy ahead of the mandatory onboarding. The wave one connection process, whereby the largest schemes are expected to start connecting from spring 2023, could take up to two years, meaning that dashboards are unlikely to be operational for the majority of savers until 2025

The PDP has launched a call for input on the order and timings for the staged compulsory connection of pension providers to the dashboards ecosystem, in what has been highlighted as a "huge milestone" by the industry.

Running until 9 July 2021, feedback from the call for input will be used to help inform policy development ahead of the legislation that will bring the compulsion into effect.

The proposals were developed in collaboration with the Department for Work and Pensions (DWP), the Financial Conduct Authority (FCA) and The Pensions Regulator (TPR).

The staging principles have focused on achieving the widest coverage of pensions as soon as possible, whilst also considering industry, regulatory and PDP deliverability.

PDP stressed that they also aim to balance the competing demands of pace and deliverability, warning that whilst consumers want access as quickly as possible, pension providers need sufficient time to prepare, whilst PDP itself also needs time to test systems.

In line with this, PDP has recommended a three-wave staging process, with wave one consisting of the largest schemes with over 1,000 members, wave two representing medium schemes with 100 to 999 members, and wave three covering small and micro schemes with 99 members or fewer.

Wave one would be expected to start in April 2023 and to run for up to two years, with a further three distinct cohorts recommended within this subset.

This could mean that dashboards will be not be fully operational until 2025.

In particular, cohort one, master trusts and FCA-regulated providers of personal pensions, will be expected to start connecting from spring 2023, with the state pension also expected to be available alongside this first staging cohort.

Cohort two, defined contribution (DC) schemes used for automatic enrolment, and cohort three, covering all remaining occupational schemes with 1,000 or more memberships, are then expected to be onboarded "during 2023", alongside the largest defined benefit (DB) schemes.

In support of the call for input, PDP ran two webinars on 8 and 9 June to provide information to data providers around staging to pension dashboards.

Alongside this, it has also created an information hub to help support data providers fully assess the impact of the proposals and prepare to connect, which will include a breakdown of the steps data providers need to take, and an overview of how the ecosystem will work.

Earlier in the month, the PDP published its third progress update report.

The report stated that progress was keeping pace with the indicative timeline published by the PDP in October, whereby staged onboarding and dashboard availability would commence in 2023.

It also revealed a more detailed breakdown of what steps will be taken over the next six months and the expected timing of 'key' milestones within later phases to allow data providers to prepare to connect to dashboards.

A retirement income guidance update will be issued in the summer, followed by a consultation on the regulatory framework in winter 2021/22 and the connection of early voluntary data providers for testing in spring 2022.

The report estimated that the transition to 'business as usual' would take place in 2024.

The PDP stated that it will continue to work with its delivery partners at the DWP, FCA and TPR over the next six months.

Written by Sophie Smith and Jack Gray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VIEW FROM AMNT

During the periods of lockdown, I, like many, have indulged in watching classic television series; in my case *Life on Earth,* presented by a youthful David Attenborough.

The series charts the evolution of life on earth from simple microorganisms, through the variety of animal species, ending with homo sapiens under the title, *The Great Communicators*. The programme's main thesis is that our ability to communicate has been a major factor in our species becoming the dominant animal on the planet.

We communicate in increasingly diverse mediums, with each message competing with a plethora of information, advertising and opinions. Pension boards have to try to get their message over in this ocean of words and images.

The DWP, in their recent consultations on ESG, have sought to discover how pension boards engage with their members over these issues, particularly as the PLSA's survey showed apparent low levels of awareness.

The art of communication is not only about making your voice heard but also listening to others, particularly those who have placed their trust and money in you.

We can all inform through SIPs and chair's letters, but are we engaging or informing? Perhaps the time has come to listen more and tell less, after all communication is a two-way process and we evolved through talking and listening.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

TPR Funding Statement highlights climate change risk and long-term targets

The Pensions Regulator (TPR) urged trustees to develop frameworks to address risks posed by climate change and long-term funding

The Pensions Regulator Making workplace pensions work

Defined benefit (DB) scheme trustees should develop integrated risk management frameworks that consider factors such as climate change and long-term funding targets, according to TPR's new Annual Funding Statement.

The funding statement stated that climate considerations may impact on the assumptions used in actuarial valuations, the investment strategy and the sponsor covenant, with the regulator arguing that assessing, mitigating and monitoring climate risk was key to successful saver outcomes.

Additionally, it stressed the importance of long-term funding targets, noting that it will soon be a legal requirement for schemes to have a specific long-term strategy designed to deliver an agreed long-term objective and that doing so before it becomes mandatory would make life easier for trustees.

The statement also outlined what the regulator expects from trustees and employers, providing a specific set of tables that group schemes depending on their circumstances and then offer specific risks and expectations.

After identifying their specific group, TPR said trustees should "set about preparing their recovery plans to balance affordability with contributions linked to well-defined triggers, contingency plans and other protections for member security".

In responding to the impact of the Covid-19 pandemic, TPR was cautious on big changes to long-term assumptions, saying that mortality changes should be "justified".

The statement cautioned that while short-term covenant visibility may have improved, trustees must continue to be alert to the risks of weakening employer covenants and remain engaged with employers as uncertainties continue.

The regulator said each scheme needed to consider its position individually depending on its own circumstances – with the statement being intended to equip trustees and employers with some tools to do so.

TPR also published its *Corporate Plan 2021-24*, which identified the implementation of the Pension Schemes Act, combatting scams, and developing a framework for measuring value for money as three priorities following a Covid-19 recovery.

The importance of flexibility amid the pandemic and subsequent budgetary constraints were highlighted throughout the plan.

It also noted that TPR would continue supporting the Department for Work and Pensions with the legislative framework for DB superfunds, which it expected to be introduced from 2022/23.

Written by Duncan Ferris and Sophie Smith

FCA plans to lift 35% illiquid cap for DC default LTAF investments

The Financial Conduct Authority (FCA) has proposed removing the 35 per cent cap on illiquid investments for workplace defined contribution (DC) schemes using a Long-Term Asset Fund (LTAF) in their default arrangements

Editorial credit: Ascannio / Shutterstock.com

The FCA has proposed lifting the 35 per cent cap on illiquid investments that can be held in workplace pension funds where an LTAF forms part of the default DC arrangement.

The proposals are intended to address the "market failure" that DC default pension schemes do not invest in long-term illiquid assets, despite having the investment horizon to do so.

Indeed, the FCA warned that scheme members are missing out on the opportunity to benefit from any illiquidity premium, suggesting that the needs of members are not being met.

The consultation has proposed integrating the LTAF into the regulatory framework for the investment by DC pension schemes in unit-linked long-term insurance products, via amendments to the permitted links rules.

In particular, it noted that DC schemes may wish to allocate a proportion of their default funds to such assets, but may seek to do so by investing in an individual LTAF that is largely illiquid.

"We want to ensure that our rules enable schemes to think of their default investment proposition holistically," it stated.

In light of this, and as part of the wider work on productive capital, the FCA has confirmed that it is considering amendments to the permitted link rules where the unit-linked contract forms part of the default arrangement of an occupational or workplace DC pension scheme.

It stated: "We understand from industry feedback that in practice the 20/35 per cent cap on illiquid investments within any unit-linked fund means that firms find it difficult to market such a fund to DC schemes, which typically construct their default arrangements from a number of funds and so prefer to use a fund which is 100 per cent illiquid as part of a wider portfolio, in combination with funds consisting of more liquid assets."

Considering this, the FCA has proposed removing the 35 per cent limit on illiquid investments where an LTAF fund forms part of the default arrangement of a pension scheme, while retaining requirements on insurers to provide risk warnings and ensure that the fund is suitable for the ultimate investors.

This would be achieved for current purposes by allowing links to an investment in LTAFs but carving out LTAFs from the definition of QIS for COBS 21.3 purposes, making LTAFs available as a conditional permitted link only in respect of default arrangement, and not for retail investors investing outside of the pension environment.

The FCA also emphasised that it would clarify in relevant rules that investment in these LTAFs does not count towards calculation of the 35 per cent limit.

Written by Sophie Smith

VIEW FROM THE PLSA

The Queen's Speech in May to open parliament was, as many suspected, very light on pensions. The PLSA took note of the areas that could have an impact on our industry.

The first of these was the implementation of the Public Service Pensions and Judicial Offices Bill which would aim to – amongst other things – provide public service workers with greater certainty of their benefit entitlements.

This will see changes made across all the main public service pension schemes in response to the Court of Appeal judgment in the McCloud and Sargeant cases. Another was the plans to expand the Dormant Assets Scheme – as part of the Dormant Assets Bill – into the insurance and pensions, investment and wealth management, and securities sectors, which will help unlock around an additional £880 million for social and environmental initiatives across the UK. Importantly, the package included an Online Harms Bill.

The PLSA, along with many others, are calling for amendments to be made to make it even more effective and so help protect pension savers from scammers. And then there were the two topics everyone was waiting for but didn't get much attention: a one-line statement that the government would bring forward proposals on social care by the end of the year; and no mention at all of measures to address the net pay/RAS issue. It looks like we shall have to wait until the autumn until we hear more on these.

PLSA director of policy and advocacy, Nigel Peaple

VIEW FROM THE PMI

Pensions Management Institute

Some of you may recall a television series (many years before Netflix and Prime) called *Grumpy Old Women* and its male equivalent *Grumpy Old Men.* Its main premise was a series of interviews in which celebrities expressed their frustration with the everyday annoyances of modern life. Whilst intentionally comedic, I could empathise with many of the situations.

The PMI currently chairs the Joint Industry Forum, a group comprising the main industry bodies involved in UK pensions.

As a group, we've become increasingly frustrated by the way in which consultations are being conducted.

Throughout 2020 and continuing apace in 2021, there has been a morass of consultations with ever-shorter deadlines to which we all feel obliged to respond.

For many of us who give our time for what we believe to be the common good, reading and responding to consultations is not our day job. It has become laborious, time consuming and, at times, frustrating.

So, a plea to The Pensions Regulator and the DWP. Help us to help you by a) co-ordinating with one another so your respective consultations are more evenly spread out across the year and, b) giving us reasonable and realistic time periods in which to respond.

Only in that way can we work effectively together and give ourselves a fighting chance of creating practical, workable pensions regulation. And I can stop being quite so grumpy.

PMI president, Lesley Alexander

Growth in workplace pension participation levels off

Figures from the Office for National Statistics revealed that participation in workplace pension schemes increased by 0.1 percentage point in 2019/20

The proportion of UK employees that have a workplace pension rose by just 0.1 percentage point in 2019/20 to 77.6 per cent, as participation increases "levelled off", according to figures from the Office for National Statistics (ONS).

The statistics, which were compiled from the *Annual Survey of Hours and Earnings,* showed the proportion of employees enrolled in workplace schemes had increased from less than half (46.5 per cent) when automatic enrolment was introduced in 2012.

Pension participation grew by 3.3 percentage points in 2017/8 and 1.3 percentage points in 2018/19.

As of April 2020, the group least likely to have a workplace pension were those aged 16 to 21, with just a fifth (20 per cent) of these having workplace schemes, with this proportion shooting up to 80 per cent in the next age group.

The ONS attributed the sizeable gap between the two groups to younger savers falling outside the boundaries of auto-enrolment eligibility.

The statistics also showed that the gender gap in workplace pension participation was "negligible" in 2020, although full-time employees were found to be 1.5 times more likely to have a pension than part-time employees.

Nine out of 10 (90 per cent) public sector employees were shown to have a workplace pension, compared to less than three-quarters (73 per cent) of those in the private sector.

The least likely group to be saving into a workplace pension were full-time private sector employees earning between £100 and £199 weekly, with just 41 per cent of this group engaged in workplace schemes.

The ONS stated that this was likely to be caused by automatic enrolment minimum earnings thresholds, noting that participation increased steeply to almost two-thirds (65 per cent) in the next earnings band.

In contrast to the private sector, 93 per cent of full-time public sector workers earning £100 to £199 each week had a workplace pension.

Quilter pensions expert, Ian Browne, said the new statistics "shine a light on how transformational automatic enrolment has been in getting people to save for later life" but also illustrated "a persistent gap in workplace pension participation between the public and private sectors".

Browne stated that it was time to consider how the results of auto-enrolment could be "replicated or tweaked to suit other types of workers such the self-employed", noting that this group had "suffered a significant financial shock" due to the pandemic.

Written by Duncan Ferris

Is your endgame closer than you expect?

David Thompson and Andrew Cooper reveal the importance of a holistic approach, such as Aon's Journey to Settlement, to endgame planning

UK pension schemes are increasingly focused on their ultimate destination – be that self-sufficiency, consolidation or buyout. A key consideration for schemes is when they will reach that destination and what steps need to be carried out along the way. Effective planning and preparation give better outcomes for members, trustees and sponsors.

Time horizons

Aon's recent Journey to Settlement survey of 120 pension schemes showed that 77 per cent of schemes are currently over 80 per cent funded on their endgame target, but only 26 per cent of schemes expect to reach their endgame in less than five years. In our experience, the actual time horizon can be shorter than expected, so trustees and sponsors may have less time than they anticipate to complete the steps required to give a smooth endgame landing.

Journey to settlement

Aon's Journey to Settlement approach moves schemes away from carrying out individual projects in isolation, or just focusing on the financial aspects of their journey, and towards a detailed strategic plan that brings together all workstreams and projects to target their ultimate objective. This means all decisions on the journey are taken with the endgame target in mind, increasing efficiency, reducing costs and spreading workloads smoothly over the journey period. This also ensures that strategic opportunities are not missed.

Setting your strategy

Our approach begins with setting strategic principles and objectives for the journey towards your endgame. Key focuses are:

- Structuring your journey to achieve eventual full settlement while improving benefit security and funding levels via strategic de-risking actions
- Establishing a Joint Working Group with delegated responsibility to set the detailed strategy at outset and to ensure all scheme decisions are made with your ultimate endgame in mind
- Prioritising workstreams to give schemes the ability to accelerate a settlement process if funding levels improve faster than expected

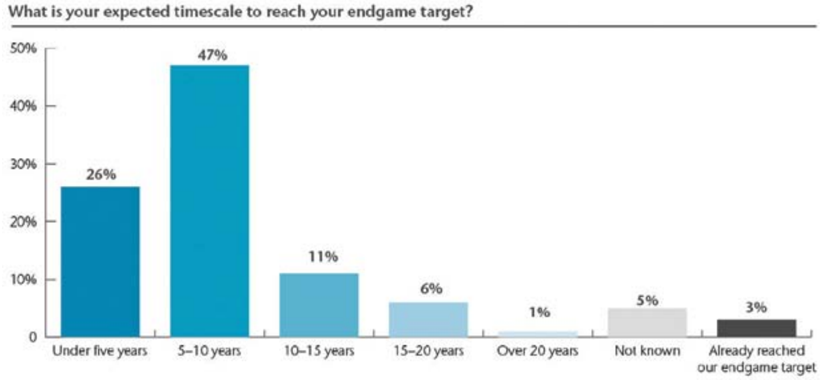
The ability to accelerate is crucial and avoids trustees and sponsors being left in the challenging position where they have reached full funding on their endgame target but have not carried out planned interim steps such as running member options exercises. In this situation, trustees and sponsors potentially have to address the difficult question of whether to secure benefits now or to delay settlement to give time to provide increased member flexibility (which may not be available post buyout) while running the risk that the scheme's funding position worsens.

Documenting your plan

Our plan documenting the interaction of the workstreams typically covers five key areas – strategy/governance, member experience, investments, benefits and data. Ensuring joined-up planning across all workstreams enables all parties to identify the barriers and opportunities to achieving the endgame target. For example, the timing of investment de-risking and any required transitions out of illiquid assets need to be linked to requirements for liquid funds to finance member options exercises and phased buy-ins.

In summary, our survey found that many pension schemes are closer to their endgame than they expect and early strategic planning, via Aon's Journey to Settlement approach, will deliver savings, efficiencies and a smoother journey to the endgame for all parties.

What is your expected timescale to reach your endgame target?



Written by
Aon associate partner, David Thompson
Aon senior consultant, Andrew Cooper

VIEW FROM TPR

Despite investigating scams for 25 years, it's still possible to be surprised by the depths fraudsters will go to.

Scams come in a variety of guises, although many share tell-tale warning signs. One of the most pernicious is recovery room fraud, also known as secondary scamming. Whatever the name, its important pension savers are on guard. These scams see criminals, often posing as a trustworthy organisation, approach those who have already been scammed.

The callous crooks offer to help get the saver's money back. But only in return for an upfront fee. They then fail to make good on their 'promises'.

Anyone who receives an unexpected call about their pension – even if it appears to come from a genuine source – should hang up and report the call to Action Fraud.

Reputable callers won't ask for money upfront to pay for their services.

Savers can find more information on protecting themselves from scams at fca.org.uk/scamsmart. Schemes also have a pivotal part to play in the fight against scammers.

In my career as an investigator I've seen how important good-quality intelligence is in effectively tackling scammers. If schemes fail to report instances of pension fraud or attempted scams to Action Fraud, or by calling 101 in Scotland, it ties investigators' hands. I'd urge trustees, providers and administrators to do everything they can to protect their savers by joining our Pledge to Combat Pensions Scams via TPR's website.

TPR head of enforcement investigation, John Bartlett

The Pensions Regulator
Making workplace pensions work

FTSE 350 DB schemes enjoy longest sustained period of surplus for over a decade

Defined benefit (DB) pension scheme funding has improved past pre-Covid levels, with both the Pension Protection Fund (PPF) and PwC reporting an overall surplus at the end of April

FTSE 350 companies' DB pension schemes have been in surplus, on aggregate, almost every day in 2021, representing the longest sustained period of accounting surpluses for over a decade, according to analysis from Willis Towers Watson.

Research from the firm revealed that, as of 18 May, the aggregate pension surplus for the FTSE 350 was estimated at around £30bn, equal to a funding level of 104 per cent.

The research also revealed a slight dip in the number of schemes making deficit contributions, with 74 per cent of the 94 FTSE 350 companies analysed making deficit contributions in 2020, compared to 80 per cent in 2019.

It clarified, however, that larger sums were involved where deficit contributions were made, with the median amount paid in 2020 estimated to be £15m, up 8 per cent on 2019.

The PPF also found that the aggregate surplus of the UK's DB pension schemes increased by £19.5bn over April to reach £53.7bn at the end of the month.

This marks a £138.2bn funding swing in comparison to April 2020, when a deficit of £84.5bn was registered.

The PPF 7800 index found that the funding ratio increased from 102 per cent at the end of March 2021 to 103.1 per cent.

The pensions lifeboat identified an increase in the value of equities as the primary driver for the increase in aggregate funding.

Assets rose by £27bn during the month to £1,784bn, while liabilities increased by £7.5bn to £1,731bn.

The number of schemes in deficit declined from 2,730 to 2,633 in April, while the number of schemes in surplus increased from 2,588 to 2,696.

This is only the second time the index has registered more schemes in surplus than in deficit.

In addition to this, the PwC Pension Funding Index reported that UK DB schemes were in surplus for the first time since the index was established in 2014.

It showed an aggregate funding surplus of £30bn in April 2021, following two consecutive months of a 'neutral' funding position.

During the month, asset values increased by £20bn to £1,800bn and liabilities declined by £10bn to £1,770bn.

PwC said that the relative stability of assets and liabilities was a consequence of "subdued volatility" in the markets recently and schemes' own strategies "gravitating to lower volatility approaches".

Written by Jack Gray and Sophie Smith

For Professional Clients only

Lightening the governance load in volatile times

In our latest article, learn how fiduciary management can provide respite for hard-pressed trustees in uncertain times

Everyone is yearning for a return to normality after the past 12 months. The rollout of vaccinations against Covid-19 gives us hope. It has helped financial markets recover some poise after their rollercoaster ride in 2020.

But keeping on top of the implications for the performance of a pension fund remains time-consuming for trustees. It is hard for them to move at the speed it takes to respond to difficult markets. Or to keep up with the changing fortunes of different sectors. A meeting needs to be convened and decisions taken. By then, the market may have changed direction again.

Add to that the complexity and breadth of investments to consider and evaluate for a pension scheme. Today there is so much choice, from infrastructure to private equity to real estate and derivative instruments. There's also the different types of investment strategies and different approaches to managing investment risk to weigh up. It can be hard for trustees to keep up with all the latest thinking, especially as they have to manage these responsibilities alongside their day job.

It's not surprising that trustees are increasingly turning to fiduciary managers to delegate a scheme's day-to-day investment management and reduce some of their workload.[1]

What fiduciary management brings

Hiring a fiduciary manager allows a pension fund scheme to tap skills and knowledge that some trustees may not have and are hard to acquire. Fiduciary managers can also potentially save money on performance fees by aggregating fund purchases.

Outsourcing the day-to-day investment decisions enables a pension fund scheme to be more agile in volatile markets. Fiduciary managers can act quickly to protect the pension scheme's funding level when markets are tumbling or capitalise on market opportunities when they are rising. They are watching and discussing the change in financial markets every day.

Easing the regulatory headaches

There is a constant stream of new legislation affecting how pension fund schemes are run. It can be a daunting task for a trustee to implement and comply with each wave of new rules. A fiduciary manager can help trustees to navigate this. They can spot key legislative and regulatory changes that will affect the pension market. We work with trustees to help them think through and comply with the latest regulations.

Trustees can focus on what really matters

Delegating the day-to-day implementation of an investment strategy to a fiduciary manager frees up trustees' time, eases the stress and allows them to focus on the bigger picture. It provides both the fiduciary manager and trustee with clearly defined roles. Trustees can concentrate on the pension scheme's funding goals and how to reach them, while the fiduciary manager focuses on how to adjust the portfolio as financial markets rise and fall.

From October, trustees of plans with more than £5 billion in assets will be required to report on the financial risks of climate change within their portfolio. This will be extended to schemes with more than £1 billion in assets from October 2022.[2]

With no signs of the demands on trustees easing, I expect more to turn to a fiduciary manager to ease the governance burden.

What sets us at BlackRock apart from our peers is our proprietary investment and risk management software system, Aladdin. It combines sophisticated risk analytics and portfolio management tools on a single platform, allowing clients to see their whole portfolio and helping them to manage the risks.

Written by BlackRock fiduciary management services head, Sion Cole

In association with BlackRock®

[1] **https://www.isio.com/media/1269/fm-survey-2020-results-report.pdf P3**
[2] **FT January 27, 2021**

Appointments, moves and mandates


Baroness Ros Altmann

Cushon has announced the appointment of former Pensions Minister, Baroness Ros Altmann, to its advisory board.

The role will see Altmann provide strategic input on Cushon's proposition and product development, with her expertise expected to be "crucial" as Cushon seeks to accelerate the use of technology and innovation in UK workplace savings and pensions, including through the promotion of greater transparency around sustainability issues.

Altmann said: "Cushon is leading the pack in giving people a pension that is not only a force for good but one they can easily engage with and understand – a rarity in this sector."

Cushon founder and CEO, Ben Pollard, said: "Ros is well known for championing the rights of pension savers and righting injustices in the system and, like us, is passionate about the power of technology to help make pensions simpler and more sustainable for all."


Tim Sansom

Tim Sansom has been added to the **Pi Pension Trustees**' team. Sansom has more than three decades of experience in the pensions industry, having managed Equitable Life's final salary team and spent eight years as a member-nominated trustee for the Equitable Life Money Purchase Scheme. Pi said the new hire was an "invaluable asset" and would bring strong communication and stakeholder management skills to its team.


Marcus Fink

DWF has named Marcus Fink as partner. Fink has over 20 years' experience in advising clients on a range of pension matters, and joins the firm having spent the past few years as an independent legal consultant. Prior to this, he was PwC pension legal team director, and Ashurst LLP partner and head of pensions practice. The role will see Fink lead the London pensions team, advising organisations and pension trustees on pensions law.


Jill Davys

Redington has appointed Jill Davys to lead its offering for the Local Government Pension Scheme (LGPS). Davys has three decades of experience in managing funds and related services in the City and at local government level. She most recently served as assistant director of investments at the West Midlands Pension Fund, having also previously worked as head of financial services for the London Borough of Hackney.


Melanie Cusack

PTL client director, Melanie Cusack, has been named independent chair of **Electricity Pensions Trustee Ltd** (EPTL). The board oversees 26 Groups of the Electricity Supply Pension Scheme, which has 173,000 members and £43bn in assets. EPTL said Cusack would bring leadership skills and a strategic perspective to the board, as it seeks to balance the challenges affecting the scheme's diverse employers.


Amanda Banister

Dalriada Trustees Limited has confirmed the hire of Amanda Banister as a senior professional trustee. Banister brings 22 years of industry experience, having served as a partner in DWF's pensions practice and spent three years with the Pension Protection Fund. She has worked with a wide range of pension clients and across complex situations, including complex restructuring and representing clients at the EU's Court of Justice.


Jon Marchant

XPS Pensions Group has appointed Jon Marchant as chief information officer.

Marchant has worked in business and technology roles across a wide range of financial services companies throughout his career, including Halifax, Scottish Widows, Capital One and the Co-operative Group. Before joining XPS, he spent 10 years working as chief information officer for payments and retail services specialist PayPoint.

XPS chief executive officer, Paul Cuff, said: "We are delighted that Jon decided to join us in this exciting period for XPS. Technology is at the heart of everything we do at XPS and we have ambitious plans for the future. Jon brings with him a wealth of experience gained in a wide variety of financial services businesses and a strong record of delivering innovative customer facing digital services, a particular area of focus for XPS Pensions Group as we move forward, particularly in further developing our member engagement strategy."

In association with

AXA Investment Managers Alts co-head of securitised and structured assets, Christophe Fritsch, and senior portfolio manager for structured finance, Xavier Lassau

Opportunities within asset-backed securities

Laura Blows speaks to AXA Investment Managers Alts co-head of securitised and structured assets, Christophe Fritsch, and senior portfolio manager for structured finance, Xavier Lassau, about the opportunities within asset-backed securities

Pension fund interest in European asset-backed securities (ABS) is rapidly growing. The European ABS market is sized at £700 billion, with a yearly origination of £100 billion, says AXA Investment Managers Alts Senior Portfolio Manager, Xavier Lassau, in our latest *Pensions Age* podcast, *Opportunities within asset-backed securities.*

ABS is a debt instrument that provides a unique exposure through 'consumer risk' investments, Lassau explains.

"Through ABS, investors are exposed to pools of thousands of loans granted to consumers. These include the types of loans that everybody subscribes to in their day-to-day life, such as residential mortgage loans, auto loans, credit card debt loans, consumer loans and so on," he says.

"An investor can invest in a given European ABS at different risk and return levels. From AAA-rated bonds offering the lowest return to B-rated bonds, offering the highest returns. This means the type of diversification that one can have through European ABS is diverse. You can invest in a Dutch AAA-rated residential mortgage ABS, or BBB-rated Italian auto loan ABS or BB-rated UK consumer loan ABS," Lassau adds.

The European ABS market has been one of the most resilient asset classes during the recent crisis, both from a fundamental and a mark-to-market point of view. "In terms of the fundamentals, pre-pandemic unemployment globally was at historically low levels. During the pandemic, governments provided significant economic support to their people and as a consequence personal savings reached record highs. "There has been very little question as to the capacity of the borrower to repay their loans since March 2020," Lassau says.

"In terms of volatility, the drawdowns observed for European ABS have been extremely limited, especially compared to other fixed income asset classes. As an example, the senior ABS index dropped by 4 per cent whereas the investment grade corporate index dropped between 8-10 per cent. This is due to the excellent fundamentals and the short-dated nature of ABS, meaning that even in a significant spread-widening environment, the price impact this has on the security will be relatively contained," he adds.

"We consider the credit risk of each European ABS quite remote, even in the high-yield segment. To lose a single penny of a single B-rated bond within European ABS would require the magnitude of default never before observed and far above the default rates of 2008."

Lassau highlights BBB-rated prime consumer ABS as a current sweet spot in terms of risk-adjusted return. "You will benefit from spread levels between 200-250bps above Sonia, for a three-year credit duration. In our view this outmatches any fixed income instrument."

AXA Investment Managers Co-head of Securitised and Structured Assets, Christophe Fritsch, highlights how many pension schemes have already made the move towards ABS with a 5-10 per cent allocation within a fixed income bucket.

"It has allowed them to bring spread pick up and diversification. We have seen clients increase their exposure following the good performance of the asset class. Some of them have even enlarged their scope to private-debt ABS," he says.

Pension funds can access ABS in two ways, either through a tailor-made fund in terms of rating, target spread, sub-asset class and liquidity, which requires a minimum investment size of £100 million to £150 million, or via pooled funds.

Whichever way a pension scheme chooses to invest in European ABS, they can benefit from the quantitative and qualitative diversification it provides.

"Quantitative because the correlation to standard asset classes is pretty low. Qualitative because the underlying consumer assets are by nature a separate risk from corporate assets. Consumer assets such as auto loans and mortgage-backed securities are more driven by macroeconomics factors, such as the level of unemployment affecting the capability of households to repay loans. Whereas corporate assets inherently include more idiosyncratic risk, therefore the diversification," Fritsch explains.

"ABS provide a specific premium that outmatches equivalent fixed income instruments. An ABS portfolio rated BBB with a target return of 200bps can provide a premium of more than 100bps above a traditional credit corporate portfolio with the same rating.

"ABS also bring stable and predictable cashflow by nature. This is a must-have for the management of a pension fund with their liabilities."

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

VIEW FROM THE SPP

With the pensions world deep in consideration of the importance of environmental, social and governance (ESG) factors to pension scheme investing, the SPP Covenant Committee wants to spotlight how defined benefit schemes should be thinking about ESG risk in the sponsoring company covenant.

Unlike the stewardship rules, which seek to influence outcomes through investment and voting decisions, there is no direct obligation on trustees to influence ESG strategies of their sponsoring company. But there is, in a trustee's fiduciary duty, a clear imperative to understand how E, S and G risk could weaken the covenant support the sponsor provides over the life of their scheme, and to reflect this appropriately into funding and investment decisions.

And in doing so, there is the added benefit of potentially influencing sponsor direction of travel for the better: if an unaddressed risk shortens the timeline over which its scheme needs to be funded, it is not impossible to imagine this may focus corporate attention on addressing that risk.

So a double benefit: meeting fiduciary requirements and potentially nudging a short-sighted sponsor down a longer-sighted path. Something defined benefit scheme trustees can't really afford to ignore.

SPP Covenant Committee deputy chair, Jane Evans

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On the gender pensions gap
"Everyone deserves to look forward to a happy retirement, regardless of their gender, and more must be done to prevent the gap from developing at the start of a woman's working life, as we know that it only widens with age. Where a pay gap exists for women, a pension gap will follow, therefore tackling wage inequality is of paramount importance. At the same time, female savers must be encouraged to keep paying into their pension, even when taking breaks from paid employment or working reduced hours."
PensionBee CEO, Romi Savova

On member engagement
"Despite auto-enrolment changing the face of the pension ecosystem, not enough people are reviewing their pension and taking the relevant action to ensure they are in the best possible position when approaching or in retirement. This is amplified by the alarming fact that a significant number of people aren't aware that they can log into their pension online and get, at minimum, a basic sense of how much they have saved. It is clear that, as an industry, we need to do more to make financial management as easy as possible."
Canada Life technical director, Andrew Tully

On fiduciary managers' performance during the pandemic period
"Fiduciary managers have weathered the storm of Covid-19, albeit with large variations in fortunes. The fact that fiduciary managers stuck to their guns and trusted their strategies stood them in good stead to recover from the shock to market confidence we saw in Q1. However, a more prolonged downturn could have painted a different picture, and some would have faced deep losses by sticking to their original strategy. Trustees should ensure they have selected a manager that shares their outlook on the market and approach to investment in moments of severe financial stress."
XPS head of fiduciary management oversight, André Kerr

On the revelation that 107,000 eligible people do not claim the Category D state pension
"It is shocking that there are so many older people who are getting no state pension at all. In particular, when we have a special state pension payable to those over 80, which does not depend on National Insurance contributions, it is hard to understand why over 100,000 people over 80 are still on zero pensions. The government needs to do much more to identify those who are on zero state pensions and to make sure that they draw the pension to which they are entitled."
LCP partner, Steve Webb

On a quarter of 55-64-year olds not being aware of pension freedoms
"It's concerning that a significant number of people approaching retirement still don't know what they mean in terms of accessing their pensions. This lack of awareness and understanding reinforces the need for greater education and engagement when it comes to pensions and retirement planning. While the advent of pension freedoms has provided flexibility for many and given retirees more control over their later-life savings; it has also increased the chances of those who don't fully grasp the considerations of drawdown running out of income during retirement."
Fidelity International investment director for workplace investing, Maike Currie

Investing whatever the (inflation) weather

Inflation concerns are on the rise, with everyone scrambling to forecast its path. We believe a better approach is to position for the risks. Here's how

Let's talk about inflation. The steady removal of lockdown restrictions, tremendous amounts of public spending and highly accommodative central bank policy are creating a lot of anxiety about a possible overheating of the economy. There are grounds for concern – inflation has a major bearing on asset prices but it can be tough to gauge; many economists have made big forecasting errors in trying to predict it.

Which is why we take a risk management approach: rather than trying to predict exactly how inflation might evolve in the next few years, we focus on where the greatest risks lie and hedge against them.

Most of the anxiety about inflation stems from a surge in government spending – public expenditure in most developed economies is now running above 4 per cent of GDP. And there is more largesse to come, particularly in the US. Traditional economic theory, as espoused by John Maynard Keynes, suggests that stimulus on such a scale would transform what is currently a very large output gap into a very large output surplus, giving rise to unusually high levels of inflation.

However, this time the trigger for the stimulus was an extremely deep and violent shock to growth. Government spending has just managed to keep the economy afloat but output is yet to catch up with pre-pandemic levels. Moreover fiscal spending is set to decrease dramatically from 2022. At most, thus, the output surplus is likely to reach 3 per cent, which is unlikely to de-anchor long-term inflation expectations beyond current levels.

The second source of inflation anxiety is money supply. Growth in M1 and M2 has dwarfed pretty much any period since the Second World War. However, that's no reason to panic. The correlation between money supply and inflation has been extremely low for 40 years. Furthermore, money velocity has collapsed, with the pandemic prompting businesses and consumers to hoard large sums of cash, which we believe are unlikely to be fully put to use in the economy.

Thirdly, commodity and goods prices are surging. These were key sources of inflation in the 1980s and early 1990s. Since then, the correlation between producer and consumer prices for goods has broken down as the importance of goods prices in consumer inflation in general has declined in favour of services.

Whatever 'should' happen to growth and inflation, Covid remains a major uncertainty that could yet derail it all. Another unknown are US tax hikes, which could potentially dampen some of the inflationary pressures.

All told, that makes accurate forecasts very difficult. Broadly, there are three main scenarios:

1) **Same old, same old scenario** – Consumer price rises average 0.1-0.14 per cent a month, as for most of the last decade. US inflation would still be below the Federal Reserve's 2 per cent target in two years' time. In this scenario, long-end Treasuries, developed market high grade credit and emerging market local currency debt should outperform.

2) **Fed scenario** – Inflation averages 0.2 per cent per month, reaching 2 per cent by July 2023, with a possible overshoot to around 2.5 per cent thereafter. This scenario is pretty much in-line with current market positioning. High yield credit and EM hard currency debt should continue to do well, followed by EM credit.

3) **Inflation scare** –Inflation averages 0.25 per cent per month and starts to move beyond the Fed's comfort zone. Around 3 per cent, the Fed may feel the need to slam on the breaks and hike rates aggressively. The last thing the Fed wants is to de-anchor inflation expectations – they have enough credibility to afford a small overshoot, but only a small one and for a limited period of time.

Our base case lies somewhere between one and two, with the third scenario representing a not-insignificant tail risk.

This is where we are taking some hedging positions. Chinese renminbi bonds are a particularly interesting option, as China wants to establish the renminbi as a stable alternative to the dollar. Commodity currencies and medium-maturity TIPS should also hold up well.

Whatever happens to inflation, we believe there are enough dislocations in global bond markets to generate attractive real returns over the coming years.

Uncertainty brought by the pandemic and unorthodox fiscal and monetary policies is here to stay. The key is to identify the risks and the opportunities and balance your portfolio between the scenarios.

Written by Pictet Asset Management head of global bonds, Andres Sanchez Balcazar

In association with PICTET 1805 Asset Management

VIEW FROM THE PPI

Understanding the impacts of changes to the UK pension system is a daunting task. Whilst some changes arise directly from policy interventions, others evolve indirectly over time.

Existing analytical frameworks primarily compare retirement income systems around the world. At present however, no framework is tailored to the unique impacts of changes in the UK system, taking into account nuance, complexity, characteristics and interactions with wider factors such as welfare, labour and housing trends that can be masked by the need for alignment between data and metrics when comparing international systems.

The PPI, sponsored by Aviva, recently announced the development of a UK Pensions Framework to address this gap. Its objective is to support policy analysis and decision-making by capturing the impact of policy change over time, and the interactions between critical factors that determine pension outcomes. It reflects the implications of change, not just for pension outcomes however, but for individuals at all ages, employers, the pensions and financial services industries, and for government, through the perspectives of adequacy, sustainability and fairness.

The implications of ongoing changes to work and retirement landscapes for later life around the world cannot be underestimated, but through continued focus on national and international policy research, they can be better understood.

PPI research associate, Anna Brain

PENSIONS POLICY INSTITUTE PPI

Market commentary: Inflating concerns

Markets over the past month were marked by higher-than-expected increases in US inflation, as the Consumer Price Index rose 4.2 per cent over the past year to April, the largest jump since September 2008.

Kingswood chief investment officer, Rupert Thompson, pointed out that global equities also fell back in May, with inflation fears acting as the "catalyst for the retreat".

"Worries on this front were already on the increase and were given a shot in the arm by an unexpectedly large jump in the US," he said, noting that a pause or correction had been looking overdue, and that the weakness was not unexpected.

However, Thompson clarified that the rise seen in April was "considerably larger than expected", arguing that the "trillion-dollar question now is whether the spike is just temporary or a sign of things to come".

"We, along with most other mainstream forecasters, are not changing our medium-term view on the back of just one data point," he stated. "We still expect US inflation to settle back down to around 2-2.5 per cent next year as these temporary supply-demand imbalances ease and growth subsides from its current high rate."

Adding to this, Unigestion head of macro and dynamic allocation, Guilhem Savry, described the recent figures as a combination of surprise and contradiction.

"Surprise due to a US inflation figure well above expectations and a much weaker US employment figure," he explained. "Contradictory because the former feeds the risk of a durable inflation shock, while the latter mitigates it significantly."

However, he also argued that the consensus view underestimates the quality and sustainability of global growth, and investors may be surprised by the second phase of economic reflation, predicting that this will be "harder, better, faster, stronger".

In particular, he suggested that the 'consumption' component has not yet regained its pre-crisis momentum due to ongoing distancing measures.

Considering this, he predicted that, in the coming months, demand for service will benefit from the reopening and vaccination rollout, and the "exceptional level" of savings, which will in turn support a strong increase in consumption by households as well as by companies via investment.

AJ Bell financial analyst, Laith Khalaf, also noted that the UK is still "way behind the US", and that CPI inflation is still below the Bank of England's 2 per cent target.

"The bank has made it clear that it will tolerate inflation rising modestly above target, without pulling the trigger on interest rate rises", he explained, clarifying however, that if inflation looks like it will take a "significant foothold", markets will take matters into their own hands.

He concluded: "Inflationary fears have already started to trickle into markets, with the 10-year gilt now yielding 0.9 per cent, up from 0.2 per cent at the beginning of the year.

"If realised, a sustained inflationary period would be a paradigm shift from the last 25 years of extremely benign price rises, which have provided comforting mood music for stocks and bonds. Investors don't need to hit the panic button just yet, but they do need to factor the potential for higher rates of inflation into their plans. Where inflation is concerned, it's better safe than sorry."

Written by Sophie Smith

London Stock Exchange Group's global head of sustainable finance, David Harris, and FTSE Russell incoming CEO, and London Stock Exchange Group group head of indexes and benchmarks, Arne Staal

Sustainable investing and the role of the index provider

Laura Blows discusses sustainable investing within passive management with David Harris, London Stock Exchange Group's global head of sustainable finance, and Arne Staal, the incoming CEO of FTSE Russell and the group head of indexes and benchmarks for the London Stock Exchange Group

A shift is happening within sustainable investing, with an increasing focus on how to implement this within passive management, London Stock Exchange Group (LSEG)'s global head of sustainable finance, David Harris, states in the *Pensions Age* podcast, *Sustainable investing and the role of the index provider.*

However, sustainability and index investing have gone together for many years. For instance, the FTSE4Good index launched 20 years ago, and the UN PRI, of which FTSE Russell was a founding signatory, launched in 2006 and proved to be a turning point in institutional investor interest in sustainable investing, Harris explains.

This interest has ramped up recently, due to a change in approach to index investing from pension funds.

"Passive investing has become a very dominant way for capital flows to flow through the financial system, which means that passive investing through indexes has become a very important channel for any type of investing, and especially ESG," FTSE Russell incoming CEO and LSEG group head of indexes and benchmarks, Arne Staal, explains.

There has also been an increasing interest in moving away from pure market cap weighted indexes towards a factor-based approach, such as smart beta indexes. "That really opened up a way to start to think about how to integrate sustainable investment into the design of indexes," Harris explains.

Climate risk is currently "clearly the top sustainability priority", Harris says, with the aim to transition to a carbon net-zero economy.

While many investors are motivated by wanting to do the right thing in terms of supporting the climate transition, another driver for climate investing is an appreciation that this represents investment risk and opportunity, he adds.

As an example, FTSE Russell launched the Environmental Opportunities Index in 2008, which includes companies with more than 20 per cent of their revenue coming from green economy sectors.

"We did five years of history when we launched it, going back to 2003. Over the period 2003-today you have approximately a 500 per cent return over global equity markets. For the oil and gas sector, it is around half that, but if you are looking at the green economies, represented by the FTSE Environmental Opportunities Index, there is 1,000 per cent return, so double equity markets," he says.

The impact of the FTSE4Good indexes were clear from the start, Harris says. "With high-profile sustainability indexes, companies wanted to be included," he explains, "and we will gradually crank up the requirements for inclusion in these. Companies are contacted at CEO level to give them time to improve to stay in the index, typically a year to meet standards, otherwise they get deleted from the index. That has an incredible effect. Companies very much want to stay in then index and therefore will work to try and meet that criteria."

This steady increase in standards is continuing with FTSE Russell's index-building partnership with the Transition Pathway Initiative (TPI), which provides a common basis for investors to assess and engage companies on their climate strategies and on their carbon performance.

"However, it is important to note that this doesn't detract from the engagement that asset managers carry out, as they will be engaging with investee companies in a much more nuanced and detailed way; index engagement is complementary," Harris notes.

This ties into the concept of the 'universal investor' that Harris is seeing, where investors such as pension funds focus on their macro influence across their assets and investment approaches.

FTSE Russell, as one of the largest index providers in the world, is well placed to exercise this macro influence.

"We have $16 trillion globally in some way tied to FTSE Russell indexes, so the potential for ESG and SI indexes to become a larger part of that over time is very large," Staal says.

"The impact that could have on companies, on standards, on transparency, on engagement between investors and users of capital is truly enormous."

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

VIEW FROM THE ABI

Well-intentioned consultations from DWP and FCA have widespread support, tackling the crucial issues of scams and uptake of guidance. But they should avoid making regular pension transfers clunkier and slower.

The pension transfer regulations limit the statutory right to transfer to combat scams, and include what is effectively a list of safe types of pension. But it draws the line in the wrong place, excluding safe mainstream personal pensions that receive most transfers in. DWP, to its credit, is working quickly to deliver the regulations and is open to views on making it work.

The 'stronger nudge' means providers must direct customers to guidance unless they expressly opt out, either before they access their pension or before they transfer with a view to taking benefits. It's the latter that causes concern, and it's not clear that DC transfers should be in scope at all. If there are concerns the receiving scheme is a scam, it will be caught by the transfer regulations. Consolidating pensions is a good opportunity to prompt people to get guidance, but the rules don't need to hold up transfers to achieve that.

The industry has made substantial progress in improving transfers for customers, and current government policies depend on seamless transfers. These consumer protection measures are welcome, but it's important to get them right for all customers, and for the efficiency and reputation of pensions.

ABI head of long-term savings, Rob Yuille

ABI

Soapbox: Too many pots on the stove

Some people thrive in the kitchen. I am not one of these wannabe Jamie Olivers, as instead I find many of my cooking adventures to be stressful exercises and opportunities to spill ingredients over myself or spill some blood with my poor knife skills. The single thing that I find to be the most challenging aspect of cookery, however, is keeping track of multiple simmering vessels on the hob. If I have to monitor any more than two pots at once it is just about guaranteed that something will be finished late, finished early, or else completely forgotten and burned to the bottom of some valuable non-stick kitchenware. If only there was an easier way!

When it comes to retirement saving, research commissioned by Hargreaves Lansdown and released in May stated that one in five savers in the UK have three or more pension pots on the hob, so to speak, while almost half (47 per cent) have two or more. Additionally, less than a quarter (24 per cent) had ever transferred a pension, although it did state that there had been a "big rise" in pension transfers during the most recent lockdown. Assuming that this increase was an anomaly borne out of the boredom of a third stint of being shut indoors with nothing to do, it seems likely that engagement and transfers will remain low.

Hargreaves Lansdown senior analyst, Nathan Long, said: "Consolidating your pensions can be a brilliant move: it could reduce your fees, widen your investment choice, and reduce the amount of paperwork you need to need to keep on top of. It's definitely not right for every situation, but one in four is a ridiculously low proportion, and leaves millions of people at risk of building up lots of small pots and losing track of them."

There is plenty of evidence showing that many people are suffering from some of the negative side effects of having multiple pots. Aegon research from May claimed that around 6.4 million working-age people have lost track of one or more pension pots, with the most common reasons cited being a rebrand or takeover of the pension company, lost paperwork, or moving house without informing a provider or employer. Additionally, analysis from Quilter published in January showed that people could save more than £140,000 by consolidating multiple pensions into a single pot by escaping decades of shelling out fees on multiple pots.

This clearly illustrates how advantageous it might be for savers to consolidate. However, there is of course one major initiative that will make combining one's pension pots to be much simpler – the Pensions Dashboards Programme (PDP).

PDP stated in its third progress update report that it is on track with meeting the targets outlined in its timeline. However, I do not think this should be a reason to ease off on raising awareness of the benefits of consolidation.

We are still at least two years away from any kind of availability, with most savers unlikely to be able to take advantage of the service until 2025. Thus, savers still have a great deal of time in which they might suffer from the side effects of trying to keep track of too many pots. These savers, like me with my world-beating slow-cooker bolognese, might find it easier to just use a one-pot recipe.

Written by Duncan Ferris

Brushing away payroll teething issues

Kevin Martin considers the challenges of auto-enrolment on pensions' payroll cycles

Auto-enrolment has changed the landscape for employers and payroll professionals submitting their payroll cycles.

There's a myriad of factors to consider – eligibility, assessment, contributions and worker status. While software programmes can do much of the heavy payroll lifting, a good understanding of the data and validation fields can help save time and generate good quality outcomes for employees.

Over the past few years, payroll professionals have had to handle a lot – the first auto-enrolment staging cycle, contribution increases in 2018 and 2019 and then re-enrolling workers who've previously opted out of pensions.

For every data file uploaded to The People's Pension, there are very few exceptions that fall outside of the automated process – with only 0.075 per cent requiring an intervention to correct. In relative terms, exceptions are few and far between.

But when you look at the scale of the number of contribution files submitted, even a small percentage of exceptions can interrupt the smooth and frictionless process of uploading these files and can involve spending time requesting help and support to fix issues.

Most payroll mistakes come in the first three months of working with a pension provider. Everything's new – and it's hard to ensure all the data fields are correctly populated, particularly around qualifying earnings matching the contribution submitted.

Auto-enrolment duties can be baffling – and some employers assume it's the job of their adviser, only discovering it's not when they've received an unwelcome fine from The Pensions Regulator (TPR).

Data entry can be an imperfect science – and sometimes we receive the wrong details for an employee. The only way to fix this is for the member to act on it. The member can engage with us digitally, over the phone or by mail to ensure we have their up-to-date personal and contact details, without having to go through the process of providing evidence of any change in circumstances.

In fact, many of the issues we see concern re-enrolment, when there's a communications gap between workers and employers. In other words, a proportion of the 7-8 per cent of workers who say they don't want to be in their company pension scheme get swept back in without knowing.

This can be a problem. Losing 5 per cent of take-home pay can be a meaningful hit to people who don't want to be in a pension scheme.

The solutions lie in communication. For example, we work closely with our employers to help them understand the implications – and ensure that re-enrolled workers get their joiner information in good time, so they can make informed decisions about their money and financial future. Our website has a wealth of material to help members, employers, and payroll professionals. In addition, our communications toolkit contains lots of letter/email templates to support employers with any communications to their employees.

More broadly, my advice for anyone handling payroll and pension contributions is to remember one thing – the better the payroll information submitted, the easier things will be in the long run.

Good payroll information means accurately working out pensionable earnings, remembering to remove leavers, re-enrolments for workers who are happy to be re-enrolled and a joined-up process between payroll, assessment, and contribution submission.

Improvements in integrated payroll technology could mean we see fewer such teething issues in the future. But it's always possible to find the odd error when people handle pension contributions for the very first time.

Focusing on getting good data into the system can mean a little extra work in those first three months – but it pays dividends, and pensions, over the long run.

If you've got any questions, please get in touch on 0333 230 1310, or you can find out more at www.thepeoplespension.co.uk/pension-duties/PA1

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

In association with the people's pension

VIEW FROM THE ACA

Commenting on the TPR's Annual Funding Statement, we noted that it also recaps the plethora of legislative initiatives that TPR is pronouncing on and it highlights the burgeoning agendas that trustees are struggling through.

This year's list of topics covers climate change, Brexit, post-Covid longevity, corporate transactions, inflation and investment benchmark changes; plus TPR's own funding code consultation and the all new 'Own Risk Assessment' requirements.

Mercifully, GMP equalisation doesn't get a mention, nor do the cyber and scam actions being asked for. We would ask if a reality check on the industry's bandwidth is overdue.

The continued wait for TPR's new funding code of practice is keeping the industry in an uncomfortable regulatory limbo on funding valuations.

TPR continues to consistently signpost its direction of travel emphasising that, in their view, tomorrow's new laws are today's best practice.

But the industry really needs to know the details, to put their schemes' long-term funding plans on a secure regulatory footing.

Despite this, we urge TPR to take the time it needs to deliver a new funding regime that fits today's complex commercial environment.

In the meantime, our industry's talented advisers and diligent trustees can be relied upon to take sensible actions, keeping DB pensions secure and supporting employers through today's varied and challenging circumstances.

ACA chair, Patrick Bloomfield

ASSOCIATION OF CONSULTING ACTUARIES

Diary: June 2021 and beyond

PLSA ESG Conference 2021

30 June - 2 July 2021
Online

This new conference will bring together the whole of the £2 trillion UK pensions investment chain across an online three day programme. The timetable will include keynote speeches, educational sessions, topic deep dives and quick-fire updates, aiming to cover all angles of ESG. Speakers will include film director and Make My Money Matter co-founder, Richard Curtis, and TV chef and sustainability expert, Hugh Fearnley-Whittingstall.

For more information, visit:
plsa.co.uk/events/esg-conference

Pensions Age Awards 2021

15 July 2021
London Marriott Hotel, Grosvenor Square

The Pensions Age Awards, which are now in their eighth year, aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. This year has also seen the introduction of two new categories, including the Pensions Age Thought Leadership Award. The shortlist has now been announced, and bookings for the awards evening are open.

For more information, visit:
pensionsage.com/awards/

Pensions Age Autumn Conference 2021

16 September 2021
Waldorf Hilton, London

This one-day conference, which has become a firm favourite in the UK pensions sector, offers pension funds and those working in the pensions sector the opportunity to learn and network alongside their peers at one of the most challenging times in UK pensions history. It is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, and offers delegates up-to-date knowledge and guidance to help them run their scheme.

For more information, visit:
pensionsage.com/autumnconference

European Pensions Awards 2021

20 October 2021
London Marriott Hotel, Grosvenor Square

Now celebrating their 14th year, the European Pensions Awards were launched to give recognition to and honour the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds over the past year. Entries for the awards are open to any pension fund or firm that serves European pension funds, with an entries deadline of 24 June 2021.

For more information, visit:
europeanpensions.net/awards/

Visit www.pensionsage.com for more diary listings

Month in numbers

86%

86 per cent of trustees expect to make significant changes to comply with TPR's proposed new Code of Practice, Barnett Waddingham research found.

14 million

Around 27 per cent of Brits, equal to 14 million people, are worried that they may fall victim to a pension scam, according to a survey from LV=, with 47 per cent of savers viewing pension scams as hard to spot.

£900m

£900m in cost savings is expected to be achieved from Local Government Pension Scheme (LGPS) pooling by 2023, according to Ministry of Housing, Communities & Local Government head of local government pensions, Teresa Clay.

Speaking the PLSA's Local Authority Conference, Clay also highlighted that around £300m in savings have already occurred to date via LGPS pooling, "largely from lower investment custody costs, due to greater scale".

Stopping pension scammers in their tracks

Jonathan Watts-Lay explores what trustees can do to help protect members from scams

These uncertain times brought on by the pandemic are seen as a window of opportunity for fraudsters looking to prey on vulnerable individuals, and pensions are seen as an easy target by some. Action Fraud warned in April that almost £2 million has been lost to pension scams so far this year. It's a problem which has been around for some time and the Pension Scams Industry Group (PSIG) estimates that £10 billion may have been lost to pension scams by 40,000 people since 2015. This may not even be the full extent of the problem as The Pensions Regulator (TPR) revealed earlier this year that it is investigating over £54 million worth of lost pension savings in cases that have affected 18,000 savers.

Defined benefit (DB) pension transfers are a particular area of concern, and the XPS Pension Group highlighted that almost six out of 10 of DB transfers in April indicated at least one warning sign of a potential scam, with the level of red flags much higher than before the pandemic.

What can be done?

TPR has asked trustees to pledge to do what they can to protect scheme members including; providing regular scam warnings, encouraging members considering cash drawdown to access guidance services, to carrying out checks and provide warnings on high risk transfers.

PSIG has recently updated its Code of Good Practice to reflect the latest regulatory and legislative changes. Key changes relate to TPR updates including a new letter that warns members who are thinking of transferring to a defined contribution (DC) arrangement of the risks of doing so; as well as additional guidance for trustees to encourage the use of Pension Wise or regulated advice, and to provide risk warnings about complex investment structures.

The new recommendations by PSIG include for trustees to consider telephoning members during the due diligence process and before any transfer payments are made, when concerns of pension scamming have been identified. Also, all transfers of concern should now be reported and not only those which are refused. The PSIG's three core principles remain the same including: raising awareness of pension scams for members and beneficiaries; having robust processes for assessing whether a scheme may be operating as part of a scam; and being aware of the known current scam strategies.

The role of trustees and employers

Our latest research with PMI indicates that pension scams certainly are an area of worry. It found that nearly all (94 per cent) of trustees surveyed were concerned about their members being scammed out of their savings. Trustees and employers play a key role in ensuring members make informed choices concerning their pensions. This includes providing financial education and guidance as it can help members understand their options and what red flags to look out for. It can also help them to decide if they would like further support such as regulated financial advice, although this of course is a requirement for anyone looking to transfer a DB scheme over the value of £30,000.

Carrying out due diligence on providers can make the process far more robust. This should include checking that any financial education and guidance providers are workplace specialists with experience of providing support to members to help them understand key issues at retirement such as tax implications, risks around DB transfers and how to spot a pension scam. Due diligence on regulated advice firms should cover areas such as; qualifications of advisers, regulatory record of the firm, compliance process eg compliance checks of 100 per cent of cases, pricing structure, and experience of working with employers and trustees.

It's time that trustees and employers do all they can to stop pension scammers in their tracks and put in place robust processes to support and protect members. This now needs to be about striving for good member outcomes and not minimal compliance, as many years of pension savings can be lost in the blink of an eye.

Written by WEALTH at work director, Jonathan Watts-Lay

In association with WEALTH at work
KNOWLEDGE | EXPERIENCE | OPPORTUNITY

Nest control

Nest Experience managing director, Gavin Perera-Betts, chats with Duncan Ferris about his passion for wrestling, children's literature and a hidden talent for football management

What's your employment history (including jobs outside of pensions)?
My first job was a shop assistant at my local newsagents before an interesting progression to writing for the WWE on Sky's now-defunct teletext service. However, since I was about 18, apart from a brief stint at the Office for National Statistics, I have worked in the pensions industry, at Friends Provident (FP), Bacon & Woodrow, Hargreaves Lansdown, Aon and Clerical Medical.

What's your favourite memory of working in the pensions sector?
Back in the late 1990s I worked on a project at FP to launch their New Generation group pension schemes, which led the way in terms of online administration at the time. Working on something so revolutionary at a young age really shaped the rest of my career.

A second favourite is being at the start of what has become Nest. Creating the service from scratch was exciting and daunting in equal measure. Playing a role in something so pivotal to an industry, and to society, is not something many people get to experience and I feel very fortunate to have been involved for over a decade.

If you did not work in pensions, what sector do you think you would be in instead?
Both my sister and father worked in banking, so that is probably where I would be if my mum hadn't forced me to interview at Friends Provident.

What was your dream job as a child?
Other than playing for West Ham, I really wanted to be a writer/journalist. I almost did it with my early foray into writing about pro wrestling and I still daydream about having a children's book in me at some point.

Do you have any hidden skills or talents?
I discovered this year that I may have a hidden talent in managing under 10 football. Taking on my son's team, we have only lost two of our 16 games this season and have a cup final on the horizon. Perhaps I have found my career after pensions!

Is there a particular sport/team that you follow?
Despite coming from a family who have been Chelsea supporters for generations, I chose West Ham when I was seven years old because I thought it interesting that they had a Belgian player. Forty years of trophy-less fun later, I remain a West Ham fan. At least this year there has been something to enjoy.

If you had to choose one favourite book, which would you recommend people read?
With two kids, most of the books I have read over the past decade may not appeal to the grown-up audience of *Pensions Age*, but for those with children I would recommend Katherine Woodfine's *The Sinclair Mysteries*. I think I enjoyed them more than my daughter! Beyond that, a book I always return to in order to recharge my thinking at work is Simon Sinek's *Start With Why*.

And what film/boxset should people see?
I have a couple of films that I always watch a few times a year – firstly a 1930s Will Hay comedy called *Ask a Policeman* and a Robert de Niro film called *Midnight Run*. More recently, I really enjoyed the Spanish series *Money Heist*.

Is there any particular music/band that you enjoy?
I was a bit of an indie kid during the 1990s and so much of my favourite music is from that era, but my all-time favourite act would be Prince.

Editorial credit: theincomparable_rj / Shutterstock.com

Who would be your dream dinner party guests?
I would have Bob Mortimer, who I think is probably the funniest person alive. I would add Prince, Carrie Fisher, West Ham favourite Billy Bonds, and finally, Ric Flair.

Is there an inspirational quote/ saying you particularly like?
I have the Walter D. Wintle poem, *Thinking*, pinned up in my office for when I need inspiration in a moment of doubt.

Written by Duncan Ferris

Pension scams

Matthew Swynnerton (who is a member of the Pension Scams Industry Group) looks at two recent developments in relation to combatting pension scams

On 1 April the Pension Scams Industry Group (PSIG) published an updated version of its code on combating pension scams. On 14 May the DWP published a consultation on draft regulations to restrict the statutory right to transfer. Both of these developments are relevant to trustees of pension schemes when dealing with transfer requests from members.

Updated PSIG code

The code, which is voluntary, represents good industry practice on due diligence. The updated code (version 2.2) takes effect from 1 April 2021 and is available for use in any transfer request processed on or after that date, even if the request for a transfer was received before that date. Version 2.2 reflects recent regulatory and legislative changes, as well as the evolving nature of pension scams. Changes have also been made to improve usability, with the code now divided into five chapters.

- The Framework Document details the context, structure and principles of the code.
- The Practitioner Guide details robust and proportionate due diligence steps undertaken by trustees and administrators assessing the pension scam risk of a requested transfer.
- The Resource Pack contains materials which practitioners can use to undertake this due diligence including example scripts, letter and discharge form wording.
- The Technical Guide details the rationale behind the guide, including legislative and regulatory requirements.
- The Summary of Changes details the changes made since the previous version (2.1) of the code, which was issued in June 2019.

Recent developments that are referred to in the updated code include The Pensions Regulator's pledge to combat pension scams campaign, regulatory developments from the Financial Conduct Authority and Pensions Ombudsman determinations. Other changes include additional questions within the Questions to Ask Members section.

DWP consultation

Another development referred to in the updated code is the regulations being developed under provisions of the Pension Schemes Act 2021 relating to the statutory right to transfer. Those provisions are designed to enable trustees to prevent transfers from occurring if there is a risk that the scheme member might be scammed.

On 14 May the DWP published a consultation on the draft regulations which it is proposed will be introduced in the autumn. In summary, the draft regulations require trustees or scheme managers of occupational and personal pension schemes to ensure that at least one of four conditions is met before making a transfer.

The first condition is to confirm that the transfer is to one of a number of types of receiving scheme which present a low scams risk. These types of scheme include: authorised master trusts; and pension schemes operated by an insurer that is registered and authorised by the Financial Conduct Authority and authorised by the Prudential Regulatory Authority.

If the transfer is to an occupational pension scheme that is not one of the types of scheme in the first condition, the member will need to demonstrate an employment link with that proposed receiving scheme. If the proposed receiving scheme is a Qualifying Recognised Overseas Pension Scheme (QROPS), the member will need to demonstrate an employment link or residency in the same financial jurisdiction as that in which the QROPS is established.

If the conditions above do not apply, the trustees must decide whether any 'red flags' are present, in which case the transfer may not proceed. The proposed red flags include that: (1) a person or firm without the appropriate regulatory permission has provided financial advice to the member in relation to the transfer; and (2) the member's transfer request was made further to unsolicited contact about making a transfer from a party previously unknown to them. If no red flags are present, but any 'amber flags' are present, the transfer can only proceed if the member provides evidence that they have taken scams guidance from the Money and Pensions Service. The proposed amber flags include that there are high risk or unregulated investments included in the receiving scheme.

Conclusions

Trustees should use the updated version of the PSIG code for transfers processed on and after 1 April, familiarise themselves with the DWP's proposed changes to the legislation and be ready to update their transfer processes when the regulations come into force.

Written by DLA Piper pensions partner, Matthew Swynnerton

In association with DLA PIPER

Getting match fit

Kathryn Foster asks whether your trustee board is match fit to face the new governance challenges

Before taking on a new challenge, be it preparing for a cup final, an examination, or perhaps a new job, you need to be in peak condition to give it your best shot. The Pensions Regulator's (TPR) draft new Code of Practice (the new code), requiring trustees to have an effective system of governance, will present a significant governance challenge for some schemes. So is your trustee board match fit to meet these requirements?

A pension scheme needs an effective board in order to deliver the best outcomes for members. However, trustees don't often spend much time together, possibly only meeting once a quarter, making it more challenging to work together effectively.

TPR believes good governance is the bedrock of any well-run scheme, but pension issues are complex and most trustees juggle their scheme responsibilities with competing demands on their time. This often means agenda time is at a premium, so having an effective board is essential to ensure the trustees focus their time and budgetary resources on the key strategic priorities.

So how does a trustee board know how effective it really is?

We believe the best way is to carry out a trustee effectiveness review using a tried and tested process facilitated by someone independent who has experience of other trustee boards. This may seem a 'nice to do' rather than an 'essential' exercise, especially when boards have many other priorities vying for agenda time. However, time spent focusing on effectiveness is time well invested. It can shine a light on what trustees are individually, and collectively, good at, as well as highlight knowledge gaps and blind spots that may need attention.

We recommend using Barnett Waddingham's **GAPS** analysis to assess the effectiveness of your trustee board.

What does the GAPS analysis involve?

Barnett Waddingham's **GAPS** analysis seeks trustees' opinions on what is **G**ood, **A**dequate or **P**oor, including the opportunity for free-form Suggestions for improvement. The process includes:

• An advance **briefing session** explaining the purpose and benefits of the review and discussing any specific requirements.

• Completion of an online questionnaire to **gather the trustees' views** covering topics such as risk management, decision making and skills, and behavioural traits such as clarity of communication, collaboration and leadership by the chair. Feedback on the management of specific projects can also be included. This can be supplemented by one-to-one conversations with each trustee to obtain a deeper understanding and provide some context to their responses.

• We also recommend seeking the views of the trustees' **key advisers.** As part of the 'trustee team', the scheme actuary, lawyer, secretary etc. can provide a useful perspective into how the board operates.

• The real value of the exercise comes from **interpreting the results** and agreeing strategies for improvement. A well-facilitated meeting will generate debate and discussion about where improvements can be made as well as providing reassurance where things are working well.

• It is essential the findings lead to an **agreed action plan** that is monitored and delivered to. Otherwise the good intentions at the time of the review can fade and the effort be lost.

Example trustee effectiveness review outcomes

• Re-evaluate the decision making structure by delegating routine matters to sub-committees or executive support to allow trustees to focus on the strategic high level decisions
• Brief advisers to prepare timely papers with better executive summaries and greater synthesis
• Redesign committee structures as the scheme matures e.g. after a large de-risking project
• Revisit and review accountabilities to ensure they are clearly understood

An investment of time will lead to a stronger team

Now is a great time for trustees to review their effectiveness in preparation for the new code. It can also be beneficial to carry out a review ahead of a major project, such as a buyout, to ensure the board performs optimally. It is, however, not a 'once and done' exercise and, in order to reap maximum benefit, it is important to periodically revisit the agreed actions to ensure continuing progress.

So, is your trustee board really match fit, or could it benefit from a GAPS analysis in order to ensure it is in peak condition to achieve its goals?

Written by Barnett Waddingham associate and senior pensions management consultant, Kathryn Foster

Consultation, consultation, consultation

Summary
• The Pension Schemes Act and other regulatory changes have created a busy consultation environment for the pensions industry.
• Planning and time allocation are imperative to ensure that you can respond to the policy areas deemed as the most important or influential.
• Equally important is constructing responses in a way that will positively influence the direction of regulatory travel.
• Teamwork and the sharing of expertise can be vital in ensuring your voice is heard.

In a landscape where pensions policy is constantly evolving, consultations seem to be coming thick and fast. Jack Gray investigates how best to allocate time and resources, and what is most important to consider, when responding to consultations

With frequent consultations coming from both regulators and the government, plus the added workload presented by Pension Schemes Act regulations, it can be hard to stay on top of all of them. Organisations that plan and allocate time effectively stand the best chance of influencing changes to pension policy that they deem the most important.

This may result in some consultations going unanswered, but this balancing act is necessary as it seems impossible to respond to every consultation in detail.

Although it may seem daunting, there are ways to ensure your voice is heard. Constructive responses, rather than criticism or dismissal, are likely to achieve better results, while understanding what the issuer of the consultation is aiming for is imperative to forming a response in a way that will resonate with the organisation consulting.

Preparation is key

Targeting consultations to respond to and understanding who you are trying to shape the policy for can be key to effective responses, as AJ Bell senior analyst, Tom Selby, explains: "We respond to consultations that have an impact on our customers or the advisers we work with, either directly or indirectly.

"The volume of consultations from regulators and government departments is significant, so we prioritise responding to those that we believe could have the most significant impact on savers, advisers and the wider retirement market."

Aegon pensions director, Steven Cameron, states that the firm goes back to its 'corporate purpose' when determining which consultations to respond to, which in Aegon's case is 'helping people achieve a lifetime of financial security'.

"We start with that in mind and consider whether what is being proposed has a potential impact on our customers," he continues. "We would also then look at what is being proposed and see whether, if it goes in one direction or another, it would make much difference. If it is something that could go in different directions, one of which could be very positive and one the opposite, these are the ones we would put more effort into exploring in detail."

Responding to consultations in a way that helps meet company objectives could be a good starting point, with Pensions and Lifetime Savings Association (PLSA) director of policy and advocacy, Nigel Peaple, noting that its policy board sets four 'over-arching themes' for the policy and advocacy team to consider when responding: promoting good governance; facilitating better saver engagement; encouraging appropriate contributions; and addressing the challenges and opportunities of scale.

But it is not just the company lens that organisations need to consider. Looking at a proposal through different lenses, such as the end-customer, employer and adviser perspectives, can be imperative to a successful consultation response, according to Cameron.

"Sometimes you need to step right back to what the aim actually is and how that sits against other government pension policy aims, then go all the way back down to what they are proposing," he says.

Effective construction

Deciding which consultations to respond to is only part of the battle. Once decided upon, how those responses are formulated can have an impact as to whether your voice is heard and considered in shaping future policy.

"As with most things, you should always have the potential impact on customers at the heart of any response," says Selby. "This is crucial in ironing out any issues that may arise as a result of reforms or ideas put forward by government or regulators.

"It is also important to be constructive in responses and understand why the regulator or government is doing what it is doing. If there are issues with something that is being proposed, it is important to provide clear explanations of where problems could emerge and, where possible, provide alternative solutions to meet the stated aim."

Cameron agrees, stating that if you want to influence you have got to understand what the organisation consulting is seeking to achieve.

"There is no point responding and ignoring the underlying aims of the policy objective," he says. "Then you have to work out whether what is being consulted is likely to deliver on those aims and, if not, come up with constructive alternatives. Don't just criticise or dismiss what is being proposed as not a good idea."

Insight Investment head of solution design, Jos Vermeulen, adds that it is critical that consultation respondents have "something sensible to say" and have a view that will add to discussion or policy shaping.

"There is a whole process for thinking through the topic of the consultation, what the potential outcomes could be, what the unintended consequences could be and then how to answer the consultation in a way that would avoid bad outcomes," he explains.

"You need to ensure that you frame your responses to be as unbiased as possible and try and think through the other side of the arguments."

When formulating a response, it is also important to back up any suggestions with evidence or expertise. "In many cases we identify that it may also be helpful to the body we are responding to if we provide relevant background or supporting evidence to outline our policy response," says Peaple. "This often includes survey findings or relevant data gathered from our members' experience in the field."

Time management

Seeking the right voices within an organisation can provide the expertise needed to construct a persuasive response. However, this can throw up its own set of challenges, with Cameron noting that helping those with the expertise understand the consultation is a key part of the process: "We need to bring the consultation to life for others around the business to help them understand why it might be relevant to them to get them thinking about it so we can then draw on their expertise for the response. The more you need to liaise with others in the business, the more you need to be careful with how you manage and allocate time."

Effective time management can be essential, and allocating time and deciding which consultations to respond to is part of the challenge. Peaple says that it boils down to how much a particular issue matters to who the organisation represents and whether a response can shape positive change in policy.

The expectation is rarely to respond to every question, explains Cameron. "They don't want to read answers to 50 questions when there are only five that a respondent is particularly passionate about or want to get a point across on." So, understanding which answers will have the most impact can be an efficient way to manage time.

Although there are challenges to responding to consultations and it can be difficult to find the time amongst other responsibilities, Vermeulen believes that is the responsibility of firms with particular expertise to offer their opinion on policy that will affect those they represent and the wider saving community.

"It is part of our responsibility to respond on behalf of pension scheme investors to these consultations," he states. "It is a key part of our stewardship role, so we think it is critical to respond to consultations to protect clients and investors."

Written by Jack Gray

Summary
• Flexible working arrangements are on the way in and this might take a hybrid approach, where a certain amount of office attendance is required.
• Many employers will clearly need to make alterations to their workspaces, while others plan for an increased emphasis on the mental health of employees.
• The Covid crisis has led to a streamlining of many processes that will survive beyond the lifespan of the pandemic.

A new normal

Duncan Ferris explores how employers need to prepare as we draw nearer to Covid-19 restrictions being lifted and staff returning to the office, after what has been an undeniably difficult year

As we draw closer and closer towards returning to the office, it is hard not to be irresistibly reminded of approaching the first day of a new school year. It is not long now until many of us will be back together, eyeing each others' new shoes and haircuts, greeting old friends and swapping stories of everything we have been up to since we last saw one another. But of course, the time away has been radically different and more challenging than the summer holidays of our youth and employers, and managers therefore need to consider how to prepare for the great return.

Flexibility

Working from home has been a welcome change for some and an annoyance for others. As we (hopefully) come to some sort of return to normality, one of the key decisions for employers is whether to continue permitting staff to work away from the office. Figures released by the Office for National Statistics (ONS) in July 2020 showed that 46.6 per cent of people in employment did some work at home in the first full month of the UK's lockdown, with 86 per cent doing so as a result of the Covid-19 pandemic.

Now that we can foresee a moment on the horizon where this might no longer be a factor, employers are establishing their approach.

Lincoln Pensions CEO, Darren Redmayne, comments: "While we see the office environment as still important for collaboration and learning, it is clear that working from home and flexible working arrangements work extremely well. Lockdown has, for many, revised social expectations around where work should be done and accelerated some existing trends."

PensionBee CEO, Romi Savova, appears to agree that offering flexibility is a good thing, stating: "In September 2020, we gave all members of staff the option of being office-based or home-based, which will dictate their default work location for the foreseeable future."

She notes that "achieving the appropriate balance between office and home working for our team is a necessity", acknowledging that different members of staff will have "different needs and circumstances".

For some companies it makes sense to introduce some element of structure to this flexibility. Foster Denovo head of human resources, Louise Blair, explains that the financial advisory firm's hybrid approach will see employees working both at home and in the office, with the company ideally expecting staff to have "around three days in and two from home".

Blair adds: "We have found through talking to our members of staff, that the majority enjoy the flexibility working from home provides, promoting a healthy work life balance.

"Although, it should not be underestimated that working in the office for some of our time provides that much needed face-to-face engagement, cross-team collaboration, learning and development opportunities and building and strengthening relationships that has been missing since last March."

Dalriada Trustees director, Brian Spence, agrees, stating: "Many of our professional trustees joined us at entry level and they are keen to develop their knowledge and skills, often by learning from their more experienced colleagues. Collaboration, learning and teaching is better done face to face and we will be meeting our clients in person whenever they want us to."

Support

Regardless of how often employees are going to be in the office, employers must consider what kind of support and alterations they should provide in order to help their staff with any changes.

Redmayne says: "We are completely refitting our office space for hybrid working with the construction work taking place as we speak. This new environment will provide extra support to colleagues working partly from home and partly in the office."

Savova explains that PensionBee has "set up hot-desks to accommodate those remote workers that want to visit the office for socially distanced face-to-face interactions" along with adhering to government guidelines.

These guidelines currently consist of 14 documents that cover a range of different types of work, with measures listed in the guide for offices including a Covid-19 risk assessment, more frequent cleaning, adequate ventilation and taking part in NHS Test and Trace.

But the matter of support does not just require physical changes to office space, with Savova noting the need to aid staff with their mental health.

She explains: "We're checking in with each other regularly to ensure everyone has everything they need. If anything, the pandemic has brought us closer together as a team, and we have five internal mental health first aiders whose job is to help look after and care for the wellbeing of colleagues, wherever they are located."

Blair is also keen to point out this side of the return to normality, commenting: "We are being flexible as to when employees have to begin to return to the office and we appreciate that everyone feels differently about the return."

Additionally, she explains that "all line managers have received mental health training", while an employee assistance line is available at all hours, the company runs wellbeing workshops and employees have access to an app-based service, which includes mental health support.

Mental health is never a matter to be ignored, but employers should strive to be particularly aware of their staff's wellbeing in the current conditions. In December, Royal College of Psychiatrists president, Dr Adrian James, said the combination of the virus, its social consequences and the economic fallout of the pandemic had been responsible for "probably the biggest hit to mental health since the second world war".

Streamlining

As well as the possibility of flexibility and changes in how employers support staff, workplaces have been greatly impacted by the streamlining of certain processes. While these changes were often a necessity in the dark days of the pandemic, many will continue to be a fixture of people's jobs as we return to normal.

Redmayne comments: "The pandemic has helped take us fully to paperless working, which is also great from environmental, social and governance perspective. Prior to lockdown we still had parts of our business printing and binding documents as a traditional part of client service."

Blair states: "Client meetings have been held virtually and this is something that some of our advisers and clients wish

to continue doing post restrictions. We have fast tracked our use of electronic signatures and the use of online forms and applications for clients and we do not see ourselves going backwards from this. In fact, we'd love to ditch paper altogether."

She adds that communication has "actually improved despite everyone working from home", noting that video meetings software has helped to "improve collaboration".

Meanwhile, Savova states that while PensionBee was "more prepared than most" for working from home, she adds that a critical team remained in the office to "take care of the tasks that just can't be done from home, like processing post and scanning customer policy documents".

Pointing out a bit of a snag in going fully paperless, she states: "Unfortunately this is a manual process that we've been unable to streamline as most of the traditional pension providers will only accept transfer paperwork that a customer has signed by hand and won't accept a digital signature. This is despite the fact that transfer times can be greatly improved for consumers, especially where a digital pension transfer platform like Origo is used."

Even so, it seems that when the office doors are once again unlocked for us all, it could represent a moment where employers embrace important changes to working life, which make things easier for all their staff.

Written by Duncan Ferris

Picture supplied by Phoenix Group

Bossing it

There is a growing need for employers to truly engage with their pension schemes if they want to see real results. *Pensions Age* showcases two employers that are leading the way when it comes to pension engagement at a time when an employer focus can be more desirable than ever

For years, the connection between employer and pension scheme has been slowly eroding. Onerous pensions regulation, coupled with unpredictable markets, have meant that, for some time now, DB schemes have represented nothing but a burden on the employer's shoulders, while the arrival of DC schemes has made it easier for the employer to detach itself from its pensions offering, to the long-term detriment of the pension scheme member.

But it appears that we are entering a new era. The pandemic has shone a positive light on the employers that clearly care about their employees, and a not so positive light on those that do not.

Indeed, more than three-quarters (79 per cent) of employers surveyed as part of Willis Towers Watson (WTW)'s recent *Future of Financial Wellbeing* study said they recognise the importance of greater support for retirement savings over the next two years.

The study also found that employers were focusing on improving financial wellbeing to help employees cope with the economic fallout of Covid-19, with just over three-quarters (76 per cent) of employers stating that their employees wanted them to take a more active role in supporting their financial wellbeing.

In a separate report from Burness Paull, companies have been urged to embrace rather than fear pensions, with the argument that if employees cannot afford to retire, businesses are not in a position to invest in new talent to shape the future.

The report, *From Introvert to Extrovert: Welcoming pensions to the party,* showcases how employers can and should manage the dynamics between DB and DC schemes positively; participate in auto-enrolment responsibly; shape meaningful pension provision for the next generation; and assist in addressing the gender pensions gap.

Of course, this is nothing new to some employers, with a handful of trailblazing firms already recognising the value of promoting and nurturing their pensions offerings, and making the most of the technological advancements available in the industry to help them achieve that. *Pensions Age* spoke to two employers that are already leading the way with their commitment to pensions, and asked why they felt it was important to take an active role in their pension provision.

Phoenix Group

Phoenix Group head of reward, Kara Dickson

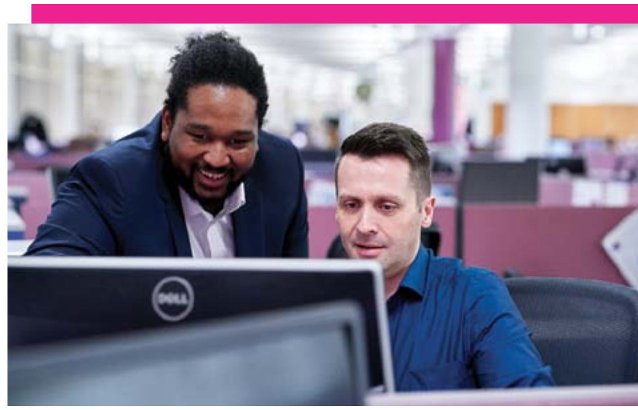
Why does Phoenix Group as an employer feel it's important to care about its pension provision?

Phoenix Group is the largest long-term savings and retirement company in the UK. Our vision is to help even more people on their journey to and through retirement, and the workplace pension we provide is an important part of our colleague proposition. It's important to us that we help to close the savings gap in the UK. We want to help people to save for their future so they can look forward to a life of possibilities.

Our Standard Life brand is a recognised expert in workplace pensions and we know that we are not alone in placing a great deal of importance on the pension we offer our colleagues – our Standard Life team works with many leading organisations across the UK that want to help set their employees up for the future too.

How does it show that in practice?

Our workplace pension is a key part of our total reward package, with a matching structure in place above auto-enrolment minimums and 88 per cent



Picture supplied by Phoenix Group

of colleagues contributing to benefit from additional employer contributions. Our aim is to engage colleagues from the minute they join us and their workplace pension, highlighting the benefits of the pension, including employer matching and tax, as well as introducing colleagues to their 'MyChoices' platform where they can find out more about their pension and take action, such as change their contributions online.

One of our key aims is to provide a diverse and inclusive culture, therefore we align our pension benefit for colleagues with this aim. The pension benefits are not based on age, level or length of service and we have set a high employer minimum contribution to ensure that those with less disposable income have a valuable core employer pension provision to help them save for their life after work.

We continue to evolve our communication programme to engage colleagues in saving for their future, starting with the basics of pension, how to plan for retirement then moving to understand your investments and sustainable investments. This is also being supported by further financial planning information, so our colleagues can start to see pensions as part of their overall financial wellness.

What are the main challenges to achieving this?

Adapting to change and continuing to build high levels of engagement are ongoing challenges for all organisations.

As specialists in this field, we have the benefit of having expert colleagues within our business to support with regulatory change and our in-house marketing consultancy run all of our tailored communications to support increased engagement. Our colleague surveys, coupled with Standard Life's Voice of the Customer Programme, help aid our understanding of member needs and how to adapt.

Has the recent pandemic affected Phoenix Group's approach to pension provision at all?

Our business has remained resilient during the pandemic and we didn't furlough any of our colleagues. Our approach to pension provision hasn't changed as a result of the pandemic, rather our focus has been on understanding the impact on the wellbeing of our colleagues and supporting them throughout this challenging time.

We identified early on the particular challenges that many who are parents or carers were facing and we introduced five days of paid emergency leave to help, over and above existing leave for carers and parental leave.

Picture supplied by Phoenix Group

As well as having trained mental health first aiders in our organisation, an employee assistance programme and regular mental health awareness training, we started to partner with Headspace, the mindful meditation app. All colleagues are able to access hundreds of mindfulness exercises in the Headspace library for free through the app or online, enabling them to learn life-changing skills to help people stress less, focus more and sleep better too.

We continue to listen to our colleagues, and our very active colleague networks, to understand more and ensure we respond to the challenges our colleagues face.

Picture supplied by Schneider Electric

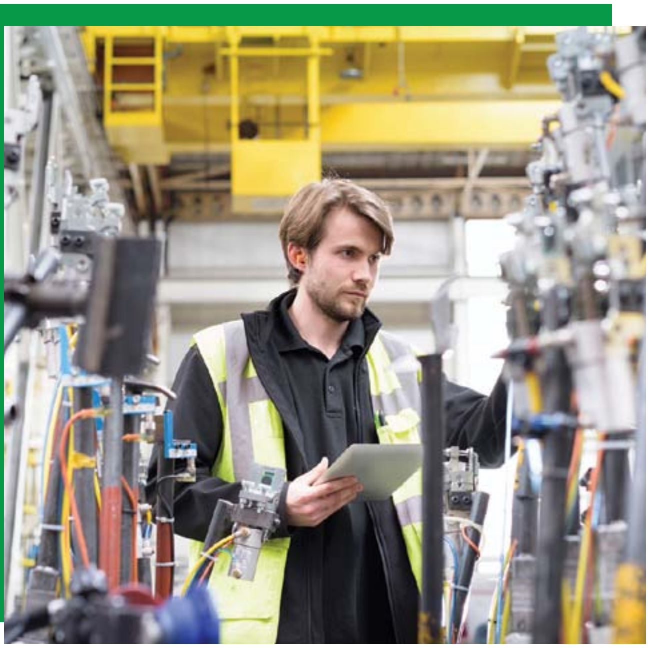
Schneider Electric

Schneider Electric pensions manager for UK & Ireland, Jerry Gandhi

Why does Schneider Electric as an employer feel it's important to care about its pension provision?

Schneider Electric's purpose is to empower all to make the most of our energy and resources, bridging progress and sustainability for all – we call this Life Is On.

We are committed to this view, which is reflective of how we treat our employees. Employee welfare is our upmost priority and additionally, ensuring we help them plan and achieve



Picture supplied by Schneider Electric

financial security both in the present and future is critical.

How does it show that commitment in practice?

Our pension offer recently moved from in-house trust to master trust and, as part of our commitment to our members, we take great care to ensure each person understands the pension offer, regularly considers how to maximise the opportunities provided and understands the value of saving for the future. This has been managed since 2015 through regular onsite workshops and, as of March 2020, we moved to online delivery with attendance counting towards the company-mandated annual 'individual learning' goals. Through 2021 and beyond, this focus will evolve towards the wider concept of financial security.

We recognise lack of financial stability and future planning can be a significant contributor to the wellbeing of our employees. New tools and opportunities aligned to the new master trust offering will enhance the ability to better support our employees. One specific area that demonstrates this is the diversion of all National Insurance savings the company makes from using salary sacrifice to the member's pension pot, in addition to the company meeting all indirect costs of the pension scheme operations.

This partnership approach provides the infrastructure, tools and time to allow our employees to develop their financial security, and it's important to mention that this is a partnership where individuals own the final outcome and must devote some time to the process. This allows our employees to maximise ownership of their future and has resulted in better member engagement from all, regardless of career or life stage.

How has the recent pandemic affected Schneider Electric's approach to pension provision?

The last year has been a challenge and the impact of the pandemic has not been without its issues for pension engagement. Despite that, from March 2020 through to April 2021, we have run 30 online sessions with over 50 per cent employee attendance. The move online has helped facilitate more individual conversations as people take the opportunity to better understand their savings and plan for the future.

What are your aims for the future?

As we move forward and in conjunction with our financial wellbeing focus, our aim is to work hard to translate the Schneider Electric Corporate sustainability principles across the business and into pension planning.

We all have a role to play in the environmental, social and governance arena – this needs to translate into and support the way the pension fund assets are deployed in the default funds we use and the options we give our employees.

Schneider Electric sees the evolution and delivery of the pension dashboard as a critical step in the journey to better understanding the total pensions landscape and the potential for the simplified benefit statement as great opportunities to engage further with our employees. We do feel the introduction needs to be via principles rather than mandated – freedom to apply these consistently with our internal ethos and aims is more important to us so we can align our internal messaging and maximise the value we can give to the process of delivering security into retirement.

Written by Francesca Fabrizi

Picture supplied by Schneider Electric

Fixed Income Guide:

A new look

Featuring:

- Whether now is the time for DB to go green
- How diversified credit is more than just a growth asset for pension schemes
- An interview with 20-20 Trustees trustee director, Martin Collins, about the impact of Covid-19 on fixed-income investment
- Company profiles

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Summary

- A popular alternative approach to fixed-income investment has been increasing allocations to private debt.
- Liability-driven investment (LDI) strategies continue to be popular as schemes seek to ensure their investment portfolios moves in line with liabilities.
- For those schemes that require some extra return, multi-asset credit strategies have also surged in popularity, while asset-backed securities (ABS) are appealing for schemes willing to take on a more complex fixed-income arrangement.
- Implementing environmental, social and governance (ESG) investment themes into fixed-income investment is considered a priority for the sector.

Is now the time for DB to go green?

Tom Higgins investigates whether low yields are fuelling new trends in fixed-income investing for defined benefit schemes

Bond investors have an unenviable job. In the past decade since the global financial crisis, getting a consistent and secure income from bonds has been increasingly difficult, leading defined benefit (DB) schemes to search for new approaches to meet liabilities.

As a measure intended to stem the consequences of the financial crisis, quantitative easing (QE) served to improve liquidity in financial markets and preserve the immediate ability of banks to serve their clients. However, the unintended side effects of QE have had a detrimental impact on the financial viability of pension investors, leading to pension schemes being forced to alter asset allocations and find new approaches.

In 2019, research from consultancy CREATE-Research, published by Amundi, found that over half of the 153 European pension schemes surveyed believed that QE had undermined the financial viability and prospects of pension plans.

The Covid-19 pandemic prompted the deployment of similar monetary policy tools, further increasing the pressure on bond allocations and prompting more schemes to shift their attention to alternative approaches.

Taking on private debt

One of the most popular alternative approaches has been private debt. Allocations to this broad and diverse sector have become more prevalent in pension fund portfolios as schemes seek out returns and yield.

Aided by the withdrawal of traditional lenders such as banks from private credit markets, 16 per cent of European pension funds had an allocation to the asset class at the end of 2020, according to Schroders, compared to just 2 per cent in 2013.

Willis Towers Watson head of manager research, Chris Redmond, says the increased interest has come from schemes needing to "diversify their credit portfolios and take advantage of the return and income pick-up found in illiquid strategies".

"With DB pension funds increasingly in the 'cashflow negative' phase of their lives, and consequently with a greater focus on income generation, a diversified private debt allocation can form a valuable part of a holistic solution to cashflow needs," Redmond explains.

In recent months, large UK public pension pools such as London CIV, Border to Coast and Brunel Pension Partnership have all begun instigating private-debt arrangements in an effort to access the 'illiquidity premium'.

Redmond says that the first steps in allocating to private debt are typically into middle-market direct lending. However, many pension schemes are also "embracing the broad options available in the asset class across collateral types", he adds.

Ross Trustees director, Pavan Bhardwaj, agrees on the benefits of a greater emphasis on private debt allocations.

"Pension funds are long-term investors, able to invest 'through the cycle', thereby taking advantage of the illiquidity premium, which other investors may not wish to, or be able to, access," he says.

The approach, Bhardwaj says, helps form 'cashflow aware' strategies for those funds requiring reliable income but also a yield more than that available from liquid credit strategies.

Fixing fixed income

Underpinning any fixed-income allocation is a market suffering from low interest rates, making any area of the asset class less than straightforward.

Bhardwaj highlights the continued popularity of liability-driven investment (LDI) strategies as schemes seek to ensure their investment portfolios move in line with liabilities.

"As funding levels have improved, schemes have gradually been able to increase hedge levels in order to offset movements in funding levels, which derive from changes in government bond yields as well as expected rates of inflation," he says.

Elsewhere, buy-and-maintain credit strategies are also growing in popularity among trustees, Bhardwaj says. Income from these portfolios can be matched to pension payments and other cash outflows, which can negate "the need to sell assets at inopportune moments", he adds.

For those schemes that require some extra return, multi-asset credit strategies have also surged in popularity due to their ability to provide a "relatively easy way for trustees to access less liquid and/or less creditworthy assets in a diversified manner", Bhardwaj says.

Asset-backed securities (ABS) can also appeal to those schemes willing to take on a more complex fixed-income arrangement. These are typically bonds secured against an underlying pool of assets that generate income, and can give investors additional diversification from core bond holdings.

Putting the DB in ESG

Unsurprisingly, environmental, social and governance (ESG) investment themes are gaining traction rapidly in bond markets. Almost all pension scheme trustees surveyed for a recent River & Mercantile and Pensions Management Institute report said they believed ESG integration should be a priority for the sector.

Premier Investment Consulting head of investment consulting, Mark Hodgson, sees the shift towards sustainability as "one of the biggest trends in fixed-income investing", with UK pension funds increasingly paying close attention to, and investing in, green and sustainable bonds.

"Pension funds, with influence from regulators, are being pushed towards ESG and carbon-neutral strategies, and are encouraged to be better custodians of the assets they invest in," he says.

The introduction of regulation and guidance such as the EU Green Bond Standard (EU GBS) has provided shape and direction to a sector that is anticipated to surge in the coming years.

The EU GBS, a voluntary set of standards for green bond issuers, is aligned with the wider EU sustainable finance taxonomy. Under the framework, bond issuers must provide details on the important aspects of how proceeds from the bonds will be used. It also includes non-mandatory reporting measures on climate change mitigation, sustainable use of resources and a transition to a 'circular economy'.

Redmond says demand for green and sustainable bonds currently outstrips supply, and "increasing issuance will help to balance this dynamic by increasing liquidity, reducing sector concentration and pushing green principles into the mainstream".

However, the trend is not without shortcomings. Increased issuance "is a positive development", says Hodgson, but there are potential unintended consequences. With the increased number of issuers, and the huge demand for green bonds, these assets may not always be what they seem.

Beyond the risk of greenwashing, ESG complexities arise because schemes' views on sustainability are rarely universal.

Hodgson says: "It is important to avoid using your own moral compass on a portfolio, attaching values that aren't aligned across all scheme members but to ensure that asset managers are including ESG as factor being considered when investing.

"Pension schemes must be comfortable with such realities. Sustainable bond investing will rightly increase, but allocation decisions are not simple."

A recent NN Investment Partners poll of institutional investors found that concerns about the financial returns of green bonds were the biggest barrier to their uptake.

Nearly half (44 per cent) of respondents said that worries about an inferior return on their investment was the leading inhibitor of green bond uptake, followed by fear of greenwashing (38 per cent) and insufficient market capacity (19 per cent).

However, the survey found that investors were still willing to incorporate green bonds into their allocations. Almost two-thirds (63 per cent) said they would incorporate green bonds into an 'impact bucket' – a separate allocation from standard bonds.

Only 20 per cent of respondents said that they would use them to replace corporate bonds and 17 per cent to replace government bonds.

There are also the practical issues associated with green and sustainable bonds. Unlike equities, bondholders do not get an annual meeting at which to hold the investee company board to account, limiting the impact bondholders may be able to exert.

However, as decarbonisation efforts heighten in intensity, the green bond market will mature and will inevitably play a greater role in DB portfolio allocations.

As bond investors continue the hunt for reliable sources of income amid a sluggish market, new approaches and trends will continue to emerge. The success and proliferation of green bonds will remain a hotly discussed topic, and but whether the implementation and success of schemes match the demand and ambition of investors remains to be seen.

Written by Tom Higgins, a freelance journalist

There's more to diversified credit

Jonathan Joiner and Toby Orpin explore whether diversified credit is more than just a growth asset for pension schemes

We believe that diversified credit (or multi-strategy credit) has a number of uses in pension portfolios. As the name suggests, many people typically look at the strategy as a diversified way of accessing a broad spectrum of higher yielding credit assets. This can offer investors a more stable return profile than an equity-heavy strategy, to enable scheme de-risking without overly sacrificing return targets.

However, in this article we explore another use for diversified credit strategies: how allocating to diversified credit can help schemes manage their cashflow requirements without extending the timeframe for reaching their chosen endgame. We also touch upon the increased importance of integrating ESG (environmental, social and governance factors) into these strategies, not only to invest for a better future, but also to help drive investment value in this rapidly changing environment.

Background: the CDI conundrum

As defined benefit pension schemes continue to mature, trustees are often faced with the challenge of balancing cashflow needs, return requirements and preparing for the endgame. This has raised cashflow driven investment (CDI) strategies as an increasingly important item on investment committee agendas.

Typically, a core component of CDI portfolios is investment in assets that deliver a defined set of cashflows with a relative degree of certainty. At the conservative end of the CDI spectrum, this can narrowly be defined as government and investment grade corporate bonds. But allocating only to these asset classes in pursuit of cashflows can create a challenge for pension schemes, even the very well-funded ones.

Cashflow challenges: why IG credit may not be enough

The sharp recovery in asset prices from March 2020, coupled with the recent rise in yields in the opening months of 2021, will have been beneficial for most schemes' funding levels. Despite this, the majority of schemes' funding levels are not high enough to be able to fully cashflow-match with a portfolio just of gilts and public investment grade ('IG') credit. This has been made even harder by the fall in credit spreads, limiting the expected return a scheme can achieve from investment grade credit. The example well-funded scheme detailed in Figure 1 has switched its strategic asset allocation into buy and maintain (B&M) corporate bonds and LDI, and is running a very low risk portfolio on a buyout basis.

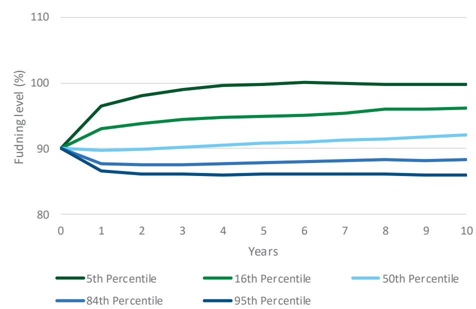
Figure 1: Example well-funded scheme

Funding Level on gilts basis	90%
Expected return	Gilts + 0.56%
Funding Level at Risk [1]	3.2%

Source: LGIM as at 30 September 2020. For illustrative purposes only.

The expected return for this portfolio is only 0.56 per cent over government bonds. As shown in Figure 2, it would take the scheme a significant amount of time to achieve full funding, despite its current strong position. Depending on the specific features of the scheme, retaining this portfolio allocation and expected return could be described as 'recklessly prudent'.

Figure 2: Low-risk portfolio will take a long time to become fully funded



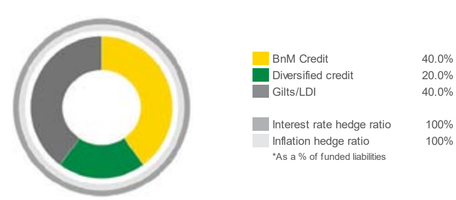
Source: LGIM as at 31 December 2020.

How diversified credit can help

For pension schemes who are similarly looking to de-risk into a CDI strategy but require higher returns than offered by IG public credit markets and government bonds, we believe allocating to diversified credit can provide an attractive option. By diversifying credit exposure within your CDI portfolio to incorporate a greater range of asset classes, including emerging market and high-yield debt, it is possible to construct a portfolio which, for a relatively small increase in risk, could result in a significantly higher expected return.

To illustrate, we return to the example scheme. In Figure 3, the scheme has

Figure 3: Allocating to diversified credit



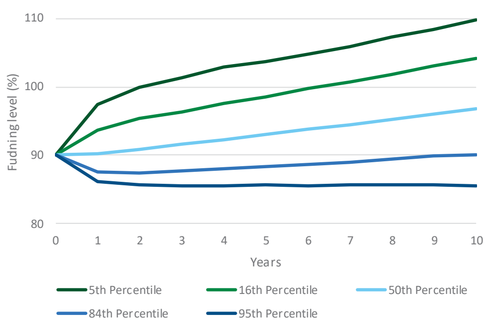
Funding Level on gilts basis	90%
Expected return	Gilts + 1.23%
Funding Level at Risk [2]	4.0%

Source: LGIM as at 30 September 2020.

reallocated 20 per cent of the B&M credit holdings to a diversified credit mandate. This causes the expected return over government bonds to double.

The funding level at risk on a buyout basis increases, but only marginally so. This is in part due to the good correlation (c.0.45) of diversified credit with investment grade credit, and therefore with buyout prices. The result can be seen in Figure 4, where the

Figure 4: Achieves full funding within 10 years



Source: LGIM as at 31 December 2020.

scheme is now expected to achieve full funding in 10 years' time. In addition, the higher return means that the absolute downside risk becomes lower over the longer term.

When we build diversified credit portfolios, our focus is on constructing a relatively balanced exposure to the higher yielding part of the credit universe using our credit research capabilities. This ensures that we are not over-exposed to any single part of the credit market at the wrong time. However, at the same time, this positions the portfolio to aim to gain exposure from the higher yields on offer in aggregate. We also dynamically shift portfolios and aim to benefit from market movements and seek to protect against risks where possible.

Responsible investment

The longer time horizon of CDI portfolios increases the focus on longer term prospects for companies, placing a heavy emphasis on responsible investment and sustainability considerations. This increases the importance of measuring the ESG impact of investment decisions to minimise any negative effects and to work with companies to encourage and develop positive practices that can lead to more sustainable outcomes.

One approach to assist in achieving this is to align our portfolios with the UN's Sustainable Development Goals ('SDGs'). We believe that the UN SDGs create a 'blueprint' for a more sustainable world. They provide a useful structure for measuring the impact of investment portfolios on the environment and on society, and they also enable investors to focus their engagement efforts on acknowledged themes of importance for companies and governments, and to align their activities with other significant stakeholders around the world.

Integrating the UN SDGs

How can this be achieved in practice? A key element is ESG analysis being integrated directly into the fund management process. This requires research to incorporate a focus on 'financially material' risks and opportunities stemming from ESG factors (i.e. they have the potential to affect a company's financial or operating performance). To align with the UN SDGs, investors will need to ensure there is no exposure to companies that are 'negatively aligned' when it comes to the SDGs.

To assess each company's alignment with the SDGs, an investor needs to look at both business practices and revenues from products.

Our proprietary framework uses ESG indicators and maps these onto the appropriate SDGs. This allows us to ascertain whether a company is positively or negatively aligned with SDGs. Our analysis requires both quantitative assessment and qualitative analysis as we recognise that data on ESG, while improving, may not capture all the important factors and features that should be taken into account.

Conclusion

Diversified credit is not the only potential solution for pension schemes looking to meet their cashflow requirements without extending the time horizon for their journey to endgame – it can be part of a holistic approach, working alongside other portfolio elements (such as, for example, an allocation to private credit markets, which tend to have a higher illiquidity premium) to enable schemes to meet their cashflow requirements without significantly extending their timeframe for reaching endgame. We believe that diversified credit is one of the important options that schemes can look to consider, offering both the potential opportunity for generating stable cashflows, and integrating ESG.

Written by LGIM senior solutions strategy manager, Jonathan Joiner, and head of global fixed income distribution, Toby Orpin

In association with

LGIM

[1] Defined as the amount the scheme's funding level could worsen in a 1 in 20 downside scenario over 1 year on a buyout basis. As at 31st December 2020

[2] Defined as the amount the scheme's funding level could worsen in a 1 in 20 downside scenario over 1 year on a buyout basis. As at 31 December 2020

Growing old with fixed income

Jack Gray chats to 20-20 Trustees trustee director, Martin Collins, about the impact Covid-19 may have on fixed-income investment and the vital role it could play in a more ESG-conscious investment environment

What role do fixed-income investments play in a portfolio?
It is the dominant asset class for the most mature pension schemes, and as a scheme matures it tends to take up an increasing proportion of a scheme's assets because it contains the lowest-risk asset classes, which are the most suitable investment for more mature schemes. Most fixed-income assets are relatively low returning but low risk, but there are some quite funky ones that are more equity-like in nature, like private debt.

The other thing within the fixed-income universe is you have very liquid investments like gilts and some forms of corporate credit, and some very illiquid assets like private debt. Illiquid assets are expensive to sell if you have to in a hurry, so those types of fixed income are less suitable for schemes approaching a buyout or buy-in.

Most pension schemes are getting really mature now, so most are at the stage where it is a big part of what they do. It includes liability-driven investment (LDI), which is one type of fixed-income investment. Most schemes have got some LDI now and a lot of schemes have got a lot. There are not many schemes that do not use it at all. If you go back 30 years when schemes were much less mature, schemes might have a 10 per cent allocation to credit and a tiny amount in gilts, but now it is not uncommon for it to be 50 per cent.

Does fixed-income investment vary depending on scheme size?
The type of fixed income used will not vary much by scheme size. Generally, managers have got good at providing most asset classes to smaller schemes through collective investment. Most can do anything for smaller schemes often in a different form. For things like LDI they would use something that is a bit clunkier and less tailored whist doing the same job. Some of the niche, high-returning assets are only made available to very big schemes or fiduciary managers but generally allocation does not tend to depend on scheme size.

Defined benefit (DB) schemes in the UK have seen their funding position improve so far this year. How much of this can be attributed to bond performance?
Generally, it has been a good time for return-seeking assets. There are two reasons why this has happened. Equity markets have had a good run, which impacts credit only a little. Also, bond yields have been rising. Gilts have been falling in price, which means for many schemes that hold a lot of gilts, counter-intuitively, that is often good news, because it means the cost of doing more hedging has fallen. Generally, you buy gilts as part of your hedging strategy to lock down risk and once you have got them, you never sell them. If the price of continuing to hedge more gets cheaper, that is good news. So there are not any schemes out there regretting what they have done, unless they did a big hedging programme last year, which would have been very bad timing with hindsight.

The improvement in the funding position also means that schemes that have not hedged have been helped enormously. For those types of schemes, if they are not on the LDI bandwagon already, it is a very good time to start.

What impact did Covid-19 have on fixed income and what is the general direction of travel?

The most interesting part of fixed-income investment, other than hedging, is credit. Credit is lending money to people and, when you are doing that, what affects your returns mostly is avoiding the dud investments where you lose the money you lent to people. When hiring credit managers, you are most focused on risk management and finding managers who avoid bad investments. That is what is most impactful. You lend money and have a fixed-rate return on that. You will achieve that return unless the person you are lending money to defaults.

The pandemic has obviously been a massive economic shock, but company insolvencies have been much lower than expected because of the government's support packages. Initially, we thought that credit would be badly impacted and there would be mass failures, particularly in some industries like airlines, but actually government relief has meant we have had very low insolvencies. There is a theory that perhaps when the government relief packages wear off some time in the next few months, it could be a very bad time for credit. It is possible the impact has just been deferred. It is the kind of thing where the credit managers have not really been tested yet by the pandemic and we will find out who will get hurt probably over the next six months. Those issues are stored up for when company defaults start occurring.

It will be a test of general good principles of risk management. Risk management is so important in credit investment, it is the principal thing you are looking at. If your managers have invested 50 per cent of the portfolio in aviation credit and the holiday sector, they will probably get absolutely caned at point in the next year. But they should not have done that. One of the things it shows is that managers cannot predict everything that is going to happen, so expect some bad news, but hopefully you have picked managers that have good risk management credentials and have minimised that damage when it comes.

Were lessons learnt from the 2008 financial crash?

The trouble with these crises is that, if you are doing risk management in the rear-view mirror, you are protecting against what happened in the past rather than what will happen in the future. It is very easy to judge people with hindsight but obviously no-one saw Covid-19 coming. If you go back 10 years, it was on the risk radar but it was one of 20 things, so it was not thought of as a probable event. The danger is you invest nothing at all if you go too far with a risk approach.

How well are fixed-income investments adapting to a world that more conscious of environmental, social and governance (ESG) factors?

There is going to be a genuine opportunity with so much investment in infrastructure, like renewable energy, so it will be a natural marriage for the higher-returning credit investments for pension schemes. The government is starting to think about how it can promote that kind of investment to pension schemes as part of its green recovery. There are natural investments there. Thinking about risk management, you want to think about going into those sectors prudently and avoiding concentration. Generally, they are going to be illiquid investments, so if you are coming up to buy-in or buyout then too much in illiquid investments is not good because you may have to sell it at a loss to get out.

The other thing that has been an issue since the growth in interest in green investment is greenwashing. It is the process of managers, when they are marketing investments, making them sound green when they are not really. So there is a danger of that. But I think there are going to be some good green opportunities. I mean good in two senses: in terms of an increasing desire to be using pension scheme money for good, but also to get good returns. It is not just going to be an ethical conscience premium that you pay, there will be some good opportunities.

Do you see the introduction of the UK's first Sovereign Green Bond having much impact?

It is a leadership thing. In itself it will not be material, but is it an interesting act of leadership to set the direction of travel. That is to be applauded.

Written by Jack Gray

Legal & General Investment Management (LGIM)

We are Legal & General Investment Management (LGIM), the asset-management arm of Legal & General Group. Our purpose is to create a better future through responsible investing. We strive to achieve this through a strong sense of partnership with our clients, working together to achieve positive long-term outcomes. We draw on industry-leading expertise to innovate constantly across public and private assets, index and active strategies. And we are a responsible investor, rising to the challenges of a rapidly changing world.

On behalf of savers, retirees and institutions worldwide, we manage £1.2 trillion in assets.* We recognise that our significant scale and stature, and prospects for growth, are only possible courtesy of highly satisfied clients.

Being part of Legal & General grants us a unique strength. Everything we do is informed by our parent group's vision of Inclusive Capitalism, which seeks to share the benefits of economic growth among as many people as possible.

At the same time, we are a unified business that is modern, dynamic and restlessly innovative on behalf of our clients. Our investment strategies cover a broad array of asset classes and styles, including equities, bonds, property and alternatives, as well as multi-asset funds.

We are truly international, present where our clients need us. Our teams around the world are highly dedicated, professional and collaborative and we draw strength from our diversity of talent. We are clear on what we stand for and our commitment to inclusivity anchors our behaviours.

**LGIM internal data as at 30 June 2020. The AUM disclosed aggregates the assets managed by LGIM in the UK, LGIMA in the US and LGIM Asia in Hong Kong. The AUM includes the value of securities and derivatives positions. 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*

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Pensions Age

Pensions Age is the leading title targeting those managing UK pension funds and their consultants. Published monthly in print since 1996, and daily online, we invest heavily in our circulation and content to ensure we are the clear market leading title. Our in-house editorial team of Francesca Fabrizi (Editor in Chief), Laura Blows (Editor), Natalie Tuck (Associate Editor), Jack Gray (News Editor), and reporters Sophie Smith and Duncan Ferris, ensure we cover the latest news and topical industry issues to help our readers make the best-informed decisions.

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Pensions Age also runs highly successful conferences, and the Pensions Age Awards.

We also publish *European Pensions*, which targets pensions funds across Europe, as well as running the European Pensions Awards and Irish Pensions Awards.

PENSIONSAge

Lost and found

Summary
• Lost pension pots are very common, with around £19.4 million of unclaimed pensions, according to figures from the ABI.
• However, there are a number of ways members can track down lost pots, such as The Pension Tracing Service, contacting their pension administrator or through independent industry initiatives.
• Once found, experts suggest making sure members keep their contact details updated to keep track of their pensions, or look at consolidation as an option.
• The pensions dashboards are set to be a game changer in this area and should help resolve the problem of lost pension pots.

With many savers having multiple jobs over their working life, lost pension pots are a common occurrence. Natalie Tuck explores how the industry can help savers track down missing pension pots

Being able to live comfortably in retirement requires a pot of £265,420 for a couple receiving the state pension who want to purchase an annuity, according to the latest analysis by Which?. It's no small sum, which is why it's imperative that members keep a track of all their pension savings.

The problem is that with the introduction of auto-enrolment, and the trend of having multiple jobs over a working life, lost pension pots are extremely common. Figures from the Association of British Insurers (ABI) published in May 2020 revealed that there was £19.4 million of unclaimed pension savings from around 1.6 million pension pots.

Legal & General retail retirement income managing director, Emma Byron, says: "The average value of lost pots has been estimated at nearly £13,000 and the government predicts there will be as many as 50 million dormant and lost pensions by 2050. Our own research has told us that people have found that tracking them down themselves can be complex and time consuming."

In addition, in the past year, The Pensions Advisory Service (TPAS) received almost 10,000 enquiries about tracking down lost pension pots, according to a spokesperson from TPAS.

But why do people lose track of their pensions? Aegon head of pensions, Kate Smith, says there are many reasons: "This could be due to the pension provider or employer changing name through a company merger or being acquired by another business.

"Another common reason is that often people forget to tell their pension provider of their new address when they move house."

Buck head of DC and wealth, Mark Pemberthy, adds: "In general, schemes don't trace the addresses of their members, which means that if a member moves and doesn't update their administrator, they could lose track of their pension pot."

Current services

The good news is that, for members with lost pension pots, the industry and government-backed services are on hand to help. As a starting point, a TPAS spokesperson says that members should check any paperwork, such as annual benefits statements, as this will give a good indication about what they are entitled to and who administers the scheme. Although, they highlight that if it is an old scheme, the administrator may have changed by now.

Indeed, finding the pension administrator is the best course of action, according to Saint James's Place head of pensions strategy, Claire Trott, who says: "If you don't have any documentation, then you can use a search facility provided by the government. If you know the employers' name then www.gov.uk/find-pension-contact-details is the best place to start. You can search as many times as you like, and it is free. I would avoid using a paid-for service."

The above website is part of The Pension Tracing Service offered by the government to help people locate workplace pensions, which can also be accessed by phone for those that would prefer. Another option is to contact the old employer directly to find out where the pension is held. TPAS also suggests using Companies House to find out company contact details or speaking to colleagues that they may still be in touch with.

When contacting their pension provider, TPAS advises that members will need to provide information such as their name and date of birth, National Insurance number, the date they joined and left the scheme and the name of their employer when they were a member of the scheme.

When it comes to the length of the process, Smith says this will depend on whether the individual has retained any details of the employer or pension provider.

"If the individual has these details they can be inputted into The Pension Tracing Service. If the employer or pension provider is on the database, contact details will be provided. So the next step is to write to the employer/pension provider with their details… The pension provider/employer will then go through their identity verification process, and if there's a match, contact the individual with details about their pension scheme, or possible request further information to confirm the individual's identity."

The Pension Tracing Service is not always a successful option, however. Byron says: "Research carried out by Legal & General showed that, of those who have tried to track down their lost pension through the government's Pension Tracing Service, approximately a third (32 per cent) did not have the right details and 16 per cent found it too complicated."

It's also worth highlighting that pension providers and scheme administrators carry our regular exercises to try to trace members they have lost touch with. Smith notes: "These are usually in the run-up to the individual's selected retirement date. They will continue to carry out these exercises until they have managed to track down the members. Although there will be a small minority of members they aren't able to trace."

In addition, Byron says that Legal & General has launched two services to try to help members locate their lost pensions. This includes a 'standalone' tracing service, to help people find lost or forgotten pension pots, and a consolidation solution, for those wanting to bring their various pension savings together with Legal & General.

"Legal & General has created a simple and time efficient online process, requiring minimal details on a customer's pension and past employment. The customer can then see their current values and, where possible, whether there are any penalties, guarantees or valuable benefits they should be aware of, helping them to make an informed decision on their next steps.

"Once pensions have been traced the information is displayed in a personal dashboard to ensure customers don't lose track of them again. We recognise that not everyone is ready to make that consolidation decision until they have a better understanding of all their pension savings, which is why we have the 'stand-alone' tracing option for customers unsure of their next steps."

Keeping track

For those that go through The Pension Tracing Service or contact the company directly, the best way to keep track of their newly found pension is to make sure that their contact details are up to date.

Trott says: "Ensuring that you keep your contact details up to date is key. Not just for pensions but all financial products. You should make sure that you update them if you move or change name and it is always important to ensure that any beneficiaries for your pensions are always reviewed and updated."

Another idea, suggested by Smith, is for members to sign up to online services offered by their provider or pension administrator, so they can see their pension online at any time.

Pension consolidation is also an option. Pemberthy says: "If a member has multiple small DC pension pots, then consolidating these into one larger pot can also make it easier for them to manage their money, particularly as people tend to take more notice of their pension as the value becomes more substantial, so one large pension pot is likely to get more attention than lots of smaller ones."

Pensions dashboards

All of the above, however, should become irrelevant with the launch of the long-awaited pensions dashboards. According to Byron, they have the potential to be a game changer.

Due to be launched in 2023, the programme is being led by TPAS, which is working together with the government, regulators and the pensions industry to develop pensions dashboards that will help savers keep track of their pensions.

Trott believes that once the dashboard is fully established, cases of lost pensions will become very rare. "It could be the case that the provider may not hold sufficient information to match a search, in which case it wouldn't show on anyone's dashboard. This is where the cleansing of data and the careful implementation of the dashboard will hopefully mean that this isn't a general occurrence and the provider can try and resolve the issue manually."

Smith echoes this and hopes that the dashboards will mean that people never lose touch with their pensions again.

"They should be able to simply go online to the dashboard, input their ID details and request details of all their pensions. This will them allow them to see all their pension online, in one place, including contact details. However, there's still a long way to go; the first pension dashboard won't be live until 2023, and it'll be a few years until all pension schemes are able to share their data with dashboards. So, it continues to be really important for people to keep in touch with all their pensions and keep their records up to date."

Written by Natalie Tuck

Summary
• The threat of online scams has increased amid the pandemic, with fraudsters making away with more than £78 million of savers' money thanks to clone firm scams.
• Legislative action is needed, and some changes have been announced, such as the inclusion of user-generated fraud in the Online Safety Bill.
• More must be done to protect savers, but raising consumer awareness, so savers can also protect themselves, has a key role to play in the meantime.

One step ahead

Amid growing industry pressure, the government has confirmed that user-generated fraud will be included in the Online Safety Bill, but is this enough to protect savers and what more still needs to be done as scammers evolve to an online world? Sophie Smith reports

Scammers do not rest on their villainous laurels, they are constantly evolving, and despite industry and government action to fight these fraudsters, they often seem to remain just one step ahead.

Indeed, Pensions Minister, Guy Opperman, recently issued a warning for savers to be wary of unscrupulous scammers operating online, as the Department for Work and Pensions (DWP) acknowledged that, despite government action to combat pension scams, such as the cold calling ban and the transfer blocking powers introduced in the Pension Schemes Act (PSA) *[discussed in more detail on page 55]*, there is "no doubt" that pension and investment scams continue.

In particular, commenting after the passing of the PSA, Opperman noted that whilst the powers introduced by the act will go some way to help with pension scams, work is still ongoing to tackle the 95 per cent of the problem estimated to be stemming from clone sites and online issues.

Attack of the clones

Action Fraud joined forces with the City of London Police and the Financial Conduct Authority (FCA) earlier this year, to warn against the threat of 'clone firms', after fraudsters made away with more than £78 million using these scams in 2020. These 'clone firms' are set up using the name, address and 'Firm Reference Number' of real companies authorised by the FCA, often leaving victims unaware that they have been the victim of a crime until they fail to receive returns or investment reports.

"Clone firm investment scams are unbelievably convincing and pretending to be a well-known brand name is fundamental in persuading consumers to part with their cash and, sadly, their life savings," warns Aviva UK financial crime risk director, Paul Pisano.

Action is already being taken to prevent these fraudsters, as Pisano stresses that once Aviva is notified of a fake website dishonestly using its brand name, the group does "everything with its power" to have these taken down. "Where we identify unauthorised online content, we will first ask the respective platform to cease and desist by contacting the site registrar or by submitting a fraud complaint," he states. "If that's unsuccessful, we may proceed to take a legal route for the offender to cease and desist."

He clarifies, however, that despite working round-the-clock alongside authorities to fight these websites, new ones "inevitably" pop up, explaining: "The challenge we face is that these frauds take place outside of our controlled environment. We are dependent on the content providers, the online platforms and the authorities to remove the websites or get the offender to stop the activity."

Opperman also echoed this when speaking at a Work and Pensions Committee (WPC) hearing on pension scams, stating that individual firms such as Aviva are now going to the "next degree" and paying money to persuade sites such as Google to take down fraudulent sites. He said: "We as legislators need to take a very long hard look at how it is we are going to regulate online operators on an ongoing basis."

The pensions industry and financial sector have also been clear in their stance.

Quilter CEO, Paul Feeney, wrote to Prime Minister, Boris Johnson, and Minister for Digital and Culture, Caroline Dinenage, calling for the inclusion of financial scams in the Online Safety Bill, as did Phoenix Group.

In addition to this, a number of financial organisations, including the Association of British Insurers (ABI), MoneySavingExpert, UK Finance and B&CE, also wrote to the government to highlight the bill as the "perfect opportunity" for action.

Perhaps most notably, the report published following the WPC's pension scams inquiry, *Protecting pension savers – five years on from the pension freedoms: Pension scams*, also called for tech giants to be held responsible for their role as a key recommendation, urging the government to act "quickly and decisively" and to use the bill to legislate against investment fraud.

Speaking to *Pensions Age*, WPC chair, Stephen Timms, says that whilst consumer groups and public bodies have "long been calling for action to crackdown on the pernicious threat of online scams", the addition of the cross-party Work and Pensions Committee voice to the campaign gives some hope that the government will "finally act" and use the Online Safety Bill to introduce proper protection for savers from scammers and fraudsters.

"The Pensions Minister, Guy Opperman, has fired a warning to Google and others, that unless they start verifying advertisers, legislation will be on its way," he continues.

Consumers too are keen for action, with a recent survey from Phoenix Group revealing that 46 per cent of savers think online platforms and social media providers should take responsibility, whilst 51 per cent think the duty should lie with financial institutions, and 39 per cent view the government as accountable.

Pressure to act

Amid growing pressure, it was confirmed that user-generated financial fraud would be included in the Online Safety Bill. However, whilst many have praised the development, concerns, particularly around paid-for adverts, persist.

Quilter head of retirement policy, Jon Greer, warns that although it is great to see the government listening to calls for action on the growing threat of scams, investors shouldn't breathe a sigh of relief "just yet" as cloned websites, fraudulent adverts and scam emails will not be included in the bill, despite constituting "the bulk of the harm".

Pension Scams Industry Group chair, Margaret Snowdon, agrees that it is difficult to say what the impact of the bill will be on scams considering the scope of the bill, while AJ Bell senior analyst, Tom Selby, warns that the devil could well be in the detail.

"Any intervention that makes it harder for scammers to defraud people is a good thing, but the real prize here has to be ensuring big tech firms like Twitter, Facebook and Google take more responsibility for all of the content they facilitate – both paid and unpaid," he warns, arguing that not including paid advertisements would "feel like a missed opportunity and clearly limit the impact of the legislation".

Echoing this, Timms argues that the inclusion of user-generated online fraud should be "just be the first step in bearing down on financial harms online", stating that the government must use the opportunity to tackle what is an "existential threat to the UK economy".

"The bill would fail to live up to its name if it did not also include online advertising, which internet firms such as Google are making huge amounts of money from without being obliged in any way to check to see whether advertisers are genuine," he says. "If Google or other search engines are paid to publish, they need to be responsible as publishers. We hope the government will ensure that all financial harms are included as the bill makes its way through parliament."

Consumer groups have also echoed these concerns, as Which? director of policy and advocacy, Rocio Concha, explains that the government has now recognised that the major online platforms people interact with every day have a responsibility to protect their users from scams. "It is crucial that the Online Safety Bill gives them a legal responsibility to prevent, identify and remove fake and fraudulent content on their sites – including the vast number of adverts posted by criminals," she stresses.

Too long to wait?

Commenting in response to the concerns, a government spokesperson says: "We have brought user-generated fraud into the scope of our new online laws to increase people's protection from the devastating impact of scams.

"In addition, our Online Advertising Programme will consider further regulation relating to online advertising. We are recruiting more police with specialist skills as part of our commitment to recruit 20,000 new officers, and providing scam reporting and takedown services to remove malicious or fraudulent websites."

Indeed, the government previously announced plans to consult on the role online advertising can play in enabling online pension scams later in 2021. It also confirmed that the government would be considering how online advertising is regulated through the Online Advertising Programme, with this expected to focus on ensuring standards about the placement and content of online advertising are "effectively applied and enforced".

However, whilst Greer agrees that the programme could be a potential legislative solution, he points out that it is a long way off, with legislation potentially three or four years out, and likely to look much like the Online Safety Bill, only with the addition of scam adverts.

"So why wait?" he asks. "Why not just include adverts and cloned websites to the Online Safety Bill now and save a considerable amount of time and a significant amount of money for investors?"

Greer also stresses that the principle of any legislative action should be to shift the responsibility away from individuals, clarifying that whilst individual responsibility is needed to some degree, technology companies should have much greater responsibilities to stop fraudulent content appearing in the first place.

Protecting savers

Snowdon points out that regulation of adverts on mainstream media and broadcast media drives standards, with penalties for breach and power to remove, arguing that online should be no different. "Social media content is more prolific and therefore it is harder to spot scam material among the noise, but it not beyond the ability of tech companies to find and remove financial offerings placed by unauthorised people or entities, or that make untrue claims," she says.

Echoing this, Concha says: "Tech giants, such as Google and Microsoft, have some of the most sophisticated technology in the world, yet they are failing to use it to prevent scammers from abusing the platforms by using fake and fraudulent content on an industrial scale to target victims and devastate lives."

Action is already being taken, however, as Google recently announced plans to pledge $5 million in advertising credits to support public awarenesss campaigns to help protect people from financial fraud.

According to Google, it has also been working in consultation with the FCA to introduce new policy updates to prevent bad actors and fraudulent behaviour.

As part of this, Google has asked the FCA to notify them when they make aditions to their warning list, alongside

Raising awareness

Amid increasing concern about the damaging impact of financial scams on savers, campaigns that look to raise consumer awareness are even more crucial, particularly as the pandemic places even more people in at-risk situations.

In an effort to create a network of confident and alert consumers who know what to do when they spot a scam, Citizens Advice runs an annual Scams Awareness campaign, with this year's campaign running from 14 to 27 June. It's run in collaboration with the Consumer Protection Partnership, which includes organisations such as Trading Standards and the Department of Business, Energy and Industrial Strategy (BEIS).

Citizens Advice says that a huge part of tackling scams is making sure people know about them, and what they can do to protect themselves. The campaign therefore aims to give consumers the skills they need to recognise scams, including pension scams, and empower them to act if they've been targeted by one.

It also aims to encourage people to talk about their experiences with scams, with consumers encouraged to report any scams they do spot to Citizens Advice Scams Action to help others.

There are already a range of pension scams being reported to Citizens Advice Scams Action. Examples include an individual who was warned their pension firm was going into administration and they could instead release some cash now, rather than lose all of their money, and another person who was told they had committed fraud on their pension and must call a number immediately.

"Pension scams can come in many forms, such as someone calling out of the blue offering exceptional returns on investments or a land investment scheme with development opportunities which will give you high returns," explains Citizens Advice consumer expert, Jerry Houseago.

"The key thing to remember is, if it sounds too good to be true it probably is. Remember how long you've spent saving for your pension – deciding what to do with it should never be a rush job. Take your time, make an informed decision, and if you need help make sure you get it from an FCA-regulated firm."

introducing new requirements for certain advertisers who are engaged in the promotion of financial services, and making a recent update to its unreliable claims, which prohibits unrealistic promises of large financial return with minimal risk, effort or investment.

It will also be developing and rolling out further restrictions to financial services advertising in the UK over the next few months.

Commenting in response to the concerns, a Google spokesperson says: "Protecting consumers and legitimate businesses operating in the financial sector is a priority for us. We have been working in consultation with the FCA for over a year to implement new measures and we are developing further restrictions to financial services advertising to tackle the scale of this increasing issue. We are the first technology company to join Stop Scams UK to develop and share best practices with existing members from financial services and telecoms industries."

But more action is clearly needed, as figures released by City of London Police have shown over £63 million was lost nationally by victims of investment fraud who referred to a social media platform in their report to Action Fraud, with some approached directly by an investment fraudster, whilst others were attracted through adverts.

This fraudulent social media activity has in turn supported scams that utilise clone websites, with social media influencers used to add credibility to offerings, and some reports even mentioning seeing LinkedIn profiles for the broker who approached savers, which helped persuade them of its legitimacy.

"The public needs to be aware of the existence of fake ads and fake websites and how to spot them and media companies need to filter out fraudulent content," Snowdon stresses, warning that whilst people generally do know about fake ads, they always think it catches other people and not them.

However, the latest figures from City of London Police have suggested that the use of social media by criminals is starting to buck the trend for typical investment fraud victims, with 19-25 year olds representing 27.5 per cent of all investment fraud victims who mentioned social media in their report, while 61 per cent were men.

"Members do not trust the pensions industry as it is and the rise of online pension scamming just makes it worse," Snowdon warns. "Pension providers need to engage more personally with their customers, so that customers feel that they belong and that their interests are protected."

Consumers are seemingly ready to listen, as recent research from LV= revealed that whilst around 47 per cent of Brits, around 25 million people, viewed pension scams as hard to spot, 41 per cent of savers were also keen to improve their knowledge.

However, research from Phoenix Group has suggested that many UK adults are turning to the internet, rather than advisers, for support, with almost half (49 per cent) of 18-34 year olds looking online or to social media for financial information *[see page 72 for more information]*. And scammers have made the most of this opportunity, as 21 per cent also reported that they have received unsolicited financial advice through social media, whilst 20 per cent have through online search engines.

Action to support savers online is clearly needed sooner rather than later then, and whilst the latest figures around social media fraud have added to the pressure for legislative action, there are steps the industry can take to support savers in the meantime.

As B&CE, provider of The People's Pension, director of policy, Phil Brown, says: "Although legislation must always be at the heart of the fight against crime, pensions fraud takes many different forms and there are a number of things that the industry and authorities can do.

"Implementation of a training requirement for pension and finance professionals to ensure they can identify scam risks and are aware of the channels for reporting concerns would help combat fraud.

"One of the best ways to ensure that savers can access reliable, safe information and guidance is by encouraging them to use regulated platforms, including the websites of their own pension providers. Consumers are more likely to engage with such websites if the content provided is written in clear, concise, jargon-free language."

Industry campaigns such as the Citizens Advice Scams Awareness campaign also have a key role to play in raising awareness and helping members to protect themselves, as Snowdon warns that pension scammers will continue to evolve, with savers and the industry urged to keep on their toes.

Pisano agrees, stating that, sadly, fraud is like water, flowing through the cracks to find points of weakness and the path of least resistance. "If you tackle one type of fraud, another inevitably pops up to replace it," he continues.

And with lockdown measures easing, it seems inevitable that fraudsters' tactics will once again evolve and develop.

Considering this, Pisano stresses that it is more important than ever that people remain vigilant and report any suspicious communications, stating: "The best chance we have of catching these criminals is through better information sharing. The industry needs to work together with the authorities to support each other in protecting the public and our customers."

Written by Sophie Smith

The fight against fraud

Pensions Minister, Guy Opperman, discusses the latest steps that the government is taking to help in the fight against pension scams

Pension scammers are the lowest of the low, stealing people's hard-earned savings and ruining the lives of people who have worked hard for decades to get the retirement they want.

These callous crooks are always changing their tactics and, after the government introduced the cold-calling ban in 2019, many moved the goalposts to ensure their nefarious schemes were tricky for even the savviest to spot.

Fraudsters now prefer to use more sophisticated online scams, contacting victims through social media and promising a too-good-to-be-true return on investment – often boasting returns that are 7-8 per cent higher than normal.

This type of unscrupulous behaviour hasn't gone away during the pandemic either – where there's a crisis, there are also those who try to take advantage. Figures for January to August 2020 show that £1.22 million in pensions assets was stolen due to cloned websites, contributing to a total of £78 million lost in the entire year.

Making sure people have the retirement they want is my focus and it's vital, with many of us turning to online services and engaging with the digital marketplace, that savers have the right tools to engage with companies online and protect themselves from the criminals trying to steal their savings.

That's why, to mark Citizens Advice's Scam Awareness Campaign 2021, I'm highlighting the major action that we at the Department for Work and Pensions (DWP) are taking to fight against pension scams.

DWP protection and prevention measures

In February, the landmark Pension Schemes Act received Royal Assent. The Act enhances the powers of The Pensions Regulator, giving them the means to issue civil penalties of up to £1 million, alongside three new criminal offences, to punish those who wilfully or recklessly plunder people's pension pots to line their own pockets.

Throughout the year, I've conducted several meetings with Google and other internet giants urging them to use their existing powers to stop online scammers using their sites to promote fake adverts.

And last month saw the announcement of our new pension transfer rules, which give new powers to pension scheme trustees and scheme managers to act as the first line of defence against online fraud or a possible scam.

Under the new regulations, suspicious requests to transfer could be stopped if pension savers have been approached, uninvited via social media.

Such unsolicited contact would trigger a 'red flag', which would mean pension trustees or scheme managers can block it.

The presence of these flags could be determined based on the individual's response to a range of standard questions, including but not limited to: how they were approached – was it online and out of the blue, do they know who it is that is contacting them, and are they being contacted by a firm outside the UK.

This system will provide that extra level of protection for savers, before they make a transfer that they may later regret.

It's important that we gather views from industry and the public on the new regulations and their application. With the growth in recent years of online scams we must act now to curb them, and we are looking forward to the considered opinions of the pensions industry and savers alike.

Protect yourself online

There are many ways scammers might try and contact people to get their hard-earned savings, and even the savviest among us could fall victim to these sophisticated scams.

That's why I regularly share my five top tips on how to avoid pension scams:

1. Be wary of offers found online: Some adverts hosted by tech giants can be fake or link to dodgy offers.

2. Scammers often approach unannounced: If you receive a phone call, email, are approached on social media through comments or direct message, text, letter or even on your doorstep then proceed with extreme caution.

3. Offers of a 'free pension review': If someone appears out of the blue, and offers a 'free pension review', be wary. Offers or mentions of 'one-off investments', time-limited offers, upfront cash incentives, 'free pension reviews', 'legal loopholes', 'early access' or 'government initiatives' are all pension scam warning signs. If you are feeling rushed to make a decision, take a moment to ask yourself if this is a legitimate offer, and bear in mind that no legitimate fund would pressure you into saving with them.

4. Incredible returns on investment: If you receive an offer of unbelievable returns (typically 7 per cent or 8 per cent or higher), but only if you transfer immediately, this should set alarm bells ringing.

5. Report anything suspicious: If you think you've been the victim of a scam you should report it to Action Fraud at www.actionfraud.police.uk.

We have further to go in the fight against fraud, and I am using my time as Pensions Minister to make sure that the strides we take towards curtailing these shameless criminals are effective, robust and protect our pensions.

Written by Pensions Minister, Guy Opperman

Trustee says no

A closer look at the government's ongoing consultation on pension transfer blocking powers.

The government has recently launched a consultation on the draft regulations that would allow trustees and pension scheme managers to block potentially fraudulent transfers, in line with the expectation that the powers will be in effect by September of October of 2021.

A number of instances where a transfer should be permitted to proceed without incident have been outlined, with trustees expected to search for red and amber flags if this criterion is not met. Under the proposals, the transfer may not proceed where red flags are present, and may only proceed once the member provides evidence of having taken guidance if amber flags are found.

Whilst the government has acknowledged that the regulations will come with "some additional costs", it emphasised the context of providing protection for both savers and trustees, also noting that the regulations build on the already existing requirement for trustees and scheme managers to carry out due diligence.

There has been much anticipation in the industry for the introduction of the powers, and The Pensions Regulator (TPR) and The Pensions and Lifetime Savings Association (PLSA) were among those who welcomed the consultation on the proposed regulations, with TPR arguing that these provide an additional layer of scam protection for pension savers.

However, the reaction has not been unanimously positive, as AJ Bell chief executive, Andy Bell, argued that the plans are "ill-conceived" and "overzealous", stressing that any protections for savers must ensure that the cure is not worse than the disease.

"Unfortunately, that is a real risk with the DWP's proposed reforms, which could require savers to satisfactorily answer a set of questions before they are allowed to transfer their pension unless they are moving their fund to a 'safe destination' scheme," he said.

Bell also called for abandonment of the 'safe destination list' provided by the government, arguing that it would "give consumers the impression that those schemes are impervious to scams" and ironically make them easier targets for fraudsters.

He continued: "We need some pragmatism from the DWP to ensure customers are not harmed by these overzealous proposals. It is clearly not in anyone's interests to clog up the transfer market or create barriers to savers switching providers and benefitting from lower charges or better service."

Canada Life technical director, Andrew Tully, also warned that the industry must be careful to ensure that any measures introduced don't cause undue delays in people being able to transfer their pension benefits from one scheme to another.

In contrast, however, Dalriada Trustees professional trustee, Sean Browes, argued that most cases administrators will not be required to go beyond step one, stating that the proposed steps appear "sensible and proportionate" and that the DWP has balanced the need to protect members and avoiding significant additional administration.

"Given this, we don't hold with the suggestion that large numbers of transfers will be blocked or even unduly delayed," he said.

Pinsent Masons pensions partner, Ben Fairhead, also suggested that the proposals had the potential to be the most effective legislative change made in the past decade in the fight against pension scams.

"With a degree of common sense, legitimate transfers should not be unduly delayed – and a bit of delay is surely a price worth paying if it results in potentially millions of pounds being saved from the clutches of pension scammers," he said.

Commenting in response to the concerns, a DWP spokesperson said: "We have issued this consultation to gather views from industry and the public on the regulations and their application and will consider all the views put forward.

"Pension scammers are the lowest of the low, and with the growth in recent years of online scams we must act now to curb them."

Summary
- The WPC inquiry and findings have been praised by the industry for laying bare the 'colossal scale' of the pension scam challenge, with broad support for the recommendations.
- Implementation of some key recommendations is already underway, such as those around the right to transfer, but the devil will be in the detail.
- More work still needs to be done, particularly in relation to issues around HMRC's treatment of pension scam victims.

Making recommendations a reality

Sophie Smith takes a closer look at the key findings of the Work and Pensions Committee's recent pension scam inquiry and the ongoing journey from recommendation to reform

The Work and Pensions Committee (WPC) has recently concluded work on the first part of its ongoing inquiry into pension freedoms, which focused on pension scams. The pensions industry welcomed the publication of the committee's findings in March, with Transparency Task Force (TTF) founder and All-Party Parliamentary Group (APPG) on Pension Scams chair, Andy Agathangelou, praising it for its "breadth, depth, clarity and potency".

He also stresses that both the TTF and the APPG on Pension Scams are "highly supportive" of the report, and that, having invested a considerable amount of time and effort into the pension scams inquiry, "feel it's all been very worthwhile".

"The WPC report was a joy to read by someone who has fought against scams for the past seven years, feeling I was banging my head against a brick wall at times," Pension Scams Industry Group (PSIG) chair, Margaret Snowdon, agrees, stating: "The WPC spoke to enough people at the sharp end, so they really understood the issues and have made great recommendations to resolve them. It is now down to making those happen. The recommendations are largely ones that have been suggested by the industry, so hopefully implementation will be supported by all."

One such recommendation in the report, *Protecting pension savers—five years on from the pension freedoms: Pension scams,* was a call for international technology firms to be held to account for facilitating scam adverts *[as discussed on page 52],* with the government urged to act "quickly and decisively".

In addition to this, the WPC warned that "fragmentation" of the reporting, investigation and enforcement of pension scams has made combatting them more difficult, with calls for the multi-agency taskforce set up to tackle pension fraud, Project Bloom, to be strengthened.

Agathangelou agrees, arguing that it is "slow, fragmented, underpowered, disjointed and lacks punching power" and "needs to be overhauled or replaced".

Creating a change

However, The Pensions Regulator (TPR) executive director of frontline regulation, Nicola Parish, emphasises that TPR and its Project Bloom partners have made "considerable progress in tackling pension scams" through educational campaigns improving intelligence-sharing and partnership working.

"We have also focused on disruption and enforcement while seeking to influence government policy and legislation," she adds, acknowledging, however, that there is always more that can be done to help protect savers from this devastating crime.

In November 2020, for instance, TPR launched its Pledge to Combat Pension Schemes campaign, which gives the industry the tools it needs to voluntarily comply with the PSIG Code of Good Practice and provide savers with the scam protection they deserve.

"The WPC's report on scams welcomed the campaign and called for the entire pensions industry to sign up", Parish notes, arguing that it should be the 'norm' for providers, trustees, and administrators to adopt the principles of the PSIG code and make the pledge.

She adds: "So far, more than 240 organisations have already pledged or self-certified to show they meet code principles, including three master trusts which alone represent 50,000 savers.

"We want industry to adopt best practice for tackling scams and raise standards across the board, supporting better outcomes for savers who may be targeted by scammers.

"We also believe many across the industry, including trustees, pension providers and administrators, need to improve their reporting of suspected scams."

Parish flags that one of the pledge's principles is to report suspected scams via Action Fraud, stating that improved reporting will help provide a clearer understanding of the size and scale of pension scams, while better intelligence will lead to better solutions.

And whilst the government is consulting on the WPC's right to transfer recommendations, Timms agrees that it "is good to see that TPR is encouraging the pensions industry to sign up to its pledge to combat pension scams."

However, Snowdon notes that some industry voices are already raised against the proposed regulations on pension transfers *[see page 55].*

Devil in the detail

"We all need to be united, apply common sense and give this a try to save ordinary members from financial harm," she stresses, confirming that PSIG will also be updating its code to reflect these changes when possible.

As the journey from recommendation to reform continues, the devil may well be in the detail, as Agathangelou adds: "We're now waiting to see the what the government's response will be, and we're standing by, ready to campaign around anything that isn't adopted."

In particular, he raises concerns around HMRC's treatment of pension scam victims, arguing that it is not right that they are profiting from the proceeds of crime.

"HMRC need to accept that pension scam victims are victims of crime," he says. "If somebody was burgled, HMRC wouldn't be justified in demanding a tax payment; yet that is what is happening with pension scam victims. The widespread calls for a tax amnesty are totally justified."

Snowdon echoes this, warning that more work needs to be done on the tax penalty for a "now ageing cadre of victims" who were scammed out of their savings and face HMRC penalties of up to 55 per cent of money received.

"It is a closed community of sufferers and to solve the problem would take a simple legislative change to give HMRC the ability to disapply the tax in certain limited circumstances," she stresses.

"The cost would be about £40 million and when you see public money being sprayed around as they are just now, this is very small sum that would help reduce mental anguish."

Written evidence submitted by PSIG during the inquiry confirmed that HMRC agreed to an internal workshop to discuss a legislative change to give an amnesty to pension scam victims, especially for pensions liberation cases.

However, Snowdon clarifies that, whilst HMRC understands the issue, unfortunately, they do not agree that waiving a tax penalty under any circumstances is a good thing.

She explains: "They are convinced that where victims receive some pension money early, they must pay the tax. They also seem convinced that all victims knew what they were doing. Where people were persuaded to transfer by an adviser and transferred to a registered scheme, there ought to be a concession on tax treatment, otherwise it is grossly unfair. It is not a big ask."

In response, a HMRC spokesperson says: "We know how distressing it is for those targeted by these scams and sympathise greatly with those affected. So we tailor our approach to individual customer needs where additional support is required. When there is unauthorised access to pension savings, we must collect the unauthorised payment charge that is due under the law.

"However, customers are only taxed on funds they, their family members or other connected persons receive, either directly or indirectly. Where a pension scheme member is defrauded of their savings as part of a pension scam, they are not taxed on the money they have lost as a result of the fraud."

To be continued…

Snowdon also emphasises that, despite it all, she will continue to fight for justice; and there is still much that the entire industry can do to help in the fight against scammers, as Timms says: "Pension scheme trustees, providers and administrators can all play their part in preventing scams by pledging to follow the PSIG code of good practice. Regulators have a role to play by educating the industry about the warning signs of scams with providers feeding back to the authorities concerns about scams."

Whilst the WPC's broader inquiry has now moved on from pension scams, it will surely be a key consideration as the focus shifts to options and advice, as Timms explains that savers are likely to be at their most vulnerable when considering their options for where to put their money in the future.

"This is why proper advice and guidance is going to be key in the fight on pension scams. Earlier intervention to ensure access to advice and guidance, and an understanding of the difference between the two, is likely to lower the risk to savers and better education will close down an opportunity for scammers to exploit them," he says. "

The WPC's new inquiry on accessing pension savings is therefore asking whether people have the guidance and advice they need to make the best decisions and what role the Money and Pensions Service should play in supporting people in accessing their pensions for the first time."

Snowdon also warns that lack of impartial guidance and prevalence of sub-par advice is an enabler of scams, stating that "we tolerate the latter and have little real ambition on the former".

Written by Sophie Smith

Focusing on the priorities

With work ongoing to tackle issues around both pension transfer scams and clone firm investment scams, and a number of recommendations identified by the recent WPC inquiry, *Pensions Age* asks: What one initiative do you think should be prioritised in the fight to combat pension scams?

"This is very difficult as we need a number of solutions working together and most of those have been set out in the Work and Pensions Committee' recent report. If I were to choose only one, assuming that no others are brought into play, I would opt for prioritising the development of a cross-industry scams intelligence database.

"If we need to fight scammers, we need to know who they are and how they operate. In the industry, we have to use our own best efforts to identify scammers, but it is difficult for us to share that learning with our colleagues in other schemes or firms. There are lots of reasons why, including confidentiality, but our concerns are hampering our ability to stop scams.

"A properly governed intelligence database could be used to check out those involved in promoting a transfer and to input findings for others to build on. Such intelligence would save time and effort and reduce the cost of due diligence and could also be shared with regulators and enforcement.

"PSIG is committed to creating such a database, and have already set out our initial requirements, but we are looking for help, either financial, so we can do it ourselves, or by working with central resources to create a joint database."

PSIG chair, Margaret Snowdon

"Given the vast majority of fraud now originate online – either via search engines or on social media – including financial scams in the Online Harms Bill would be a huge step in the right direction. Online platforms like Facebook and Google are currently making money by hosting scam adverts. This cannot be right, and if the bill can force these firms to take greater responsibility for the content they host that would go a long way to ensuring fewer people fall victim to fraud."

AJ Bell senior analyst, Tom Selby

"We need targeted education to improve awareness of scams. A recent TV advert showed a couple crying while a man on water skis lived the high life on their retirement savings. This is a start, but it's not enough.

"When we respond to a transfer value request, we should include an education pack with true stories, videos and a list of tell-tale signs, all in clear language. The member would confirm they've read the materials and understand the risks before the transfer goes ahead. The industry must drive the message home that if something looks too good to be true, it very probably is."

First Actuarial head of pensions administration, Robert Wakefield

"The fact is that many pension 'scams' are not illegal. They are simply inappropriate investments that are not regulated by the Financial Conduct Authority (FCA), but the pension providers or wrappers are. Currently we seem to be focused on trying to educate normal savers about a landscape far too complex for some in the pensions industry to understand.

"Even the most savvy saver who can navigate the FCA register, is at risk if that same regulated adviser or provider is allowed to sell them highly complex, unsuitable and unregulated products. This approach is doomed to failure from the outset.

"The only possible way to stop pension scams is to ensure that FCA-regulated providers can only offer FCA-regulated investment products."

PensionBee chief engagement officer, Clare Reilly

"There is no single silver bullet but there is no doubt action is most effective while a member is still in their pension scheme. It is important trustees talk to members leaving as unfortunately it is too easy for scammers to tick all the right boxes on paperwork. We'd also like to see barriers removed to make it easier to support members including changes to tax rules to allow free to member independent advice; guidance on signposting members to safe haven receiving vehicles; and clarity on providing online modellers."

XPS Member Engagement Hub client lead, Helen Cavanagh

Push it to the limits

Duncan Ferris examines industry opinion regarding the MPAA and LTA amid worries that the complexity of regulations could lead to savers unwittingly and unnecessarily waving goodbye to a chunk of their savings

The pensions industry has called on the government to scrap or increase the Money Purchase Annual Allowance (MPAA), while also raising concerns that regulations are becoming too complex for savers.

The calls for MPAA changes were renewed following the release of research from Canada Life, which revealed that two-fifths (40 per cent) of workers aged over 55 were unaware of MPAA restrictions, while many of those who had heard of it overestimated the actual limit of £4,000.

The provider warned that the allowance, which is the amount that can be contributed back to a scheme after flexibly accessing it, was "penalising people for doing the right thing".

Canada Life technical director, Andrew Tully, said: "Retirement journeys are changing and it is no longer the cliff-edge event it used to be.

"Many more people are choosing to retire later for a variety of reasons and continue working in older age, either by reducing their hours, setting up their own business or perhaps embarking on a less pressured career.

"Particularly after the financial stresses of the last year, it is understandable that people have chosen to access their pension savings for any number reasons, perhaps to top up their salary under furlough or to make those essential home improvements."

The MPAA is not the only allowance causing consternation in the industry, as

it follows news from the Spring Budget of a freeze to the lifetime allowance (LTA) at £1,073,100 until April 2026. This revelation led to complaints that retirement savers are being sent the wrong signals.

While the current level of the LTA might seem enormous, analysis released by Quilter in May found that savers with a £500,000-£600,000 pension pot who are 15 years from retirement are likely to breach the LTA and hand over some of their savings to the taxman.

Royal London head of intermediary development and technical, Clare Moffat, stated that creating new measures to raise tax income was "understandable", but argued that it was becoming "painfully difficult" for people to construct cohesive retirement plans amid constant rule changes.

Pensions Management Institute director of policy, Tim Middleton, was similarly critical, calling the freeze "disappointing". He noted that downward adjustments of the LTA "have resulted in administrative complications and confusion for scheme members", adding that the measure might "serve as a further disincentive for workplace pension saving which can only have a negative impact for society as a whole".

Tully also weighed in on the matter, stating: "This measure simply sends the wrong signal to savers trying to do the right thing. It also penalises good investment performance.

"We already have annual limits on the amount you can save via a pension wrapper and there is a significant disparity between how defined contribution savers and those with defined benefit income are treated for lifetime allowance purposes."

However, reaction to the change was not solely negative, with Baker McKenzie partner, Jonathan Sharp, describing it as a "discrete way for HMRC to recover some extra taxes", which would not "raise too many eyebrows".

He added: "Given all the disquiet last year over the annual allowance and its impact on doctors – which resulted in those thresholds being raised – the Treasury will have decided that any reductions to that would have been off limits.

"An actual reduction in the lifetime allowance would have brought a significant number of people within its ambit, so by keeping it frozen the Treasury are balancing recovering some additional money while still keeping it out of reach of most people."

The Pensions Regulator and Financial Conduct Authority's newly launched examination of how to improve DC consumer journeys might aim to simplify things for savers, but if regulations and allowances are constantly subject to change or spontaneous freezes, retirement saving could remain impenetrable to the person on the street.

Written by Duncan Ferris

Insuring the insurers

Duncan Ferris chats with Chartered Insurance Institute (CII) Pension Scheme chair of trustees, Robert Fletcher, about communicating with members, hunting for insurers and Covid concerns after the scheme's recent buy-in

The Chartered Insurance Institute (CII) Pension Scheme, which has around 330 members and 150 current pensioners, completed a £55 million full scheme buy-in with Legal & General Assurance Society (L&G) in May, with Mercer advising the trustees and legal advice provided by Stephenson Harwood.

Could you tell me about the scheme's de-risking strategy?

We have worked very closely with the sponsoring employer over the past couple of years. The CII is a public interest body that promotes professional standards through funding exams, training and more, and is basically funded by its members. The pension scheme has been in existence for some time and it is probably fair to say that the CII has been going through a period of modernisation.

One of the things they were looking at was the Aldermanbury, a large and beautiful office building they owned but no longer suited their purposes. Its on a prime piece of real estate and was worth a lot of money, so the scheme knew there was an asset there that could be available to meet any shortfall. As part of a review, the CII sensibly chose to move to other premises and we talked to the employer about what to do about this material change.

There was an agreement about continuing to run with a scheme that is closed to new members, but pensions legislation is only getting more onerous and the cost of running the scheme was becoming disproportionate. This meant we thought looking at a buyout was the right thing to do.

When the building was sold, we held some cash in escrow and that enabled us to work with our adviser, Mercer, to look at the investment strategy we were using as we knew we were on the path to initially buy-in and then move to buyout. We changed the investment strategy, effectively de-risked, and moved the balance away from equities and into gilts and other less volatile securities. This was done in the knowledge that we had this money in the escrow account and that we had the commitment from the employer to work with us to buy the liabilities out and transfer the risk away from the employer, and ensure we had the benefits secured for our members.

Was there concern that the pandemic might derail these plans?
Definitely. We were pretty much lined up and ready to go when the pandemic began. One practical example of how it got in the way was everyone being moved to working from home. Our archive documents are held in storage by the CII and accessing them to make sure details were nailed down as Mercer were preparing to go out to the market was problematic. Normally, somebody would just head down to the archive and pull the files, skip through and find the document we want and there we go. Suddenly there was no one to do it.

That slowed us down, as did the uncertainty that then came into play for the CII, because they had to put money in above and beyond what was in the escrow account, and they were also quite worried about what the impact of the pandemic would be on their financial position. Their board were asking if they should push the process back and return to it later, but I think they recognised that kicking the can down the road wasn't going to make the problem go away. Rather, dealing with the pension situation was a good strategic move.

How easy was it to maintain communication with the scheme sponsor and Mercer?
I have to say that Mercer were excellent. It is ironic that, in the fullness of time, their involvement with the scheme will finish. They have been nothing other than helpful and have bent over backwards to make sure that, if any of the trustees needed any additional information or background on the process that we were going through, they were always available and the quality of the materials that they put forward to the trustees has been of the highest level.

In terms of the employer, we have a very good relationship with the executive team and the board. They brought together a small group, so that rather than having the full board focused on this we could work with a small sub-group. They have a quite diverse board and so they picked people from the life and pensions sector, so they had experience in working on the running of a scheme. This enabled us to create and maintain the continuity of our messaging. At the end of the day, this group would go back to the full board and explain the position to them, which was further aided by Mercer's documentation.

The employer also took its own advice to ensure that everything was holding together. Its one of those things that works out if you keep talking and work with the right people.

How did the trustees undertake a selection process to choose their insurer for the buy-in?
Mercer went out to the market and initially discussed the scheme and its details with insurers, which allowed them to draw up a long-list of interested companies for us. All the usual suspects were included. Interestingly, because this is a specialist area of the market, you also encounter some names that don't necessarily trip off the tongue. Mercer then gave us some background on each of the listed insurers who were being asked to quote.

When the quotes came back we were able to quickly narrow down to those which were pricing competitively and those which were out of the ballpark. We then got into discussing with the insurers whether the benefits they were offering matched what we needed, which led to an insurer dropping out because they didn't want to provide a particular benefit in the manner that we needed. It all boiled down to two providers who we were monitoring the pricing position of and the final stage we went through was paying a specialist firm to conduct financial due diligence. We went to a reasonably forensic level to ensure there was nothing that could be sat in the background that we weren't aware of. We had a target budget that we had agreed with the employer and after waiting until the pricing hit the right point we hit the button very quickly with Legal & General.

Not to be disparaging about any of the other providers, but there was a bit of a sigh of relief when it was Legal & General because we felt that it would be easier to explain to the scheme's members than if we had gone with one of the less-known names. It's just better if, when you explain the situation to the members, they can say 'I've heard of them'.

How did you communicate the news of the buy-in to the scheme's members?
It's something we have done over time. We have been clear in our communications that this was something that was being looked at. I attended a pensioners' lunch before the pandemic and took questions from members about what it meant, and then we sent a specific communication to members recently, which told them we have completed the buy-in and offered them assurance that this is a good move that nothing has changed for them and that their pension is secure with one of the UK's largest life insurers. Additionally, we assured members that we would keep them informed.

My aim, and the rest of the trustees' aim on this, is that we almost want it to be something that just happens, where members don't feel the need to ask a question. If they're receiving their payments today and they continue to receive them going forward, but from Legal & General, that is what we want the members to feel. But they also need to know that the liabilities are backed by Legal & General, so they can sleep easy at night – not that the CII was ever going to be reckless with their pension!

Written by Duncan Ferris

Buy and maintain considerations in a changing fixed income environment – *With buy and maintain becoming more popular in the UK, MFS' Owen Murfin explains what he looks for in a 'perfect' security and provides thoughts on how to judge the success of a manager* **p66**

B&M bargain: How buy and maintain strategies are stacking up in DB portfolios – *With markets dominated by low yields, long-term and low-cost strategies are aiming to deliver for DB portfolios, finds Tom Higgins* **p68**

Buy and maintain strategies:

A steady course in an evolving fixed income landscape

MFS investment manager, Owen Murfin

Buy and maintain considerations in a changing fixed income environment

With buy and maintain becoming more popular in the UK, MFS' Owen Murfin explains what he looks for in a 'perfect' security and provides thoughts on how to judge the success of a manager

How does MFS view buy and maintain strategies versus buy and hold?
These are two similar concepts but with key differences relating to the 'hold' and 'maintain'. Both are low turnover strategies, but 'hold' really implies very low turnover. To us, buy and hold is when you hold a cluster of bonds around a specific maturity or liability, and you allow the portfolio to mature with minimal interaction, other than the anticipation of credit deterioration or ratings downgrade. So the bonds roll down the curve to maturity and you collect the cash from the principal at maturity as well as the coupons.

This is slightly different to buy and maintain where, similar to a normal benchmark, you're more trying to keep a constant maturity. This means it requires a watchful eye from the manager as the average maturity will decrease over time, so we need to reinvest the coupons and maturities. We see buy and maintain as an ongoing portfolio that can meet a client's need for steady returns without a specific timeframe.

Is this approach different to traditional active management?
It's really very different. First of all, there is rarely a benchmark to consider; this is a benchmark agnostic strategy. The turnover is also considerably lower than that of a fully active mandate.

Buy and maintain portfolios tend to have more of a home country bias. That's because even if you hedge the foreign currency back to your domestic currency, you are still uncertain about the potential return of that bond over the long term. That said, we would be open to issuers outside of the home country issuing in the domestic currency, such as US issuers issuing in GBP.

The other key difference is the holding periods here are much longer, and so that requires more conservatism. Given this difference of holding securities for the long-term rather than shorter periods, we have enhanced the investment process to include a specific designation for analysts to decide whether a name is buy and maintain eligible and over what specific period.

Buy and maintain also tends to focus on investment grade rated credit as it's quite hard to get visibility from companies over the long term, particularly in high yield.

What role does ESG playing in such a portfolio?
We believe ESG is very consistent with the ability of a company to pay its coupons and principal maturities over the long term and in a timely manner. This makes ESG factors an extremely important part of our surveillance, particularly over the long term as some ESG factors become far more material. For example, if a production cycle requires a lot of water, it might not be a meaningful risk in the short term but in the future there could be more water disruptions and this could imperil the whole production process. As part of building client portfolios, we also screen out companies from buy and maintain portfolios that have very poor ESG scores from third-party vendors such as MSCI, underlining the importance we place on ESG.

Is there a perfect type of name for buy maintain portfolios and how do you filter from the huge universe of securities in the overall credit market?
Typically, we start with a very large, almost overwhelming number of issuers within the credit markets. From these, we need to filter this down to a far more dedicated and concentrated portfolio.

Initially, it's the client that directs the parameters. We would speak to the client to see if they have any preference in terms of minimum credit quality or maximum maturity, for instance.

Secondly, and critically, we then run a proprietary quantitative framework. This reduces the universe to a far lower number than what the client eligible universe is. This becomes the starting point for our fundamental assessment and the analysis by the portfolio

managers and credit analysts.

The quantitative frameworks look to optimise yield while applying very prudent constraints. For example, we would have a maximum percentage per sector or a maximum weight a name can be. As well as helping to optimise the portfolio, we think it also makes it a far more prudent and diversified portfolio.

With regards to a perfect security. We believe there is such a thing for buy and maintain portfolios. Essentially, it needs to meet three criteria. First, it would clearly need to designated buy and maintain eligible by the analyst. Second, it would also need a reasonable valuation. Third, the bonds would have tie in with the time horizon of the client's mandate.

So we would not buy any security if it didn't have a designation. Sometimes a security would merit a debate between the portfolio manager and analysts to discuss exactly which ones should go in the portfolio. For example, where the designation is in place but the time horizon doesn't match exactly while the valuation does, or alternatively we find bonds with the right time horizon but the valuations are quite expensive.

Finally, any thoughts on how clients can measure the success of buy and maintain managers?

This is a key point because as opposed to traditional active mandates, where you might apply an alpha objective relative to a benchmark, buy and maintain is more complicated. Again, it is very much client directed and we would look to work with the client on what their preferred measure of success was. That said, generally, we think four criteria are appropriate.

The first is clearly the avoidance of default; the client should not experience any default over the time horizon of their portfolio.

The second is the avoidance of downgrades, particularly if this is important for the client since many clients would potentially have a capital charge if there was a downgrade. These clients would be very keen to measure managers' ability to avoid downgrades in the portfolio, especially relative to a broader universe.

The third measure is looking at the yield of the portfolio relative to the universe of bonds or some index. This helps clients to check if the manager can regularly maintain the yield above that of the overall market, while still benefiting from all the characteristics of a buy and maintain portfolio.

Lastly, does that return in the medium to long term reach the client's expectations? If the client expectation was for 2.5-3 per cent return, for example, has the manager been able to achieve that over the medium term?

For more information about MFS' buy and maintain or fixed income capabilities, please contact Madeline Forrester on MForrester@MFS.com.

Written by MFS investment manager, Owen Murfin

In association with

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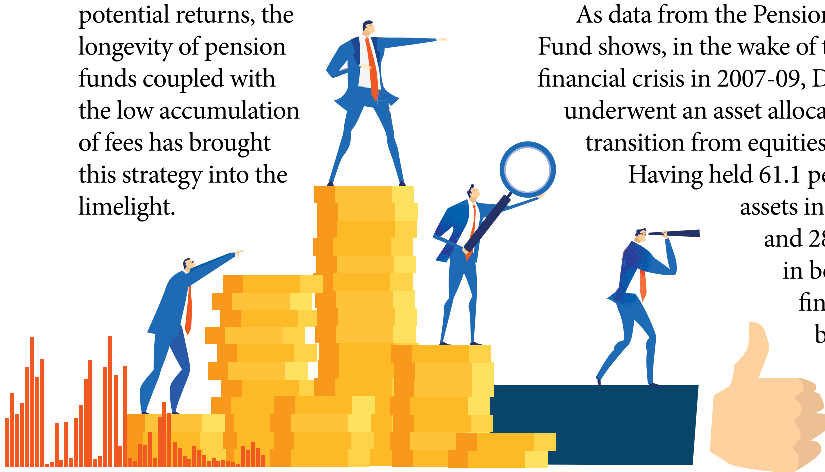
Summary
• Buy and maintain strategies are designed to reduce the amount of trading, lowering costs for investors and clients. The low-yield environment, the longevity of pension funds and the low accumulation of fees has brought this strategy into the limelight.
• There are several ways pension scheme clients in the UK utilise buy and maintain bond mandates, such as a 'maturing' buy and maintain mandate as part of a cashflow-driven investing solution, alignment to a typical insurance buy-in or buyout pricing structure, or as an alternative, diversifying investment option.
• With low bond yields and momentum building for ESG investment, buy and maintain strategies are anticipated to become a core strategy for maturing DB schemes.

B&M bargain: How buy and maintain strategies are stacking up in DB portfolios

With markets dominated by low yields, long-term and low-cost strategies are aiming to deliver for DB portfolios, finds Tom Higgins

The changing economic landscape has brought buy and maintain approaches to the fore of pension fund managers' attentions, as considerations move beyond the traditional siloed approach to bond investing.

Buy and maintain strategies are designed to reduce the amount of trading that occurs, which in turn lowers costs for investors and clients. At a time when a low-yield environment is draining potential returns, the longevity of pension funds coupled with the low accumulation of fees has brought this strategy into the limelight.



Back in fashion

Premier Investment Consulting head of investment consulting, Mark Hodgson, says that the popularity of buy and maintain bond strategies has been boosted by economic factors as well as the changing nature of pension schemes.

"Bonds have played a major role in pension fund portfolios since the 1970s, but over time strategies evolved to be dominated by equities and latterly by diversified growth funds," he says.

As data from the Pension Protection Fund shows, in the wake of the global financial crisis in 2007-09, DB funds underwent an asset allocation transition from equities to bonds. Having held 61.1 per cent of assets in equities and 28.3 per cent in bonds pre-financial crisis, by 2017 the roles had switched. Allocations shifted to 29 per cent and 55.7 per cent, respectively.

It was a move that proved to be cost-effective. Analysis from AXA Investment Managers has found that an actively managed investment-grade credit strategy with a turnover of around 75 per cent per annum could expect to incur transaction costs of 0.4 per cent. A passively managed strategy that accumulates 20 per cent annual turnover will incur transaction costs of 0.1 per cent.

A buy and maintain approach that, outside of reinvestment, experiences no turnover, can anticipate generating transaction costs of only 0.05 per cent in a year.

Maintaining control

Aon partner, Paul Whelan, says that there are several ways pension scheme clients in the UK utilise buy and maintain bond mandates.

Some will choose a 'decaying' or 'maturing' buy and maintain mandate as part of a cashflow-driven investing solution. These are designed to meet member cashflow obligations while earning a higher expected return than pure gilts or interest rate swaps.

Alternatively, managers such strategies can be aligned to a typical insurance buy-in or buyout pricing structure for schemes focused on insurance transactions.

A third use of buy and maintain is as an "alternative, diversifying investment option to clients with 'evergreen' credit exposure who may not wish to invest in full active credit strategies, but do not want to invest in a passive market-cap-weighted alternative", Whelan explains.

Despite the breadth of approaches used, the core benefit remains a low overall cost of ownership due to minimal transaction charges.

Cashflow goals

Mercer principal, Lewis Emmons, says that the "main advantage" of the approach is that "it can target a specific outcome, such as delivering a set of cashflows".

"With standard approaches, the return profile is often dominated by the characteristics of the benchmark, even for active managers," he says.

Hodgson adds that the popularity of buy and maintain is representative of the advantages it offers in the current economic climate. Record low yields from investment grade bonds and sovereign securities have characterised the sector for the past few years, meaning returns are more easily eroded by costs.

"In a low-interest rate, low return environment, transaction costs have had an outsized impact on returns," Hodgson explains. "Active buy and maintain strategies, where turnover is low, have proved popular as a good way of reducing the impact."

MFS Investment Management head of global consultant relations, Maddi Forrester, says that a key perk of the approach centres on the "downgrade and default" experience, which should be "far lower than a broader universe of bonds" while still offering similar returns.

Forrester says: "This stems from the focus a successful buy and maintain manager will place on anticipating credit deterioration and assessing the ability of issuers to service their debt over the time frame of the mandate."

Additionally, the strategy can give an investor more certainty on returns, which can provide comfort and reassurance in the "current changing inflationary environment", explains Forrester.

"As many bonds are held to maturity, the initial yield of the portfolio at construction should give a strong indication of potential future returns."

As Whelan highlights, buy and maintain strategies invest primarily in investment-grade corporate bonds, a familiar asset class to many trustees. Not only does this improve the understanding of the strategy, but it makes it simpler to implement with skills and expertise being transferable from other bond strategies. It also fits well with many pension schemes' risk profiles.

For pension schemes that can invest in segregated mandates, the large universe of available bonds allows a skilled fund manager the ability to closely match the scheme's expected cashflows.

While this offers a huge range of choice, schemes must be prepared to go global to improve diversification.

As Hodgson says: "There just aren't enough UK bonds, especially across sectors, to support pension fund investments, so schemes must look globally."

Looking beyond the UK market and going global makes it "relatively easy to incorporate responsible investment or ESG objectives – for example, a transition towards a net-zero carbon footprint by a certain future date", says Whelan.

"However, global indices have significant exposure to the energy sector, and so schemes keen to avoid this need to think differently," he adds.

Buy, maintain, change

Buy and maintain strategies may be constructed on the premise of hands-off and hold, but that does not mean that the approach is immune to the shifting investment trends seen in the wider financial landscape. The momentum behind environmental, social and governance (ESG) investing themes – and in particular carbon neutrality – has led to changes in the bond market and allocations, catalysed by investor demand and regulatory pressure.

One key enabling factor for this, Forrester says, is the ability for buy and maintain strategies to be built to meet the bespoke requirements of each scheme. As a result, the approach can be sculpted to include specific ESG preferences as well as "providing schemes with the opportunity to engage on these themes to influence change over the long term".

As the world adapts to the new realities brought about by the pandemic, a long-term approach is essential for investors to be able to consider change in a way that anticipates future risks.

Forrester anticipates that it may become increasingly crucial to have a "strong focus on credit research and security selection" within buy and maintain strategies as the longer-term impact of Covid-19 on company operating models becomes clearer.

Emmons adds that future concerns on cashflow security may centre on the mix of sterling and non-sterling-denominated bonds – a consequence of limited bond offerings from within the UK.

"How non-sterling bonds may be hedged to create a known or reliable sterling-based payout profile will be an important aspect of the management of buy and maintain portfolios," Emmons says. He adds that, for some portfolios, current hedging practices for non-sterling bonds do not deliver the certainty that schemes will require in the future.

Buy and maintain strategies are just one approach to meeting the requirements of a DB pension fund. But in the current environment, with low bond yields and momentum building for ESG investment, buy and maintain is anticipated to become a core strategy for maturing DB schemes.

While "it is not a panacea", says Hodgson, its role within a well-diversified portfolio tailored to a scheme's individual liabilities and needs has considerable upside.

If transaction costs continue to have a significant impact on returns, and return rates remain low, then those who have implemented a buy and maintain strategy will be able to reap the rewards.

Written by Tom Higgins, a freelance journalist

In association with MFS

Going local

Jack Gray chats to Local Government Pension Scheme (LGPS) Scheme Advisory Board head of pensions, Jeff Houston, about the possible reintroduction of the public sector exit payment cap, the implications of McCloud, and upcoming Taskforce for Climate-related Financial Disclosure (TCFD) requirements for the LGPS

The government revoked the £95,000 public sector exit payment cap early this year; are we likely to see further changes in this area?

Is it coming back? Yes, it is very much something the government is committed to doing. It's a manifesto pledge and something that is obviously very high up on the agenda. There will be conversations going on within government and across departments as to how it comes back, both in terms of is it going to be all public services pension schemes go to the same rules, or whether it will be more scheme specific.

There are two things here. One is about the implementation of it. How well is the legislation going to be written? How well is the guidance going to be written? Is it going to be understandable by the members that are going to be affected by it and those members that aren't? What kind of behaviours is or isn't it going to encourage? And how easy is it going to be for people to do the necessary calculations?

The second thing is what is the actual objective of this piece of policy? Is it to identify those individuals that the government thinks, for whatever reason, shouldn't be getting a payout of that size, or is it about reducing the overall level of payouts and redundancy across the public sector? If it's the former, is this about avoiding headlines? That is very different thing to just saying 'lets just cut everybody's'. This is where the problem was last time because there seemed to be a stated objective to reduce unjustified payouts, but then we ended up in a situation where there was a lack of understanding that the cap would catch long-service, middle-paid people.

What are you expecting from the government and when?
I think we will see something before Christmas and that something could well be another consultation from the Treasury. It could be that the Treasury do regulations on the overall cap with other departments coming along with further changes to payments that are made in that situation. It could be that this time the Treasury will incorporate the cap into what each department does. So, we may well see, instead of one thing from the Treasury, multiple consultations across the departments.

I want to see effective targeting. The government needs to make up its mind about what it is trying to achieve through this policy and avoid what they call unintended consequences.

There is a request going out to councils saying: 'Can you give us data going back to 2014/15 of the levels of cash that has been paid out?', whether that's for pensions or for other things in the situation where people get made redundant.

Is the LGPS ready to supply this data?
No. It will be interesting to see what timescale people get. Part of the feedback we gave back to the government on this was asking it to think about what it wants. Does it want seven years? Because if you ask for seven years and people give you nothing because they can't get it all, would it be better to say at least give us the past two or three years? For me, it would be good if councils could get this data back, because it would prove the point again that an across the board £95,000 cap hits an awful lot of people that perhaps you don't want to hit.

The Public Service Pension Bill is expected this summer to remedy the McCloud judgment. What should LGPS funds be doing to prepare?
What they all can be doing, and a lot are doing this, is to go and get the data that they are going to need on this. Since 2014, the LGPS has been a career average scheme, so you don't need things like changes of hours or breaks in service because you are not using the service to calculate the pension. In a final salary scheme you need all that, and we haven't been collecting it because we haven't needed it.

From the employers, we are going to need changes of hours and breaks in service for tens of thousands of people. That is an enormous job that people can be getting on with. You will have some employers saying they don't have it or they have changed their payroll system and it's all been archived. It's not going to be an easy task going to the 17,000 employers in the LGPS and ask for all the data.

The other piece of work to do is to speak to the software providers that hold the data and do the calculations, and start taking them through the process. We are going to need to hold this data for a very long time, some of these calculations will not be done for 20-30 years. I would be very surprised if we don't end up with somebody challenging the calculation on McCloud at some point. The other piece of work with software providers is to give them an idea of which calculations they can start work on.

We need to be making sure that there is a continuous message out to members: 'This is being done. If you are a member affected by this, you will get what is due to you. It is going to take a long time but don't worry.'

TCFD requirements are on the horizon for the LGPS. What are the likely differences between TCFD requirements for the LGPS and private-sector schemes?
The expectation on LGPS funds will be the same level as in the private sector. Where the differences will be will be things like timing and scope. In the private sector the timing is different depending what size the scheme is. In the LGPS, all funds will go at the same time. The proposals at the moment are they will be required to report in respect to the year 2022/23, so those reports will be expected towards the end of 2023.

In the vast majority of cases, LGPS funds are run within a council. Those people are local, elected members and are already accountable to their electorate via the ballot box. There is already a process of accountability. So I would imagine what will be coming in the LGPS will be more about transparency and accountability rather than The Pensions Regulator looking over its shoulder.

Within the LGPS they might do the measures and targets a little differently. What happens in the LGPS, whenever we publish something, somebody likes to put in a league table.

If you set your targets locally you have massive amounts of flexibility for each fund to decide what is important to it within climate change.

But if everybody does that in a different way, when you come to put everyone in a league table you are not just comparing apples and pears, you're comparing apples and fire engines. Obviously that would be helped if it was defined centrally but who is going to do that? Is it MHCLG? How will they do it? Will it be in tandem with what others are doing?

How prepared is the LGPS for TCFD?
I have total confidence that the vast majority of people in the LGPS will be saying 'let's do this, let's get this done'. Where they will struggle will be things like resources and getting the information they need.

Written by Jack Gray

Summary

• People have been increasingly turning to the short and snappy nature of social media to obtain financial information.

• The pensions industry has lagged behind in its use of social media to engage with savers, due to attitudes and time/cost constraints, but this is starting to change.

• Pensions schemes utilising social media need to tailor their approach on different platforms, for instance talking to younger members on TikTok and older members on Facebook.

Social media: Opening a new world of financial information

Social media has opened up the ease of access to financial information for a willing audience but the UK pensions industry has yet to fully engage with this opportunity, Laura Blows finds

The pensions industry, along with the financial sector generally, can seem inaccessible to those not in the know. It can be confusing and complex with its own complicated language.

Therefore, people have been increasingly turning to the short and snappy nature of social media to obtain financial information. This is given by 'finfluencers' aka 'financial influencers', Editorial credit: Tada Images / Shutterstock.com

Examples of social media platforms

Facebook: A social networking site to connect with people and share information
Glassdoor: A website where current and former employees anonymously review companies
Instagram: For photo and video sharing
LinkedIn: Designed for making business and employment-oriented connections
Reddit: A social news aggregation, web content rating, and discussion website
TikTok: A short-form, video-sharing social networking service
Twitter: For microblogging, enabling users to post and interact with messages known as 'tweets'
YouTube: An online video sharing site

the top tier of which can have hundreds of thousands of followers. For instance, a quick search for on video-sharing social networking site TikTok for #FinTok gives over 353 million results, while discussion site Reddit's subreddit r/personalfinance has over 14.5 million members.

Social media popularity

Earlier this year saw just how much (f)influence social media can have.

In January, the 10 million members of the subreddit r/WallStreetBets instigated a short squeeze on video game retailer GameStop, costing hedge fund managers millions.

This was achieved by the members investing in GameStop, drastically inflating its stock price, while hedge fund short sellers had been targeting these shares in the belief that they will go down in value. The reason for this was seemingly to 'stick it to the man' and/or for amusement.

In GameStop's instance, the Reddit investors may have made themselves money, but these high-risk approaches to investing can go the other way.

One example is Football Index, a 'stock market' where users were able to buy and sell 'shares' in footballers and make money through 'dividend' payments based on players' on-pitch performances and media activity. It had an estimated 500,000 users.

In March 2021, Football Index cut the 'dividend' payments on players, which led to a crash in the value of their 'shares', meaning any potential for profit had all but disappeared. The company then entered administration, a few hours before the Gambling Commission announced that it had suspended its licence. An estimated £90 million has been lost by its users.

According to Charles Stanley Direct investment analyst, Rob Morgan, the GameStop saga was a prime example of retail investors clubbing together over online forum Reddit to boost the share price of the stock, while the Football Index demonstrated the problems with gamified trading.

"Both were hugely risky investments and many investors got their fingers burnt because they rushed in without doing their homework first," he says.

These were high-risk examples, but there was also an increase in 'standard' investments using platforms.

Multi-asset investment platform eToro's UK regional manager, Dan Moczulski, notes that it saw a significant rise in retail participation in 2020, which accelerated in 2021.

"There is a confluence of several macro trends leading to this tipping point, including zero (and negative) interest rates, a deeper understanding of the impact of inflation on the value of fiat currency, an acceleration of digital transformation led by the Covid-19 pandemic, and lowering the barriers to entry through automation, fractional shares and commission-free stock investing," he explains.

Editorial credit: solomon7 / Shutterstock.com

Quilter financial planner,

Heather Owen, also highlights the 'bizarre' year for financial markets, from the market plunge in March 2020, to the all-time highs for the S&P 500 and Bitcoin. "All the mainstream attention on markets has made people sit up and take notice, some for the first time ever," she says.

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A young surge

These first-timers may well be coming from the influx of young people looking to social media for financial information.

According to Phoenix Group research, during the pandemic, 20 per cent of 18-34 year olds used YouTube to access money tips, with 18 per cent using TikTok and 15 per cent Facebook.

These figures match that of debt management company Lowell, which finds that one in five people aged 16-24 now use social media to access financial advice.

Research from Boring Money into nearly 2,000 UK adults that own an investment product also finds that using social media for financial advice is more prevalent amongst younger people. Eight per cent of 18-44s from its research did so, dropping down to 1 per cent for the over 45s.

There are also even younger people with an interest in finance waiting in the wings, with mobile apps allowing under-18s to practice investing growing in popularity.

"Like them or loathe them, the rise of easy-access trading apps has at least resulted in more young people being engaged with their finances and investments. It shows there is a new generation of investors out there who have an interest in making their money work for them," Owen says.

Speaking in March, FCA Consumer and Competition executive director, Sheldon Mills, highlighted that its research findings indicate that this newer audience has a more diverse set of characteristics than traditional investors.

"They tend to skew more towards being female, under 40 and from a BAME background. This newer group of self-investors are more reliant on contemporary media (eg YouTube, social media) for tips and news. This trend appears to be prompted by the accessibility offered by new investment apps," he said.

However, turning to social media for financial information is not without risk. Along with the prevalence of online scams *[see our scams special about this from page 52]*, younger investors may have the lowest levels of financial resilience, making them more vulnerable to investment loss, Mills warned.

"Research showed that a significant loss could have a fundamental lifestyle impact on 59 per cent of self-directed investors with less than three years' experience, who are more likely to own high-risk investment products, compared with 38 per cent of investors with greater than three years' experience," he said.

Case study: The PPF

"Social media is another important way for us to communicate with our members, levy payers and other key audiences, and a great way to have more of a conversation with them rather than just 'one way transmission'. It's been particularly important in the last year as a way to share information quickly and effectively and help us get information to the right people in a timely way," PPF director of communications and brand, Jenny Peters, says.

The PPF has greatly strengthened its social media presence over the past two to three years.

"The PPF can be quite a complex organisation to understand so we use social media to explain things in a simple way and guide our different stakeholders to new information to help them keep up-to-date with changes that might affect them," she explains.

It uses different social media channels to engage with different stakeholders. Facebook and You Tube are its member channels, with Facebook, as its primary social media channel to reach out for its members, being a good way for members to communicate with the PPF.

Meanwhile, Twitter is used for engaging with pension influencers, journalists and policymakers. LinkedIn is used for job seekers, employees, levy payers and arm's length bodies, while Instagram and Glassdoor are used by employees and job seekers and provide insight into its company culture.

The types of conversations the PPF is having on social media are "many and varied", Peters says, such as "highlighting member updates, changes to the levy, consultation responses, engaging with and supporting other industry players, directing people to our website, member feedback, sharing our views on issues, our culture and ways of working, and providing more information about how we're funded and work".

As an example, last year the PPF launched a Covid-19 'Where to get help guide' to help pension savers at the peak of the first lockdown. "We used our social media channels to let people know this exists and received a high level of engagement. We'll also often share information from others that we think our audience would find helpful."

Social media is a fast-moving area, Peters says, "and the more engagement and feedback we get the more we can evolve what we do to be relevant and useful".

"We want to keep building on the way we communicate, using graphics and multi-media which becomes easier and easier as more and more people have access to greater technology."

Warnings

In April, Blacktower Financial Management Group group managing director, John Westwood, acknowledged that personal finance advice provided on TikTok's #FinTok is one of the platform's growing trends, and that "there is no wonder that this is well-received by younger generations, as the advice is given in a short, snappy, and fun context", he said.

However, Westwood warned: "The surge in the number of people offering financial advice is worrying for impressionable audiences, as many users are presenting misleading and damaging information that encourages young people to make drastic financial decisions without consulting experts. The FCA needs to clamp down on this type of content."

According to Phoenix Group's research, 46 per cent of its respondents believe online platforms and social media providers should take some responsibility to protect users.

To that end, TikTok for example recently launched a public service announcement (PSA) that appears on some of the most commonly searched hashtags relating to financial advice. For instance, when searching #FinTok, a PSA appears, which reads: 'Before following any financial advice, keep in mind that all investments involve risks and consider doing your own research.'

TikTok's guidelines also state that users should not post, upload, stream, or share content that depicts or promotes phishing or investment schemes with promise of high returns, fixed betting, or any other types of scams.

In December, its guidelines were also updated to include a ban on content that depicts or promotes Ponzi, multi-level marketing, or pyramid schemes.

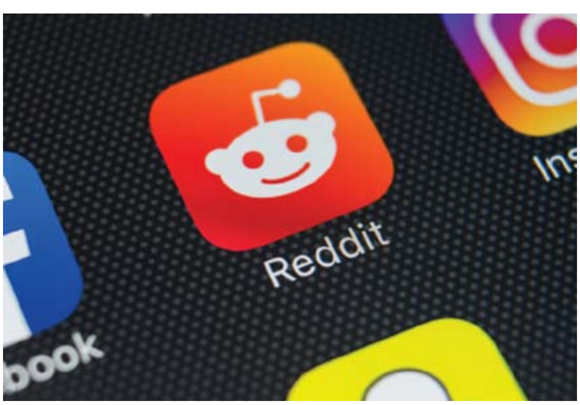
TikTok also uses a combination of technology to automatically flag content to its moderation team for review, along with reports from its community, to determine content to be removed.

Moczulski also acknowledges that "as the retail investment market matures and platforms like eToro scale, we have a greater responsibility to ensure that our users are well educated and aware of the risks".

This is does by providing a variety of free education tools, such as a demo account to practice on, online guides, client webinars and analyst insights.

The FCA's research found that, for many investors, emotions and feelings such as enjoying the thrill of investing, and social factors like the status that comes from a sense of ownership in the companies they invest in, were key reasons behind their decisions to invest.

"This is particularly true for those investing in high-risk products for whom the challenge, competition and novelty are more important than conventional, more functional reasons for investing like wanting to make their money work harder or save for their retirement. Thirty-eight per cent of those surveyed did not list a single functional reason for investing in their top three reasons."



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There may be risks and concerns, but people wouldn't flock to social media for finance tips if it was all risk with no reward.

"The market for financial hints, tips and guidance on social media is booming. Young people clearly like content that is simple, digestible and relatable, but not too flashy or corporate," Owen says.

Pensions challenge

Editorial credit: tanuha2001 / Shutterstock.com

The pensions industry is still getting to grips with communicating in this way.

According to Quietroom development lead, Joe Craig, the pensions sector tends to forget who they are competing with. "It's not really each other. It's the other sources of information and 'advice' that real people have in their lives. That's obviously Twitter, Reddit, Facebook, TikTok etc but it can also be people's dads, who are still the go-to source of financial advice for lots of younger members of pension schemes," he says.

"You've always had people being more willing to take advice from, say, the owner of their local chip shop. Now they have the same relationship with people they don't see face to face, but who relate to them in the same way. They use everyday language, they tell a story that brings people in, instead of holding them at arm's length, and they're far easier to reach. Being easier to reach might mean they're on an app they already know and like, which they are comfortable using. Because of that, there's already a level of built-in trust."

In contrast, regulated financial service companies end up using language that pushes people away instead of bringing them in – partly because they are regulated, Craig adds. "It's also very difficult to put yourself in the position of someone who knows less than you do and explain something in a way that they'll feel a connection with – so the whole industry suffers the combined effect of 'the curse of knowledge' plus the fear of regulation."

Traditional companies are also pre-occupied with 'owning' content, he adds. "They love to have a 'hub' on their site, for example. That usually becomes a dumping ground of unrelated information. They pull users towards it with, email newsletters, effectively acting

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as teasers. Everywhere else in our online lives we digest the information directly, without a teaser pulling us there first. So, for example, an Instagram post or a TikTok video is useful in and of itself."

Other barriers to pension schemes effectively using social media are that of time, effort and cost.

"Pension schemes quickly realised that one of the great challenges was that they need to feed the beast and resource activity around social media," CEM Benchmarking principal, John Simmonds, explains. "Effectively using social media takes a lot of time and dedication and cost, so that is a hurdle. Also, measuring its success is difficult, as for instance, the number of followers you have is not necessarily the number of scheme members you have."

It is little wonder then that Craig declares the pensions industry as not very active with social media "with a lot of schemes actively resisting it, to their cost".

For those schemes that do not want to get mired in social media conversations directly, he recommends instead supporting those few members that are more active than the rest on social media in trying to help everyone else in their scheme.

"But this misses one big thing, that being seen to be trying to help would be the strongest foundation for building trust with members," he warns.

The finance industry has an extra challenge in engaging people via social media, Owen adds, as "the reality of successful investing is that it takes a long time to achieve results. But 'get rich slow' is a boring message to get across to young people, and one that providers will struggle to get traction with on social media unless they find creative ways to boost engagement".

It is not a surprise that younger people are sourcing information from wherever they currently spend their digital time, Boring Money CEO, Holly Mackay, adds. "Yes there is a plethora of poor information out there, but we cannot just tut and tell people to come and digest our much more erudite PDFs instead. We have to roll up our sleeves, get the right teams and skillsets internally, and take the message out to where our customers are."

And, as Moczulski warns, "we mustn't underestimate the knowledge of retail investors. Information is no longer held by the few but is widely accessible to the many".

'Rolling up our sleeves' and interacting with people about pensions on social media "can go a long way to demystifying pensions and opening this important dialogue between savers and financial services professionals", PensionBee chief engagement officer, Clare Reilly, says, noting that it has a highly engaged community of followers and supporters "across all our social media channels, such as Facebook, Instagram, LinkedIn and even TikTok".

Benefits

Engaging with members in this way can bring a number of benefits, Simmonds says. Along with reminding members of their benefits, staying in touch with deferred members, educating them and minimising opportunities for scammers, the scheme can also communicate positive messages such as its efforts to tackle climate change.

Once up and running social media can be an effective engagement tool, he says, "but there is no silver bullet to getting that engagement".

"There are tips and tricks, but frankly it is just a case of hard work to get people to engage. You just need to keep reminding people to follow you on channels and subscribe. We have to get serious about resourcing this properly. Pension schemes have to decide if they want to meet members on social media platforms. And if so they have to spend time, effort and money to do so."

The UK is a little bit behind other mature pension scheme markets such as the US, Canada and the Netherlands in its use of social media, Simmonds adds, "because we are underinvested in pension scheme administration compared to these other countries".

PLSA director of policy and advocacy, Nigel Peaple, notes how social media is a great source of information on pensions, enabling people to access lots of helpful information and guidance online; including tips on pension saving, interactive tools and also more general money management information.

He also adds that the use of social media is not restricted to Millennials or Generation Z; "people from all walks of life, backgrounds and ages access information in this manner these days. The pensions sector recognises this shift in behaviour and is doing more within social media nowadays through advertising and using platforms to answer general questions".

Often the starting point for pension schemes to engage with social media was the realisation that they were being talked about on social media and not part of the conversation themselves, Simmonds says, "so a lot of early steps into social media was to respond to the narrative being created about the scheme by members".

Approach

Pensions schemes taking the leap into social media also need to be wary of thinking of it as one single entity.

"It's naive in 2021 to think a company or pension scheme can have a single approach to social media. You need a social media strategy that incorporates and approach for every channel you're on," Craig says.

Making Giants conducted some social listening into discussions around long-term savings on social media in the UK at the start of the year. In a two-week window, it found over 3,000 conversations taking place on the topic of long-term savings on Twitter.

To reach those only just starting their lifetime savings journey, Making Giants highlights that "TikTok harnesses the huge power that video has for education and it means we can start talking to much younger audiences about their money, in a format that they're accustomed to".

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It also recommends Facebook as still a great 'allrounder', particularly for reaching people aged over 55.

On its website, multi-channel marketing form Kagool notes that there is an ongoing shift from Facebook to Instagram for financial services' audiences.

"It's not just beauty, food or consumer friendly brands that are moving into the Instagram space, banks, insurance companies and the like are waking up to the opportunity. The average follower count for the financial services industry is 38,595," it says.

A simple approach to targeting social media may not be best, but simple messages within the platforms are the most appropriate.

"The pensions industry is becoming more and more active in the social media space and we very much enjoy following the news updates and conversations taking place," PPF director of communications and brand, Jenny Peters, says. "We're seeing more engagement, and as we all focus on clearer, less complex communications, conveying important messages in a succinct way is a good challenge for us all."

Written by Laura Blows

Case study: Teachers' Pensions

Teachers' Pensions began its social media journey in 2016, with a Twitter, Facebook, YouTube and LinkedIn account.

"We wanted to be able to reach out to our almost 2.2 million members in an environment they were engaging with," says Capita head of engagement and marketing, Kerry Tate-King *[Capita handles the administration of the pension scheme].*

As well as organic and paid-for social adverts, it responds to member queries via social media and uses it to help facilitate conversations between members.

It aims to highlight the benefits of the pension scheme, from starting in teaching through to retiring, especially the benefits of being in a defined benefit scheme. Tate-King states one of its biggest aims at the moment as trying to break down member confusion over the pension and how it is calculated, and find a way to make pension jargon easier to understand.

"More recently we have moved from 'pension heavy' content to more posts about the teaching lifestyle. It has been great to see members engaging with those posts and it helps us get to gain further insight about our audience which enables us to create content that works best for them," she says.

"To give an example of the success of some of our content, last year we ran our first social-only lifestyle campaign," Tate-King adds. "The theme of this was 'everyday matters' and it ran over three weeks, utilising both paid and organic social. We were very aware of using imagery that best reflected schools/situations as they were at the time during the Covid-19 pandemic. The campaign was to engage with teachers, showing every day of their teaching career was important and made such a massive impact. It then highlighted how during this time, with each day their pension would be growing."

It has found through external research and its own metrics that its younger audience is on Instagram, followed by Twitter and then the older/retired members are primarily engaged on Facebook. "This segmentation impacts both the organic and paid for content that we run," Tate-King says.

Its social media journey continued in 2018 with the launch of its Instagram account, in a further effort to engage with younger members. Meanwhile, LinkedIn is used as a way to reach its employer audience, who are more finance/HR related, rather than teaching.

"We will also add in employer posts to Twitter if it feels relevant. However, we have found in the past that too much crossover between the member/employer segments causes confusion, so we try to ensure any employer posts on Twitter are clearly labelled as such," she adds.

"We're looking forward to using more video formats in the future, including colleagues answering pension-related questions on the platforms. As the video format is so important for social engagement, we want to ensure we're building the library of resources members need to fully understand their pension and how to access the information they need."

In return, Teachers' Pensions has found social media to be a great way for us to get to know its members and understand more about their journey.

"Their feedback helps to feed not just our social media planning, but other aspects of what we deliver, such as website content. We feel social has been invaluable to our engagement journey over the past five years and we look forward to its continuing growth and success," Tate-King says.

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DC roundtable

CHAIR

Andy Cheseldine, Professional Trustee, Capital Cranfield

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.

PANEL

Rachel Brougham, Trustee Executive, BESTrustees

Rachel has worked in the pensions industry for more than 30 years. She joined BESTrustees in 2014 and currently works with a number of clients, covering both DB and DC schemes. Since joining BESTrustees, Rachel's appointments have included two master trust boards and two independent governance committees of major UK pension providers, and the chairmanship of a number of DB schemes. Rachel spent most of her career at Mercer providing actuarial, benefit, governance and DC consulting advice to clients.

Roy Porter, Chief Sales and Marketing Officer, B&CE, provider of The People's Pension

Roy champions the delivery of the highest levels of service and support to both employer and adviser customers. He is responsible for supporting employers signing up to The People's Pension, and leading on client and customer relationships. Roy has more than 30 years' experience in the financial services industry. He has worked in the retirement planning sector for most of that time and is a member of the Personal Finance Society and Pensions Management Institute.

Ben Roe, Senior Partner and Head of DC Consulting, Aon

As a senior partner and head of the DC consulting team at Aon, Ben has significant client advisory experience. He works with a number of key UK trustee and corporate clients on all aspects of DC provision. He has a particular passion around making sure that members have the right support to make informed choices at retirement. He is currently leading a team developing an automated, online, 'robo-advice' solution that will enable sponsors and trustees to provide cost-effective support to DC members at retirement. Ben also sits on Aon's global DC committee.

Matthew Swynnerton, Partner, DLA

Matthew is a partner at DLA Piper and heads the London pensions team. He advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the Combatting Pension Scams Code of Practice, which received widespread praise.

Paul Tinslay, Professional Trustee, Dalriada Trustees

With 34 years in the Life and Pensions Industry, Paul has the very rare experience of having been a personal financial adviser, a market leader in the at/post-retirement market, a corporate pensions adviser and now a professional pension trustee and governance committee member for DB and DC pension schemes. Paul worked with the government actuary's department to develop the original drawdown legislation and has worked with a number of insurers to develop at and post retirement products and investment solutions.

Donna Walsh, Head of Workplace Deployment, Standard Life

Donna has responsibility for the deployment of Standard Life's workplace proposition. She has been heavily involved in the firm's workplace developments over the past 10 years and is passionate about improving the experience for Standard Life's members, employers, trustees and advisers. A qualified actuary, Donna has more than 20 years' experience across a variety of roles within Standard Life. She is a regular contributor to the pensions press and a popular speaker at key industry events.

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DC: Above and beyond

Our panel of DC experts looks at how the DC industry has excelled in the past year, and is continuing to set the bar high for UK pension provision

Chair: What challenges has the pandemic presented to DC schemes and how has the sector coped?

Brougham: The biggest challenge that I've seen, sitting on independent governance committees and master trusts, has been the impact on administration service provision – call centres for example. Some have coped well, but some are still struggling to catch up, 12 months on.

If DC members want to access their benefits, they need a decent service to be able to do that. It has of course been a massive task getting everybody working remotely, so we have to give credit to everyone who has achieved that. But 12 months on, not everybody's got it quite right, even though this is a new way of working and will be probably so for quite some time.

Early on there was also a lot of disruption in the investment markets, but that corrected itself relatively swiftly.

Porter: Automatic enrolment has generally come through the pandemic relatively well. At The People's Pension, we've only seen moderate increases in opt-outs and cessations, with some small spikes occurring around particular policy decisions. For instance, the decision to unwind the Job Retention Scheme in the autumn caused a small uplift in cessations. But generally, our members have been sensible and they've refrained from raiding their pensions pots. Contributions have also held up well, probably fuelled by the government's retention scheme and furlough initiatives.

From a providers' standpoint, the pandemic has proved that, when forced, pension providers and administrators can adapt relatively quickly to new ways of working without too much short-term customer detriment. In some ways, it has even forced a rethink in the way providers, pension providers particularly, interact with customers and stakeholders.

Roe: At Aon, we have not seen any widespread evidence of members making rash decisions, which is great considering everything that we've been through over the past year. That's a big positive.

The other thing that came to light from research we carried out last year is that there is a bigger realisation that people are going to have to either save more for retirement or work longer. There is also an increase in those expecting a shortfall at retirement.

The positive side of me hopes that this realisation will feed through to higher contributions and help close some of the savings gap in the future. That could be one of the positives that comes out of the pandemic.

Swynnerton: From a DC perspective, the immediate effects of the pandemic – the market volatility, the capacity constraints for administrators – have hopefully been ridden out now; and we see schemes starting to focus on longer-term objectives; taking stock of how they coped over the past year and how that might affect operational models going forward. I suspect, as we come out of furlough, we will start to see some businesses collapsing unfortunately. That will have an impact on both DB and DC schemes.

Tinslay: The initial disaster recovery plans, transitioning across to working from home, seemed to operate reasonably well. There were some really good examples, and there were also some touchpoints that didn't go quite so well, but overall the industry acted very well. We can give the regulators some credit for having set the industry up over the previous years in order to deal with that.

The other big impact I would focus on relates to cybersecurity, which is clearly keeping a lot of people up at night, given the increase in cyberattacks. I am getting involved much more these days as a trustee in assimilated cybersecurity breaches to make sure we're set up for all of those kinds of things. Cybersecurity is important and something which we need to concentrate more on in the DC world.

Walsh: For us, the pandemic has

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impacted different people in different ways. As an example, in 2020, we saw a fivefold increase in members disclosing to us that they were facing financial difficulties. We also saw a notable increase in people under the age of 55 asking us if they can access their retirement savings, because they were in financial difficulty. Also, many of our over-55 customers, who are able to access their retirement savings, were telling us that they were doing so to live on/pay for the bare necessities, as opposed to spending it on other things.

But then conversely, at tax year-end this year, we saw an increase in one-off contributions into pensions. Some people have more money than they've had before because they've not been able to spend as much due to the pandemic, so they're paying more into their pension at tax year-end.

We also carried out research with the International Longevity Centre focused on Generation X and we found that 20 per cent of them are saving less or spending down savings as a result of Covid-19, and 16 per cent are worrying about their financial security in retirement and thinking how they can save more.

So, we need to think about how we communicate and engage in different ways that will resonate with members across each of the different segments, based on what's important to them and what's impacting them right now.

Chair: I assume we've seen quite a big difference from a demographic perspective, insomuch as the younger generation were typically furloughed more than the older generation, while the older ones have access to their pension money to spend. What other trends are we seeing?

Walsh: Yes. The research also showed that groups that were already facing

disadvantages in their retirement income prospects have been disproportionately impacted. The self-employed, the part-time workers, people earning less than £15,000 per annum – many who have seen their hours reduced significantly through the pandemic, they have been impacted heavily.

Another piece of research we did, our financial attitudes study, also showed that women and people aged 35 to 54 felt less secure and have seen the biggest drop in savings security since the pandemic. So, there are definite differences across different demographics.

Porter: We operate the B&CE charitable trust specifically for the construction industry, and we've had a record number of hardship claims. Many of those have been middle-aged people or those approaching retirement, so I suspect that sector has been hit hard.

Sleepwalking into retirement

Chair: Five years on from the introduction of pension freedoms, new research from The People's Pension has shown that mature savers are sleepwalking into retirement. How much of an issue is this?

Porter: Our *New Choices, Big Decisions* research has given us a unique insight into the challenges faced by those approaching retirement, as well as the decisions that they have to make. The study was first conducted following the introduction of pension freedoms in 2015, and it focused on 80 people over 55, with primarily DC benefits.

We've done three rounds of this, with the latest research centred on 50 savers. The results show that policymakers, and the industry as a whole, have built a system that relies on unrealistic assumptions on how people behave to work effectively. It also shows that people nearing retirement want their pension provider to supply a safe, guided path to retirement, rather than have to make the complex decisions that they're currently faced with.

Some of the other key findings are that savers are scared of planning for the future, because they don't really want to discover the truth about the complexities and the issues they're going to face. Also, that savers underestimate the financial risk of growing old, that they don't understand how things like inflation can impact their savings, and the typical saver follows the path of least resistance. For example, they won't leave a product or change a drawdown withdrawal rate once they've signed up.

So the data and insights that we've collected through the research will help us in our work to provide a retirement product that adequately meets the needs of this new generation of savers.

Roe: This is a big issue that we've got as an industry, in the DC space. People want different levels of support and everything that Roy *[Porter]* has said echoes the statistics that we're seeing coming out of the Financial Conduct Authority (FCA) – around people not shopping around at retirement and ending up in their existing provider's solution, which may not be right for them. We do need to do more to provide people with the right support at retirement. We've seen a big trend towards DB schemes providing members with access to independent financial advice at retirement; and we're starting to see DC schemes going down the same route. The big problems, as always, are around (a) can people afford to take that advice and (b) do they know how to find a reputable adviser. So, we need to think about how we can make advice affordable, accessible and scalable across the population.

Following on from that, we are currently piloting a robo-advice solution with the aim of driving down the cost of advice and making it cost effective for those with smaller DC benefits who would still benefit from having somebody tell them what to do. The decisions are complex and getting it wrong can cost them a lot of money, so we do need to work on these support mechanisms. People are telling us that they want to be told what to do, because they don't know what to do, otherwise they will just sleepwalk into a retirement decision that might not be right for them.

Swynnerton: People generally don't think about retirement, and probably some of us here today are guilty of it too. They fear the worst so don't want to think about it, or they think they'll be okay without giving it proper consideration. In truth, no one really knows what the true impact of longevity is going to be.

One of the consistent themes from these roundtables going back years has been the importance of communication and getting that right with members. It's interesting that it's still a theme that's coming through today and that we're still talking about the need for targeted communications and age-related communications. There seems to be a disconnect between policymakers and savers that needs to be removed.

Tinslay: Matthew *[Swynnerton]* is absolutely right – for members to be engaged, communications need to be engaging. The challenge is that when we're dealing with members at retirement, there's a great deal of unknown. Even more importantly, there is more mistrust in the pensions industry amongst the public than we would like to accept. That probably is the biggest barrier. Members don't necessarily want to speak to financial advisers, and they don't want to pay for them either.

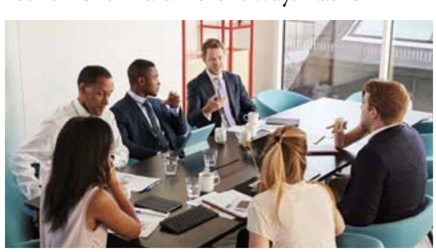
So while the Retail Distribution Review (RDR) created some good, the downside is that we are seeing less members engage, because they've got to reach into their post-tax savings to pay for advice and they're far less willing to do that.

All in all, the transitional period from full accumulation to full decumulation will continue to be a big challenge and is probably an area where the scammers are well ahead of the entire pensions industry, unfortunately.

Walsh: A multichannel approach to communication and engagement is definitely needed – making sure you have digital channels and apps available to those who want to use them, but also having people on the phones ready to help and guide people as well. And, of course, letters for those preferring this channel.

On the point about guidance, we need to ensure we are getting the right balance between what is considered increased guidance and when does that tip into advice. This is a focus for us. We're looking at increased guidance and including integrating holistic planning into that guidance space to help people across all life stages.

Finally, we as an industry need to encourage people to think about retirement in a different way. Rather than thinking about a pension, get them thinking about what retirement actually means for them, what they want from the next stage of their lives, what they are going to do with that extra time and how are they going to fund it. It's going to mean different things to different people, but if we better understand what retirement means to them, we can help them on their journey to get there.



Brougham: When pension freedoms first came in, I remember thinking how strange it was that we'd taken the nanny state approach on the accumulation side, but people were on their own when it came to taking their benefits, which seemed a very odd joining up of policy.

I am very interested in the behavioural science behind all of this and believe we should be tapping into that a lot more to help us work out what kind of communication works for members, and how we can help them without straying into the realms of advice.

The fine line between guidance and advice acts as a huge barrier, and trustees are frightened to go down a particular route. None of that is helpful to members.

Also, why are we expecting members to become financial experts at this particular point in their lives? There will be a lot more going for them when making the big decision to transition from working life to retirement life, and the financial side of it is going to be enormously stressful. This is going to become an even bigger problem as more and more people are solely reliant on DC pots. There's a shock going to happen somewhere in the not too distant future, when there's a big realisation that there is not enough money in those pots.

Member engagement

Chair: This industry is schizophrenic in its approach to engagement. We don't want to engage with people when they're

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auto-enrolled at age 20. We just want them to join the pension scheme, and we don't want them to ask any questions, because if they ask questions they might opt out. But at some point thereafter, certainly by age 55, we want them to be fully engaged. How do we square that circle?

Roe: You're absolutely right, we don't want people to engage too early, or they could make silly investment decisions. It comes down to getting the defaults right for those individuals and then gradually warming people up as they're going through their career.

On engagement, we have seen a number of recent trends. First, the pandemic has given a real boost to digital and online communications, which is great because that whole area needed a shake up. We've also seen people really engaging with online webinars and mid-career seminars, for example, which has been effective in starting to get people thinking about these issues.

Finally, as people get towards the endpoint of their career, it is all about targeted messages. App-based technology really works, because you can send out targeted messages, you can start to tailor the communication to those preferences and so on. With some clients, we are going down the attitudinal approach and starting to send out different communications to the different groups, based on their preferences.

We're doing that on our own scheme also, with our own pension app that we've launched.

All of those things are helping to drive engagement in pension savings and also in the area of wider financial wellbeing. That's got a real role to play in the engagement piece, as we've got to recognise that people have different challenges and different things that they need to do with their assets at they move through their career.

Swynnerton: Automatic enrolment is predicated on the concept of inertia. That means you start with an inert membership and, over the course of their scheme membership, you need to convert them from being inert to reactive members. How do you achieve that?

We see dashboards mentioned a lot when this question comes up but, while dashboards bring with them a great opportunity for everybody to see their pensions in the same place, they also present a number of challenges that will need to be overcome. Also, I'm not sure the fact that people have pensions across a number of schemes is necessarily the reason for people's lack of interest.

So, I'm not sure what the answer is but there does seem to be a need to engage and how we do that with members, particularly those who've joined just through inaction, is by definition a challenge.

Tinslay: I would like to get people engaged as early as possible. I've often advocated that we should have financial education at school. That would help establish a culture of understanding finances.

With regards to improving employee engagement, we also need to work on getting employer engagement. There is very little of that at the moment. The recent joint statement from the FCA and The Pensions Regulator (TPR) has tried to deal with that, enabling trustees and employers to give lots of information and guidance without crossing that particular barrier into advice. But there's still a massive grey area there.

Walsh: I agree on the financial education piece. At school, our children are taught how to do maths, how to cook, about history, but nobody's teaching them about other important things in life like mortgages and pensions.

It is also essential that we engage employees, so we don't just auto-enrol people into the pension scheme and then leave them and hope that they stay in.

At Standard Life, we have our employee engagement programme which sends out automated dynamic and relevant communications right the way through every life stage. As part of the welcome pack, they get a series of three initial emails to welcome them to the pension, give them some information about the benefits of the pension, and encourage them to register for the dashboard and the app. We have also started to roll out a reminder to register for the dashboard and the app, and we're seeing an uptick in people doing so.

There are people out there who do want to understand more, so this programme also includes milestone comms, tax planning comms, and so on, all the way up to and through retirement.

The financial wellness point that was made earlier is also really important. If you have someone in the starting out phase, with little money, and you just communicate with them by encouraging them to save more in their pension, it's not going to land well. But if you help them with their immediate financial challenges, help them with things like budgeting for example, it can be much more productive. We have a new homebuyer app coming soon to our mobile app, for instance, to help people save for their first home. We also have our open finance platform, Money Mindset, which brings people's finances together. So getting people to think about their

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pension as part of that wider wellbeing piece should resonate and help build engagement at younger ages.

Brougham: The problem with engaging people earlier on is that a pension for them is a long way off and they can't quite visualise what retirement might look like and what they might need at that point. That's a big challenge.

Also, pensions need to be a lot more in the public conscience for the right reasons. The problem is that it comes into the public conscience when cases such as BHS and Carillion hit the press. All of the pensions news is negative, so we need to get some good news stories out there. Automatic enrolment is a good news story in terms of how many people it has enrolled, but people are enrolled and many might not even realise it.

There's also still a massive disconnect in understanding the size of a DC pot and how long it's got to last, because a pot of tens of thousands of pounds is a lot of money to a lot of people, but it's not necessarily going to last very long. Of course, another part of the problem we have with engagement is we can only deal with what we can see a member has. Some members have different pots all over the place, and it's very difficult to target your communication based on the size of a pot, because it might be a tiny pot of a very big piece of saving, or it might be all that a member has. The dashboard should help some way with that problem.

On a more positive note, people are starting to think about ESG issues and the impact of their pension savings on things such as climate change; and they are interested in understanding what we as trustees are doing in that space, making sure that we're managing climate risk and so on. If members are engaged and understand that their money is doing good things, they are perhaps more inclined to save more.

Porter: With over five million members at The People's Pension, communication is probably our biggest challenge. Saying that, over the past 18 months, the uptick in online engagement has been phenomenal.

I also agree that the dashboard offers a massive opportunity to encourage people to engage with pensions saving and will probably be useful to help people consolidate ahead of retirement – as we have seen happening in Australia.

There are trigger points at which you can engage more effectively with people, and Donna *[Walsh's]* point about segmenting the market is really important here – trying to understand the different facets of your membership so you can think about when is the right time to communicate.

For us, it's really important that we have clear, simple, engaging comms and we try and simplify our pension messages. It's obviously a very important part of our offering because of the mass market that we're serving, but even with a high quality set of comms, it's really tough to get people to engage. We do expect to see higher levels of engagement as pots grow. We have anecdotal evidence from Australia that that's the case.

It doesn't help that some of the consultations we've seen recently are somewhat misguided. We're engaging constructively, for instance, on the simplified annual benefits statement consultation, but we're realistic and frankly a little sceptical about the prospect of any sort of paper document delivering a step change in levels of engagement. It's a bigger issue than that.

Tinslay: Language is key here. When communicating with members, particularly the sizeable number of members that are using default funds, you want to let them know that there are other options available. But if those members log on to find out more, and the first thing they see are funds called, for example, a 60/40 cautious managed collective fund, they are going to be put off straight away.

Right across the industry we have a huge language problem, which we need to tackle. That will help with the trust issue.

Generation default

Chair: How do we change the mindset of 'generation default' and should we?

Tinslay: Generation default are those members that are automatically enrolled – they become a member of a pension scheme sometimes without even knowing it. They don't have to be involved with it, they don't have to open their annual SMPI, they don't need to log on, they don't need to do absolutely anything until they're faced with one of a small number of pathways to choose from, to actually then take the income.

So they go from being completely disengaged with the pension right up until the point that they are presented with a whole labyrinth of options, which they've then got to try and pick in a short space of time.

This links to some of the points about the employer – do we actually report to the employer about the number of members in the default fund? Do we report those who are registered for the online service? Those who are actually transferring in? Where the employer has a tiered level of contribution, do we report those who are still stuck on the first tier, where they've been automatically enrolled? Do we report

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those who are using salary exchange, those who are using it and those who aren't? This kind of information and an annual employer statement to its employees would be far more useful than what we've currently got in the chair's statement.

Brougham: On the point around members going into default at the lowest contribution rate and not doing anything more, I agree a lot can and should be done there. The default investment strategy, however, I am less concerned about because, why should we expect individuals to become financial experts in choosing their investments? We shouldn't. I don't particularly care if 99 per cent of my members are in the default, as long as we as trustees have designed that default really well with our membership in mind.

Actually encouraging members to self-select is possibly a dangerous game to play, if individuals don't have the confidence or the understanding to make those decisions with a good amount of knowledge.

It's incumbent on us as trustees to make sure that those defaults are really good and not worry so much about how many members choose to self-select or not. We'll make a reasonable range aside for those people that do want it, but actually the default is a really important thing to get right.

Walsh: Back to a point that was made earlier about ESG, there's an opportunity with ESG, responsible investment and climate change to engage people more with their pension. Also, we could potentially build on inertia and the success of auto-enrolment by allowing 'save more tomorrow' on an opt-out basis as well. We have to offer this on an opt-in basis, so I am not surprised that we don't see a high take up. But if it was on an opt-out basis, we probably would see people staying in and automatically saving more for their future.

Finally, back to the point around different communication methods needed for different segments, things like personalised videos can work as great nudges to help people realise the benefits of paying a little bit more.

Decumulation

Chair: What needs to be done to improve the DC decumulation journey?

Tinslay: We have a situation where we've not really recognised that transitional period between full accumulation and full decumulation, which I think will be even further extended given Covid-19. For example, there will be some members that will have to take some benefits in their early ages whilst they continue to work, and there will be some that want to do that even if they don't have to.

You've then got, in the decumulation sector, a realisation that it's not just pension issues that need to be considered. Many people are taking their tax-free cash because they can but, as a result, they are increasing their potential IHT bill, so their pension is then immediately inextricably linked with their inheritance tax planning.

For a number of members, that might not necessarily be an issue, because the numbers aren't quite high enough for them personally to worry about those kinds of things. But with increasing assets in houses and things like that, all of these things can be captured within IHT.

So, from a provider's perspective, you've got some challenges as to whether you deal with the pension on a segregated basis, whereby you concentrate on the pension only, or you deal with it on an amalgamated basis, so that you can bring the members' other pensions together too, maybe even build in the state pension as well, in order to give them a wider picture of what their retirement is going to look like. Finally, you can even take a full holistic approach to the member's – and even potentially the family unit's – other wider finances.

Brougham: A lot of this comes back to that discussion about engagement and helping people as they approach this particular point in their lives. We have investment pathways now on contract based arrangements and it's being considered for trust arrangements as well.

Part of the problem with standalone trusts is often that they don't offer that journey to and through retirement; so there's a challenge there as to how those members then access drawdown facilities and so on. That's a challenge for trustees of standalone schemes – how do they help members make a sensible decision in that area? I suspect they've got away with it so far because pots have been relatively small. As pots increase that's going to become a bigger problem and maybe we'll see more partnerships between standalone trusts and master trusts that deliver drawdown products going forward.

We're going to see a lot of consolidation in the own trust DC industry anyway, because of the value for money expectations that are coming along for the smaller ones.

Finally, as has been highlighted, we can only deal with what we can see. We need to help members try and bring the sum of all of what they have together to help us help them a bit more.

Porter: I agree you can only deal

with what you can see. With a largely disengaged audience, it's very difficult. We need to acknowledge that people are not very likely to suddenly become interested in and expert in retirement savings products, regardless of how you put them on the table. Nor are they likely to start taking financial advice en-masse. All the research shows that they won't do that, even though advice remains very valuable.

So, we need to learn from the successes that we've had and learn to use the tools, like defaults, that have been shown to work well repeatedly in many countries. It's clear to us that early interventions are required, together with well-designed defaults and appropriate guidance based on what we can see. We should make that available with a narrative relevant to the individual. That's much harder though than one might think.

Roe: I agree with the point around standalone trust-based arrangements who are grappling with how to help members who want to access drawdown. We are seeing a number of our trust-based clients looking at partnering with a master trust to provide that solution.

Interestingly, the recent joint paper from the FCA and TPR suggested that this could be straying into providing advice. So that's not a helpful direction of travel. Hopefully that will change as this is just about trying to do the right thing for members and provide an option which might be suitable.

Brougham: Isn't that a prime example of the disconnect between policymakers and what we, as trustees, are trying to do to be helpful?

Roe: Agreed, we are just trying to be helpful to members. It's important to get the communications right, of course – to make it clear it's an individual's choice, but it's got to be beneficial to use the

trustees' bulk buying power to get better terms and make sure the features are appropriate for their members, than letting members go out or just stay with their current provider because that's what they'll do, they'll sleepwalk into that.

Also, I'm keen on people having access to advice. I've worked heavily in the DB space, where people are putting in place advice at retirement. If that's fully integrated into the retirement journey, we are seeing people take up that service. So 30/40/50 per cent of members will take that advice at retirement. Again, using the sponsors' or the trustees' bulk buying power, you can get some really reasonable rates for people for advice with advisers that know the details of the scheme.

Tinslay: Having advisers available and some kind of due diligence undertaken by the employer and the trustees for a panel of advisers is a very good idea. But then, as well as the joint statement from the two regulators, the ombudsman added that you've got to go through that due diligence on a regular basis going forward. So there's an additional cost, and another reason for employers not to engage with it.

Walsh: I agree with the importance of communications, engagement and guidance up to and through retirement. Recognising that many members would not seek advice, we implemented guided investment journeys into our drawdown in 2015, which the FCA investment pathways are largely predicated on, which means that we have six years of member data experience to draw upon. It may not come as a surprise that many people don't always do what they say they are going to do. We therefore monitor member withdrawals and, if they are at odds with the member's stated intention, we communicate with them, nudging them to our online drawdown review or to call us to discuss their options.

ESG

Chair: What can we expect from the regulator following the publication of its climate change strategy?

Walsh: We welcome the TPR publication of the climate strategy – we've already taken action and we have our net-zero targets in place. With the increased governance requirements for trustees in this area, we see this as further accelerating the move from own trusts to master trusts.

Brougham: I agree, it will possibly be another nail in the coffin of standalone arrangements and will accelerate the move to master trusts. If we can demonstrate that we are being proactive on this, however, ESG is a good means of engaging with members.

We do need to work closely with the investment management industry on this too. There's an awful lot of pressure being put on pension schemes to be pushing this. I'm not sure how much pressure's being put on the investment management industry, but it feels to me that the pension schemes are having to do the work to push this. It's not easy transitioning from one fund to another, it's a big cost, it's a lot of work, so it would be great if we could see a little bit more pressure on the investment management industry on this.

Porter: Where is this all going? We can probably expect TPR to be focused more on the treating customers fairly disclosure and reporting in the not too

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distant future. TPR were part of a group statement from regulators showing support for greater disclosure in 2020. The powers to regulate climate-based reporting was included in the Pensions Schemes Act 2021, and the DWP finished the disclosure consultation process in March 2021 so the final guidance is expected soon. So it's only going in one direction – greater disclosure, more emphasis on ESG, and it is a good opportunity to talk to people about it and engage members with it.

Roe: ESG is a really important and topical issue, and I agree it provides a powerful way to help engage people in pensions. We've seen that with some of the early adopters that have integrated ESG in the default fund, for example. That has received some great feedback from members who have engaged with pensions for the first time.

As has been mentioned, people may actually be willing to pay a little bit more to know that their money's doing some good for the planet, which is great to see.

So there's a good news story there and it often ties in with some of the wider corporate initiatives as well. If you can build that link with the employer about what they're doing and get them engaged with the pension scheme as well, it can have an even bigger impact.

It's also good to see that the subject has been broadened out from just an environmental issue, with the social side also being highlighted as important.

Swynnerton: The regulator's climate change strategy suggests that its immediate focus is going to be on governance and I think that focus will be centre on reporting and SIP publication. It also said that it's going to try and influence debate, and it will be interesting to see how it achieves that. Those debates are starting on trustee boards. It's a big issue for corporates too and we can see that through the corporate advice that we deliver, perhaps not in relation to pensions so much, but more generally. It will be interesting the extent to which there is actually trustee and employer engagement and discussion on this.

Also, I am curious to see how the regulator will use its enforcement powers. It has said that it will, but it's been generally hesitant to use its powers in areas that tend to be fairly opaque, in the DB space particularly. So it will be interesting to see how those powers are used, or if they're used, and if they go beyond just where there's been a failure to report.

There's also quite a bit more information to come. The regulator has got to publish further guidance and this links to the Pension Schemes Act 2021. It's going to look at integrated risk management, and there'll be modules in the single code. There's also going to be an update added to the trustee toolkit in relation to ESG, so there is a huge amount still to come. We're probably just seeing the tip of the iceberg on this.

Tinslay: There is some material out there to help trustees on the topic of ESG, but some more assistance from TPR on that side of things would be helpful.

Brougham: One thing we have to watch out for is that all while disclosure is all well and good, what needs to be avoided is that it just becomes a tick-box exercise and that only lip service is paid to this. At some point, as the regulator develops its enforcement around this, I would like to see it making sure that

there's actually some proactivity going on there and some action being taken.

Scams

Chair: What's changed under the newly updated Combatting Pension Scams Code of Practice?

Swynnerton: The code is now more streamlined, it has been restructured, it has some new regulatory elements, it has built-in guidance from the regulator and the FCA and more up-to-date ombudsman determinations too.

The other thing I want to flag here is that the Pension Schemes Act 2021 goes hand-in-hand with the code. Trustees can expect fairly soon additional powers designed to help them block transfers to suspected scam vehicles by removing the statutory transfer right and requiring MAPS guidance in certain cases.

The DWP is drafting regulations which will be consulted on at the moment and, alongside my fellow members of The Pension Scams Industry Group (PSIG), we are working with the DWP in helping formulate those. It will be really interesting to see how the regulations ultimately address the challenge of balancing the need for strong safeguards for members without blocking legitimate transfers.

Sadly, the pandemic has heightened scam activity, and scammers develop their tactics incredibly quickly.

Brougham: For us, as professional trustees, this is largely about understanding what the administrators are doing and understanding what their controls are around scams. We are slightly removed from it. Obviously, there's a communication through member newsletters and that kind of thing, but the real nub of managing the risk is with the administrator. So it's making sure that we understand fully how the administrators are managing that on our behalf.

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Tinslay: We have spoken about member engagement and communication throughout our discussion today and that's a key component. Margaret Snowden from PSIG did a great podcast with TPR and I've provided my employers and members with a link to that podcast. That's had a good take-up.

Walsh: We published some findings recently on how scammers are targeting younger people now. We found that three in 10 of 18-34 year olds fell victim to scams, with scammers trying to use social media to target the younger generations. During the pandemic, 49 per cent of 18-34 year olds looked for information online or through social media for financial information, 26 per cent going through Google or search engines, 25 per cent YouTube, 18 per cent TikTok and 15 per cent Facebook. Scammers have clearly seized this opportunity, as almost half (49 per cent) report they have received unsolicited financial advice, with 21 per cent receiving it via social media and 20 per cent through online search engines.

We wrote to the UK government, asking them to take urgent action in the Online Safety Bill to protect people saving for retirement from fraud.

Single Code of Practice

Chair: What might the new Single Code of Practice mean for DC trustees?

Swynnerton: There are 15 current codes and the idea is to create a single shorter code – so there will be a reduction in volume, which will probably be seen as positive by most.

The first phase will involve merging them and bringing ten of the current 15 codes into one. So it will be halving the volume, which is consistent with TPR's ambition to create a single point of up-to-date information.

What we've noticed is that the actual content hasn't changed massively, but

the streamlining will hopefully make everyone's life easier. The next stage will see new modules on, for example, climate change, stewardship and cyber security – all positive developments.

The other point that's relevant for DC is the own risk assessment. There are certain matters that have to be covered in the code, which include carrying out the own risk assessment of trustees' governance, where the scheme has 100 members or more. So that's probably the most practical aspect but there is more to come over the course of 2021.

Roe: There is an argument that DC trustees have to navigate a bigger document, because they've got to go through all the DB content as well. So some might see it as more onerous to wade through a larger document, whereas before it was all in one place. So again, that could be another reason for reviewing the governance structure or delivery vehicle in the future.

Chair's statement

Chair: What is the panel's reaction to the DWP's comments on the problems with the annual chair's statement?

Walsh: The key thing here is getting back to the goal of the chair's statement, making sure that it's engaging and informing members. There's a worry that, with more and more input and guidelines from the regulator, they're getting very long and complex, and they look completely different to other communications that go to members.

We use behavioural scientists to help us with our member communications and the chair's statement is completely different. So we need to get back to the purpose of the chair's statement.

Roe: I agree the chair's statement is not really fit for purpose and needs a complete rethink. If it's going to members, it needs to be much simpler and focus on the areas that are actually going to engage them and that are really relevant from an individual's perspective.

Brougham: This is definitely a long overdue review. If the disclosure of everything that's in the chair's statement currently is still required, then let's just call it what it is – a compliance document; and let's create something else that gets the key messages to members in a far shorter and less techy form. A lot of time and effort goes into producing them – they're many pages and far too long.

Porter: We've always felt that member-facing documents should be short and clear. The chair's annual statement is neither of those things. The DWP's report is welcome recognition that it's not working as they'd hoped.

What we need is a short document that gives members key information that they need about value for money of schemes, without bewildering them with the information around transaction costs and all the detail that they put into these things. All that detailed information should be subsumed into an expanded supervisory return and supplied to TPR that way, while the chair's statement is kept relevant to members.

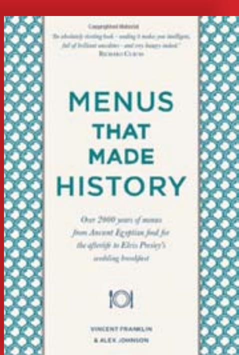
Swynnerton: It just doesn't seem fit for purpose. More importantly, it seems very confused in relation to what its purpose actually is. Is it to provide members with information? Is it some sort of regulator compliance reporting tool? It's just diverting trustee attention away from matters that are potentially much more important.

Outside interests

Laura Blows discovers the skills, interests and hobbies industry people have outside the world of pensions

Arts

I have been painting in my studio in St Leonards during lockdown, gaining inspiration from the changing seasons, which I have now had the privilege to watch slowly unfolding in East Sussex for the past year. I am running out of space so will need to put on another show in the autumn. I am a colourist, which just means I use colours in an interesting and original way *[website: simonchinnery.com]*
LGIM head of client solutions, Simon Chinnery



Obviously Vince is a wonderful actor who's played some great roles on stage and screen, across comedy and drama. But he's also written a fascinating book, *Menus that made history,* which flirted with the bestseller lists last Christmas. Each menu gives readers an insight into the social history of that moment in time. He's working on the sequel at the moment, which I believe is about the drinks that made history. And as if that weren't enough… he's a superb artist and gave us all a linocut workshop last year.
Quietroom development lead, Joe Craig on Quietroom co-founder, Vincent Franklin

I have never given up my ballet training. And last year, despite Covid-19 challenges, moving to a new job, and two young kids I went back to the examination room after 24 years and took my Intermediate Exam at the RAD Headquarters in Battersea. Ballet is my 'happy place', I love the music, the movement and the freedom. My exam was quite an experience, as the first exam was cancelled due to lockdown, but Lady Luck allowing us to rearrange just before Christmas. With my exam number pinned on, and new shoes ready, my 'presentation of the year for 90 minutes' was here and I was blown away to pass with a distinction. One of the last things off my bucket list before I turned 40 – successfully achieved!
Kempen Capital Management FM Business Development director, Lara Edmonstone-West

I'm an author, screenwriter and musician. My 16th book is coming out in January. Among a certain audience who have far too little interest in pensions, I'm best known as the author of the bestselling Jimmy Coates series – action-thrillers in the style of *The Bourne Identity,* but for 8-13 year olds. I started my work-life as a musician, writing music for film, TV and theatre and songs for boybands. Last year I wrote the lyrics for a Latvian pop star's first English language album. I've also worked as a cartoonist and a dating coach (not at the same time) and, as a keen amateur, I coach cricket.
Quietroom development lead, Joe Craig

Sport/exercise

Hockey can teach you about leadership, strategy and improve your social skills, but this wasn't what drew me to the game. It was the excitement of being first to the ball with a big stick and firing it – with force – towards the goal.

My playing days have changed a little since those early outings nearly 40 years ago. There is more surprise than excitement if I am first to the ball and score. And other actuarial attributes – strategy and risk assessment – dominate my now defensive role.

As well as being a regular player and captain for Worcester 3s I also manage a couple of the junior teams and support the wider organisational side of Worcester Hockey Club. It is exciting times too as later this year we will play home fixtures at a brand new, purpose built, International standard hockey centre initiated as a joint venture with a local school.

Barnett Waddingham head of corporate consulting, Midlands, Jane Ralph

I am a master scuba diver and trained in the cold waters of the UK, practicing rescues off the Isle of Wight in the middle of a snowstorm! I have been involved in real rescues and have suffered an underwater emergency myself when equipment failed at 30 metres. I've seen lots of wonderful sights. A humpback whale once came to look at me while I was deep diving off West Caicos. This is unusual as they hate scuba noise. I feel very privileged – looking into the eye of a humpback makes you appreciate nature more.

PSIG chair, Margaret Snowdon

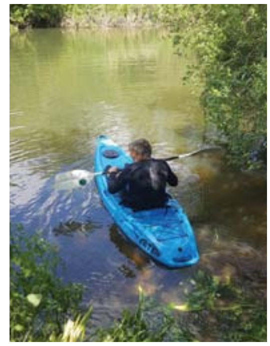
My principal hobby is Judo, 'the gentle way', although to be honest it's anything but gentle – to enjoy Judo means you have to enjoy combat and contact. Sadly,

there has been no judo for some time and this looks likely to continue until all Covid restrictions are lifted. Instead, and as a family, we windsurf. In practical terms this means my kids steal all my kit and, as they compete as part of national and regional squads, I am relegated to the role of 'shore parent'.

ClearGlass Analytics CEO and co-founder, Chris Sier

In order to look after my health and general wellbeing I have sought a new hobby in 'Munro bagging'. For the uninitiated, this is climbing Scotland's Munro's (a Munro is a mountain in Scotland over 3000ft and there are 282 Munros). It's not simply about climbing these but it's also good to take time planning and researching for them.

Capita head of proposition and pension software, Charlie Lambert



Growing up in Sub-Saharan Africa, I have always spent most of my free time outdoors and I have had a love of both the canoe and the kayak for over 40 years, due to the freedom that being on the open water gives you. It's quite hairy at times but it's the perfect way to unwind from tackling the complex world of pension policy. My son and I have twice completed the Wye Challenge, which is a gruelling 100 miles of paddling over a long weekend.

B&CE director of policy and external affairs, Phil Brown

Although resolving not to do another marathon again after doing the London Marathon in 2006, where I finished just outside the three-hour mark, I picked up my running shoes again in earnest early 2017. My first attempt was in Paris April, 2017, which failed owing to injury. Next stop was Frankfurt in October 2017 where I succeeded six months ahead of my 50th birthday. London April 2018 followed next, the day after my 50th birthday, for an Alzheimer's charity. This was the hot one (25 degrees) and

where memorably I suffered from heat exhaustion after the finish. New York was next on the list in November 2018 and finally April 2019, aged 51, I did my personal best of 2:58:29. I have been waiting patiently to complete my next marathon – London, in October – all being well and injuries permitting!
Hub Financial Solutions business development director, Adrian Cooper

Entertainment

Since we were in school, my oldest friends and I have played a game called *Magic The Gathering*. It's very nerdy and even now I'm reluctant to admit playing. You buy cards, put them in a 'deck' of your own design, and then play that deck against your friend's own design. There are over 20,000 cards to choose from, so there's real variety and strategy. The cards are also collectibles. Some are worth tens of thousands. There's a limit to what I'll personally spend on a piece of cardboard, but that limit keeps creeping up whenever I lose!
Aries Insight pension technical consultant, Gareth Stears

In my spare time (and prior to the pandemic of course), I did my best Bradley Walsh/Jeremy Clarkson/ Alexander Armstrong impression and hosted a monthly quiz night for the local community. Nothing too exciting – the winning team shares four bottles of wine between them as first prize – but most people seem to enjoy it anyway and don't take it too seriously! There are a few laughs as well as keeping the old brain cells active. I remember once asking where you would find a man with three legs and a cat with no tail. Rather than the anticipated response of the Isle of Man, one team suggested that the answer was Chernobyl!
PSIG deputy chair, Tommy Burns

I am an improvisor with the Free Association. I play in a few of their weekly house shows and have appeared on their podcasts from time to time. Improv is made up, silly, terrifying fun. I like that there's a mystery to it. Stand up, while great, makes sense. That person wrote and prepped those jokes. No one knows what made a good improv show good. People try to figure it out, but any attempt to replicate always fails. It usually comes down to nebulous things like being present, supportive, and brave. In an effort to give improv its fair dues, I will say, bad improv is one of the worst experiences you will ever have. But great improv is one of the greatest experiences you can have in a theatre. It feels like magic. Mostly, because it is. We are all witches and should be burned at the stake.
Quietroom office manager, Nick Adamson

Music

Rhys is a highly acclaimed singer-songwriter and has performed all over the world. His songs have been on Radio 2, BBC 6 Music and in heavy rotation on BBC Radio Wales.
Quietroom development lead, Joe Craig on Quietroom strategy director, Rhys Williams

I have long had a passion for gemmology *[the science dealing with natural and artificial gemstone materials]* which originally came about following a nine-year spell in Italy where all things aesthetic are keenly appreciated. I can be found hunched over my gemmologist loupe at weekends.

I also took up the lever harp over lockdown, which, apart from its Celtic association, which appealed to my Welsh roots, is kinder to the neighbours than my instrument, the violin.
Newton Investment Management real return team investment strategist, Catherine Doyle

The hat I wear by day is that of Quietroom's responsible and capable finance manager. We work with loads of trustees, pension providers and other grown-up financial institutions, and I ask them, ever so nicely, for money. These wonderful folks may be surprised to learn that by night I often wear another hat (well, other hats and many, many wigs). No, I'm not a drag artiste on Amateur Night, I'm a professional opera singer at (amongst other places) The Royal Opera House, Covent Garden and English National Opera.

Quietroom finance manager, Jochem Van Ast

I play keyboards in my band Shardlake. Together for over 10 years now, we regularly play at Glasgow's top live music venue, The Ferry, to capacity crowds, as well as many festivals and charity events.

Shardlake are passionate purveyors of the finest rock music known to humanity, from Led Zeppelin to Queen to Guns N' Roses to Muse. *[FB: @ShardlakeRock and https://shardlakerock.com/]*

Institutional business professional, Andy Dickson

Misc

I like to use things and not see waste. So, I've made my own essential oils from lavender and rose hips from my garden. It's a bit odd as essential oils aren't something I use, but I like to use things.

I also made rosehip jam (which is a right pain as you have to get the right part of the bud and discard the rest, so has to be done one by one for a couple of hundred of them!) and rose water from roses.

ITS director, Akash Rooprai

I'm a local councillor at St Albans District Council. I've done it for 10 years and (cough) just got re-elected with a big majority. Apart from answering constituents' questions about bin collection and parking tickets, I mostly focus on environmental issues (I'm the council's only Green). So with the growing focus of the pensions industry on ESG and specifically climate risks, my two worlds have become ever closer recently.

[Simon is also an accomplished actor, having been a Death Eater in the Harry Potter films and one of the Tweenies!]

Quietroom director, Simon Grover

Around four years ago I was looking to get more involved in the local community and I began volunteering with a local almshouse charity that specialises in social housing for elderly women in the local area. In my role as the trustee treasurer, I take responsibility for the accounts and manage our endowment – so an ideal crossover from my work in pensions. As well as the social housing we also use our income to make grants to other charities in the area that need support for specific initiatives; allowing us to have a much broader impact in the local community.

SEI Institutional Group client partner, Kris Shergold

My two preschoolers have been entertained by my efforts at balloon modelling, starting with a sword and shield, followed by 12 more swords and shields as the boys fought each other and burst them. It's a great wee hobby though, especially as I make the kids guess what it is first, then tell them they're right, as if I had always intended to make a giraffe and not a dog. One of my favourites is a Loch Ness monster, not to scale *[pictured].*

Barnett Waddingham actuary, Julie Baillie

When I'm not focusing on pensions, a real switch off from work comes in my dog agility hobby. You may have seen this at Crufts where dogs and their handler run as fast as they can around a set course of obstacles, jumps tunnels, seesaws and weaves in split second runs against other competitors. Now we're back out of lockdown, training is on twice a week, competitions are back and it's an opportunity to have a fantastic amount of fun with my dog. It's more prolific than you think with World Championships and a Great Britain squad. Ollie and I are not quite there yet…..!

Capita head of marketing, pensions and HRS, Jemima FitzMorris

Investments and member engagement

Trustees have recently been warned against giving the 'dangerous illusion' about the influence members can have on their pension scheme's shareholder votes. *Pensions Age* asks, how can pension schemes' investments be used as a positive engagement tool for members, without setting up unrealistic expectations as to the impact of member views?

Until recently, no one really put much effort into choosing their energy supplier – they may only have remembered the name of the company when their bill arrived. But the world has changed – through advertising and online comparison sites, we have become more aware of the marketplace, the different products and services available (including a supplier's green energy credentials) and are able to shop around for the best price.

I don't really know how green my supplier's energy is or how the green ratings are determined, but I am engaged with this when selecting a provider – I trust the information they provide and want 'to do my bit'.

Inviting members to engage in how their pension fund votes is similar – even if the only outcome is more engagement with their actual pension. Their voting intention may not necessarily be directly acted upon but the fact that they are engaging more is crucial – their opinion should, and does matter. It's similar to me choosing an energy provider because of their green credentials.

If, by allowing members to input into decisions about making greener investments, more people actually open their benefit statement, then it's a good outcome all round.

Redington defined contribution consulting team director, Maggie Kearney

We believe that accessible, engaging communication on sustainable investment can have significant benefits in encouraging broader member engagement. This is why Railpen has always taken member communication seriously, with dedicated resource allocated to create engaging collateral that encourages two-way communication with our members. For example, we have published a standalone *Sustainable Ownership Report* since 2017, we have worked hard to make our December *2020 Climate-related Disclosure* and our recent *2020 Stewardship Report* interesting, accessible and outcomes-focused, and we issue regular member newsletter updates on thematic engagement priorities such as climate change. Moving forward, we will be doing further work to understand the member perspective across ESG issues, including on how we act as an engaged steward of members' savings.

RPMI Railpen senior investment manager, Caroline Escott

People care – about their loved ones, about their money, about their planet, and they vote accordingly, with their voice and their money. They are constantly making decisions about how they align their behaviour to their priorities. People have real power to make change, and we in the industry need to be mindful of that power.

As stewards of our customers' money we have a duty to act in accordance with what members care about and to reward them for it. We can't tailor portfolios to every individual's personal convictions. However, we can engage with the companies on which their retirement future is built. We can steer them towards what we know most people demand, fostering better behaviour whilst still investing for performance. This is why stewardship can trump investment.

Members are concerned that their pension savings are invested in ways that might not reflect their beliefs. As an industry, we should encourage change. Especially when we have direct voting rights over those stocks, as SEI does for its master trust. When members get the pension that they want, they'll be confident that they've been heard.

SEI Institutional Group DC sales director, Nigel Aston

Our starting point is that trustees should operate in the best long-term interests of members and whilst members should have awareness of what their trustees are doing, it is trustees that are responsible for the day-to-day direction of the pension fund.

It is an agency problem but growing professionalism of the trustee community helps tremendously, as does the rising transparency around the structure and content of SIPs. The tightening of the regulatory environment and reporting requirements directs all trustees to move towards addressing environmental and societal objectives. Also, the investment managers that trustees choose (or make available for selection in DC schemes) are much more transparent about their sustainability and engagement policies.

On sustainability, we believe it reasonable to assume that savers and members would like to spend their retirement in a world that is no more polluted and no less environmentally sound than the present, with a fairer society and financial security. It seems to us consistent with the objective of providing members with a pension, that they should also be able to enjoy that pension.

Cardano group head of sustainability, Will Martindale

Pensions history

Reassurance for the trustees

4 June 1957 saw George Ross Goobey writing a memorandum to his trustees to reassure them that their decision in August 1955 to invest 100 per cent of the Imperial Tobacco Pension Fund in equities, had been right.

He supported his view by quoting from the speeches of insurance company chairmen at their recent annual general meetings who had been congratulating themselves on their better investment results achieved by investing more in equities. The chairman of the National Mutual Life Assurance Society said: "Although it has been impossible to avoid depreciation on the society's holdings of fixed-interest securities, it has, to a considerable extent, been offset by substantial appreciation on the society's holdings of ordinary shares." The National Provident Institution also reported that once again they had increased their holding in ordinary shares.

Lloyds of London also announced that the deposits made by underwriting members might in the future consist of up to 50 per cent in equities instead of at present 100 per cent in trustee securities. Even building societies were debating the possibilities of entering the equity field.

"What does this all point to?" asked Ross Goobey. "Certainly some satisfaction that others are following the policy we have pioneered for some years. But more importantly it points to the possibility that as so many investors are taking an interest in equities, prices will go up and yields to new purchasers go down. Should we not hasten, therefore, our move towards 100 per cent in equities? We have moved slowly towards our agreed goal and the percentage invested in equities has only increased in the past eighteen months from 62.92 per cent to 68.58 per cent.... Let us have the courage to do what all the facts point to in spite of the traditions to the contrary."

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

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

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COVENANT
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FIXED INCOME
HOBBIES
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Answer at bottom of page

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