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March 2022

# PENSIONS Age

The leading pensions magazine

***Russia-Ukraine war:*** *Pension funds' divestment from Russian-linked assets and the investment market's reaction to the conflict*

***Decumulation:*** *The many pitfalls retirees may fall into when drawing down their pension savings*


**How schemes can help vulnerable people struggling to engage with financial services**

**Case study: The recent court judgments on the PPF and the progress made to implement changes**

# Editorial Comment

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

The horrific actions of Russia invading Ukraine may be occurring around 1,500 miles away, but its impact reverberates across all borders.

Ukrainian refugees flee to neighbouring countries, nations implement stringent economic sanctions on Russia, global financial markets react to the ever-changing situation *[see our market commentary on page 16 for a review of the conflict's impact on the gold and gas markets],* sporting events to be held in Russia are cancelled and their national teams barred from international competitions, and the list of global brands stopping their operations in Russia grows daily.

The UK pensions industry has shown solidarity too.

Several pension schemes have planned to halt or cut their investments in Russian-linked assets following the nation's invasion of Ukraine *[for more information see our news focus on page 10].*

Two such schemes leading the charge are Nest, which stated that it will be removing all its investment in Russian government bonds and Russian companies "as soon as possible", and the BT Pension Scheme, which announced that it had reduced its exposure to Russian securities by £162 million between the end of December 2021 and the end of February 2022.

Meanwhile, the trustee of the Transport for London Pension Fund is instructing the fund's investment managers to freeze all existing direct holdings in Russian-domiciled investments.

Yes, moving investments away from a despot-led country being crippled by economic sanctions makes financial sense for pension funds.

Also, UK pension schemes generally have extremely low exposure to Russian entities (less than 0.1 per cent of Nest's assets under management were in Russian-listed companies for example, while the BT Pension Scheme had 0.3 per cent of its asset portfolio invested in Russian securities at the end of 2021).

But it has increasingly become the case in recent years that managing a pension scheme is no longer purely about the money, investing wherever return-seeking opportunities arise, come what may.

This concept is not new. For instance, pension funds with charity sponsors have long since avoided investing in sectors contrary to their charities' aims or beliefs.

All pension schemes, no matter the type of employer attached, have been gradually thinking along similar lines.

Taking environmental, social and governance (ESG) considerations into account when schemes make investment decisions has gained importance in recent years. Never has the chance to show the true spirit of these considerations been greater than now.

The Russia-Ukraine war demonstrates that ESG is not just about pension funds being 'nice', such as investing in green technologies, vague future aims to hopefully become net zero one day, or even about moving away in distaste from certain sectors or company actions.

It's about the opportunity to provide a statement, to proudly demonstrate what the pension scheme and all its stakeholders stand for.

ESG matters have long been cited as a tool for member engagement; with passions running high as this conflict unfolds, pension savers will be all the more watchful as to what their money is being invested in, and therefore supporting, on their behalf.

The world is changing. And thankfully, so too are UK pension schemes with their actions.

Slava Ukrayini.

**Laura Blows, Editor**


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**NEW circulation figures**

**Pensions Age now has its new circulation figure from the Audit Bureau of Circulations (ABC). 13,004 July 2020-June 2021 print distribution. This is 100% requested and/or copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 30,000+ online subscribers (source: Publishers Statement Sept 20).**

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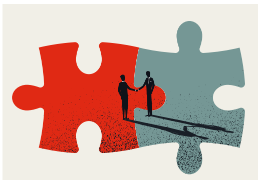
# Dateline - February 2022

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



**1 February Isio Group** completes its acquisition of Premier Pensions Management, following approval from the Financial Conduct Authority (FCA). The acquisition aims to enhance Isio's existing actuarial consulting, investment advisory and pension administration services, as well as extending its offering to include employee benefits and wealth management.

**8 February** The **government** confirms the minimum earnings trigger for automatic enrolment (AE) into a workplace pension scheme will remain at £10,000 for 2022/23, while the lower earnings limit has been frozen for the first time. The decision represents a real-term decrease in the value of the trigger, and is expected to bring an additional 17,000 savers into AE pension schemes as average earnings rise. Additionally, the government confirms that the qualifying earnings band minimum AE contributions are based on has been frozen for the first time for 2022/23, meaning that earnings between £6,240 and £50,270 will qualify. Whilst the lower earning limit has typically been aligned with the National Insurance Contribution thresholds, the review suggests that freezing the band helps everyone enrolled continue to pay contributions on a meaningful proportion of their income.

**11 February** The **FCA** launches a consultation on requirements for pension providers ahead of the launch of pensions dashboards, highlighting provider compliance as "an essential component" to making dashboards a reality. Under the proposals, pension providers would be required to complete connection of their personal and stakeholder pension schemes to the Money and Pension Services' (Maps) digital architecture, in line with Maps' connection, security and technical standards.

**15 February Lloyds Banking Group Pensions Trustees** agrees a second longevity swap deal, which will cover a further £5.5bn of liabilities in the Lloyds Bank Pension Scheme No. 1. The transaction is structured as an insurance with Scottish Widows as the insurer and corresponding reinsurance with SCOR, resulting in the scheme's longevity risk being passed onto SCOR.

**17 February** Global pension assets reached a record high of $56.6trn by the end of 2021, with the UK reclaiming its position as the second-largest pension market, according to figures from the **Thinking Ahead Institute's** *Global Pension Assets Study*. The new record was driven by year-on-year growth of 6.9 per cent in the 22 largest markets, known as the P22.

**18 February The Universities Superannuation Scheme** (USS) deficit declines from £12.9bn in March 2020 to £2.9bn as of the end of January 2022, based on upcoming reforms to the scheme, although the scheme warns that the challenge of steering an "appropriate course" for the long term remains. Whilst the scheme's latest funding update shows that assets had recovered to pre-pandemic levels, standing at £89.3bn as of January 2022, it clarifies that asset values are only part of the picture.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**18 February Royal Mail Group**, the Communication Workers Union (CWU) and Unite the Union confirm plans for a new collective pension scheme following a successful consultation process, with the scheme to be launched by the end of 2022 or early 2023. The outcome to the consultation, which was launched last year, is highlighted by the group as a "key milestone" for the scheme, with plans for the collective defined contribution (CDC) style scheme first confirmed in 2018. The CWU states that the introduction of Royal Mail's CDC scheme is now only awaiting "final, minor legislative work" before a formal application can be made to The Pensions Regulator (TPR) to open the scheme. The government recently confirmed that CDC legislation will come into force from 1 August 2022.

**21 February** Legislation to reduce the fixed rate of revaluation of guaranteed minimum pensions (GMP) for early leavers from 3.5 per cent to 3.25 per cent per

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

annum from 6 April 2022 is introduced to **parliament**. The new rate, which reflects a long-term reduction in the rate of revaluation applied to fixed-rate revaluation GMPs, applies to contracted-out members who leave pensionable service from 6 April 2022 to 5 April 2027.

**23 February TPR** shares additional guidance to help trustees and advisers work through new duties on climate-related governance and reporting, publishing an illustrative example. The example charts how the trustees of a fictitious pension scheme might approach meeting the requirements of the new climate-related regulations, which apply to pension schemes with £5bn or more in assets, extending to schemes with £1bn or more in assets from October 2022.

**23 February** The **USS** Joint Negotiating Committee votes to proceed with Universities UK's proposed package of reforms to conclude the 2020 valuation of the scheme, despite ongoing strike action. The changes will result in a 0.5 percentage point increase in employer contributions to 21.6 per cent from 1 April 2022, alongside a 0.2 percentage point increase in members' contributions to 9.8 per cent.

**23 February** The **government** plans to move to the draft regulations for multi-employer CDC pensions in "the latter part of this year, going into next year", Pensions Minister, Guy Opperman, states. Speaking at a delegated legislation committee on the draft regulations for CDC pensions, both the SNP and Labour indicate their support for the regulations that will introduce CDC schemes to the UK. Opperman thanks MPs for their responses and their support for the regulations, adding that the government will move to multi-employer CDC pensions in the latter part of this year, going into next year, and will "move at a sufficient pace that we feel is appropriate".

**26 February** The **Dormant Assets Bill** receives Royal Assent, meaning the government's Dormant Assets Scheme has been expanded to cover additional assets from certain pensions and investments. The passage of the bill is expected to unlock up to £800m for use in charitable causes. Dormant assets held via vehicles including savings endowments, investment bonds, income drawdown and deferred annuities will now be made available for a range of UK projects through the scheme.

**28 February MP Richard Holden**'s Private Member's Bill on extending AE is unlikely to complete the required parliamentary stages in time for this year's Queen's Speech, Pensions Minister, Guy Opperman, suggests. Speaking at the report stage for the bill on GMP conversion, Opperman is queried as to the government's position on the bill. He notes that the government is in the latter part of this parliamentary session and as the Queen's Speech is usually on the second Wednesday in May, the House of Commons has a limited period of time. "The reality is that there is no real way for my honourable friend's bill to get through this House and the House of Lords in the time allowed," he states.

**28 February** The **Private Member's Bill** on guaranteed minimum pension (GMP) conversion completes its third reading in the House of Commons and will move on to the House of Lords for consideration. The Pension Schemes (Conversion of Guaranteed Minimum Pensions) Bill, introduced by Independent MP for Rutherglen and Hamilton West, Margaret Ferrier, aims to clarify and streamline the GMP conversion process by clarifying that conversion applies to both earners and survivors, and outlining which employers need to give consent.

# News focus

## Pension schemes respond to Russian invasion of Ukraine

**Following Russia's invasion of Ukraine and the subsequent sanctions, pension schemes and other financial organisations have been taking steps to offload and/or halt any further investments in Russian-linked assets, with large UK pension schemes such as Nest and the BT Pension Scheme taking action to reduce their holdings**

Several pension schemes and financial institutions are looking to halt or cut their investments in Russian-linked assets following the nation's invasion of Ukraine.

Russian president, Vladimir Putin, ordered troops to advance into Ukraine in February, drawing international condemnation as cities were attacked by Russian forces.

As a result, Russia has been facing economic sanctions from nations around the globe, and pension schemes and other financial institutions have been looking to offload assets linked to Russia.

Nest CEO, Helen Dean, said: "In view of the situation in Ukraine, we'll be removing all our investment in Russian government bonds and Russian companies as soon as possible."

A recent valuation of Nest's investments in listed Russian companies, as of 25 February, was less than 0.1 per cent of its assets under management, while its Russian debt exposure was around the same.

However, Nest noted that it was currently "very difficult" to transact in the Russian market, which was hindering accurate valuations.

Due to the further fall in valuation, Nest estimated that its current exposure to all Russian investments, as of 1 March, was less than 0.1 per cent of its portfolio.

The BT Pension Scheme has announced that it reduced its exposure to Russian securities by £162m between the end of December 2021 and the end of February 2022.

It had £192m, or around 0.3 per cent of its asset portfolio, invested in Russian securities at the end of 2021, but this has been reduced to £30m, or around 0.05 per cent, as of the end of February.

The scheme's exposure to Russian securities had been "relatively small" due to governance concerns and ownership rights associated with the region, and it had been working with its investment managers since the start of the year to minimise its exposure in a "disciplined manner".

It added that the scheme will continue to look to reduce its exposures further if market conditions allowed, and that it will continue to monitor the situation, taking "appropriate steps" to protect the scheme and its members.

The trustee of the Transport for London (TfL) Pension Fund has also responded to the Russian invasion.

In an update, TfL director of pensions and reward, Stephen Field, stated that, in light of the ongoing situation in Ukraine, the trustee has "carefully assessed" the fund's exposure to bond and equity holdings in Russia.

The TfL fund's current exposure to Russian-linked assets totalled approximately £28m, or 0.2 per cent of the fund's total assets.

The trustee noted that £25m of this was held in direct investments.

Following investment and legal advice, the trustee is instructing the fund's investment managers to freeze all existing direct holdings in Russian-domiciled investments.

This means that the fund will make no additional direct investments or investments in Russian bonds or equities until further notice.

The trustee noted that the lack of activity was in recognition of the current lack of market for selling these assets and the trustee's fiduciary duty to act in the best interests of the fund's members.

It added that the trustee and the fund will continue to comply with all economic sanctions in force and will continue to keep the matter "under active review".

Other financial institutions have also been responding to the invasion, with Abrdn chief executive, Stephen Bird, commenting that, in the context of the "deeply troubling escalation of conflict", the firm has acted to reduce its holdings in Russia and Belarus.

"We are approaching this in a disciplined manner, protecting our clients' interests," he continued. "And we have concluded that we will not invest in Russia and Belarus for the foreseeable future."

Legal & General Investment Management (LGIM) has announced that it has already reduced its clients' exposure to Russian securities and would continue to "act and deliver as a responsible investor on behalf of clients".

A spokesperson for LGIM said: "The invasion of Ukraine contravenes almost every measurable ESG metric. LGIM has already, where possible, reduced our clients' exposure to Russian securities. Opportunities to de-risk positions in sanctioned Russian companies have been limited, and given that the market is now effectively frozen for foreign investors, we continue to monitor the situation and reduce holdings if and when market conditions allow.

"Our total exposure to Russia is small; approximately 0.1 per cent of our assets under management. This is mainly held through index funds and ETFs and we are actively working with the major index providers to confirm Russia's future role in global indices.

"These are exceptional times for investors. We are engaging with the boards and management teams of companies who have exposure to Russia via their businesses, and are drawing on previous experience in dealing with sanctions of this nature. This is a challenging situation for all boards with exposure to Russia."

The Church of England (CofE) stated that it was selling its investments linked to Russian companies and had banned any further investment in Russian-linked assets.

It said that the Church Commissioners and the CofE Pensions Board had instructed its managers to exit all its current direct holdings and make no further investments in Russian companies.

Sackers urged trustees to talk with their investment consultants and managers to assess any direct exposure to Russian investments amid global sanctions, and emphasised the need to consider any potential exclusions from a financial perspective.

The pensions law firm encouraged trustees to check that their managers and custodians have effective measures in place to comply with the sanctions introduced as part of the global response to Russia's invasion of Ukraine.

Sackers acknowledged that many UK pension schemes have extremely low exposure to Russian entities. However, it suggested that where trustees do have direct exposure, and the investment managers are not already taking action, they could consider introducing their own scheme-based and targeted divestment policy.

**Written by Jack Gray and Sophie Smith**

## VIEW FROM TPR

**The new duties for the governance and reporting of climate change risk initially apply to authorised schemes and those with relevant assets of £5 billion or more, extending to include those with relevant assets of £1 billion.**

We have published an illustrative example to help trustees and advisers as they work through the new duties. It charts how trustees of the fictitious XYZ pension scheme might approach meeting the new requirements.

I also want to urge trustees and advisers of schemes that do not come under the current regulations to take advantage of this opportunity to build their knowledge and understanding and to potentially take action for their scheme.

While the example is not designed to be used as a checklist, it may be a useful source of ideas to inform trustee and adviser discussions. All trustees of schemes in scope will need to be confident they have the necessary knowledge and understanding to enable them to meet the requirements of the climate change regulations.

It's also worth remembering that the Department for Work and Pensions has said that, in 2023, it will consider whether the regulations should be extended to smaller schemes.

Governance of climate-related risk and opportunities is a new area and likely to represent a steep learning curve for many. Acting now will mean trustees, whatever the size of the scheme, will be better placed to make decisions contributing to good outcomes for savers in the future.

**TPR executive director of regulatory policy, analysis and advice, David Fairs**

You can find the example by searching for 'Appendix: a step-by-step example of following the climate change guidance' on TPR's website.

The Pensions Regulator
Making workplace pensions work

VIEW FROM THE PPI

**A new Pensions Policy Institute report explores whether it is possible to better fit defined contribution (DC) default strategies to members' needs. For those of us who were there when DC abandoned the education-based model and embraced auto-enrolment and better defaults, it's a question that we knew was important but was, at that point, one for the future.**

But as technology moves on, it's becoming feasible to think about (a) using more data than just age in order to customise strategy to the individual and (b) aiming for targeted engagement with individuals that we know don't fit the mould of the typical participant around whom the default investment strategy was designed.

The report gives examples of what types of individuals might not fit that mould, identifying some groups for whom the relative benefit of higher returns is greater than in the typical case and others for whom the relative benefit of reducing risk is greater. Hence, as investment strategies broaden their focus into a wider range of alternative assets, the most desirable characteristics are not the same for everyone.

A greater emphasis on default investment strategies has brought many benefits, including simplicity and cost-effectiveness. The next phase of DC development will look to build on that foundation while adding a greater degree of customisation, better meeting the needs of all members.

**PPI research associate, Bob Collie**

PENSIONS POLICY INSTITUTE
PPI

# AE reform bill unlikely to be ready in time for Queen's Speech

**Pensions Minister, Guy Opperman, has confirmed that the Private Member's Bill on extending auto-enrolment to those aged 18 and above and removing the lower qualifying earnings threshold is unlikely to have completed the necessary processes in time for the Queen's Speech**

MP Richard Holden's Private Member's Bill on extending automatic enrolment (AE) is unlikely to complete the required parliamentary stages in time for this year's Queen's Speech.

When speaking at the report stage for the bill on guaranteed minimum pension (GMP) conversion, Pensions Minister, Guy Opperman, was queried as to the government's position on the AE reform bill.

"As my honourable friend will understand, we are in the latter part of this parliamentary session," Opperman stated.

"It is the end of February and the Queen's Speech will come, in all probability – obviously I cannot commit, but it is usually – on the second Wednesday in May, so the house has a relatively limited period of time.

"The reality is that there is no real way for my honourable friend's bill to get through this house and the House of Lords in the time allowed, and that is the requirement of Private Members' Bills of the nature of his and all others, to be fair.

"I can confirm, however, that the government remains committed to the 2017 automatic enrolment review. It remains the case that we will, in the fullness of time, bring forward or support legislation to take the matter forward."

The bill on AE reform seeks to extend AE to all jobholders aged at least 18 and remove the lower qualifying earnings threshold.

However, despite recommendations contained in the research report from think

tank Onward, which helped inform the bill, it does not propose removing the £10,000 earnings trigger or include a timetable for the reduction in the lower qualifying earnings threshold.

In other news, the government has confirmed that the minimum earnings level for AE into a workplace pension scheme will remain at £10,000 for 2022/23, while the lower earnings limit has been frozen for the first time.

The decision represents a real term decrease in the value of the trigger, and is expected to bring an additional 17,000 savers into AE pension schemes as average earnings rise.

In addition to this, the government confirmed that the qualifying earnings band that minimum AE contributions are based on has been frozen for the first time for 2022/23, meaning that earnings between £6,240 and £50,270 will qualify.

Whilst the lower earning limit has typically been aligned with National Insurance contribution thresholds, the review suggested that freezing the band would help ensure that everyone who is enrolled continues to pay contributions on a meaningful proportion of their income.

**Written by Jack Gray and Sophie Smith**

# Royal Mail pushes ahead with CDC scheme plans

**Following a member consultation, Royal Mail will press ahead with plans for a new CDC pension scheme, with the scheme set to be introduced by early 2023. The government has also confirmed that it plans to move to regulating for multi-employer CDC pensions "at the latter part of this year, going into next year"**

Royal Mail Group (RMG), the Communication Workers Union (CWU) and Unite the Union have confirmed plans for a new collective pension scheme after completing a consultation process, with the scheme to be launched by the end of 2022 or early 2023.

The outcome to the consultation, which was launched last year, has been highlighted as a "key milestone" for the scheme, with plans for the collective defined contribution (CDC) scheme first confirmed in 2018.

RMG subsequently urged the government to introduce the appropriate legislation for the scheme, with a consultation later launched by the government in 2018, before CDC legislation passed into law in the Pension Schemes Act 2021.

As a result of this progress, and the successful member consultation, the CWU has now confirmed that the introduction of Royal Mail's collective plan is now only awaiting "final, minor legislative work" before a formal application can be made to The Pensions Regulator (TPR) to open the scheme.

Indeed, the government recently confirmed that CDC legislation for such schemes will come into force from 1 August 2022, with TPR also currently consulting on its draft code of practice for the authorisation and supervision for CDC schemes.

In light of this, the group stated that it hopes to launch the collective plan "by


chrisdorney / Shutterstock.com

the end of this year or early 2023."

Meanwhile, the government plans to move to the draft regulations for multi-employer CDC pensions in "the latter part of this year, going into next year", Pensions Minister, Guy Opperman, has stated.

Speaking at a delegated legislation committee on the draft regulations for CDC pensions, both SNP MP, Anum Qaisar, and Labour MP, Matt Rodda, indicated their respective parties' support for the regulations that will introduce CDC schemes to the UK.

"I thank colleagues for their responses and their support for these regulations," said Opperman.

"We will move to multi-employer CDCs in the latter part of this year, going into next year, and will move at a sufficient pace that we feel is appropriate.

"There will definitely be an opportunity to respond to these regulations and the draft code, which I strongly urge colleagues and the industry to read."

**Written by Jack Gray and Sophie Smith**

## NEWS IN BRIEF

The pension pot of a typical person aged 50-64 in the UK is 58 per cent short of what they believe they'll require, translating to a £132bn gap between expectations and reality, a report from the **Social Market Foundation** has revealed. The report, sponsored by Phoenix Group, stated people approaching retirement age were on average £242,546 short of the pension pot they need to deliver the pension income they want in later life.

Over £300bn of UK pension money is invested in companies and financial institutions with high deforestation risk, according to joint research by **Make My Money Matter** (MMMM), SYSTEMIQ and Global Canopy. MMMM estimated that pension holders could unknowingly invest over £6,500 in companies that are helping destroy natural ecosystems and habitats, drive climate change and impact indigenous communities.

Around half of the UK's £2trn defined benefit (DB) pension liabilities are expected to be insured by the end of 2031, according to analysis from **Hymans Robertson**. The firm revealed that around £330bn pension scheme liabilities have already been insured, covering 1.4 million members' benefits.

London Heathrow's **BAA Pension Scheme** has agreed a £370m buy-in with Legal & General (L&G), securing the benefits of more than 1,400 retirees. The trustee was advised on the transaction by LCP and legal advice was provided to the trustee by CMS. This comes after a previous buy-in was agreed with L&G back in 2018.

VIEW FROM THE PLSA

**The publication of the draft pensions dashboards regulations at the end of January marked a significant milestone in the project.**

It gives schemes more clarity about what the regulatory system governing the dashboards ecosystem will look like in practice.

The time from when there will be legal certainty on the standards required to join schemes and service providers to the dashboards architecture, to the point at which the first pensions schemes are expected to actually connect looks very short. Hopefully, the consultation process will help clarify whether the project's ambitious timeline is achievable.

The consultation – due to close in March – is only one piece of the jigsaw; there will be many more issues to examine and overcome.

They do not yet cover the detail of how, which will depend on critical lessons and sharing from the participants in the ongoing alpha phase of testing. It is this work that will help to refine the standards prescribed in the regulations.

The DWP has listened to some of the industry's concerns and reflected them in the draft regulations. We hope we will be able to work closely with government, regulators and the PDP on the many next steps in the development of dashboards so we can be sure they will work for savers from launch.

**PLSA director of policy and advocacy, Nigel Peaple**

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

# GMP conversion bill to move on to House of Lords

**The Private Member's Bill from Independent MP, Margaret Ferrier, which aims to simplify the GMP conversion process, has completed the required stages in the House of Commons and will move on to the House of Lords for consideration**

The Private Member's Bill on guaranteed minimum pension (GMP) conversion has completed its third reading in the House of Commons and will move on to the House of Lords for consideration.

The Pension Schemes (Conversion of Guaranteed Minimum Pensions) Bill, introduced by Independent MP for Rutherglen and Hamilton West, Margaret Ferrier, aims to clarify and streamline the GMP conversion process by clarifying that conversion applies to both earners and survivors, and outlining which employers need to give consent.

It would also enable clarification of the minimum survivor's pension required and remove the need to notify HMRC.

The bill, which was first introduced in June 2021, has received cross-party support and support from the government.

Speaking at the report stage of the bill, Ferrier stated that the removal of the requirement for a scheme to notify HMRC if it converts GMP rights into other rights was requested by HMRC.

Pensions Minister, Guy Opperman, who was present at the debate, was asked by Labour MP for Westminster North, Karen Buck, for assurances over the government's plans to consult on the changes and its planned communication of the updated rules.

Responding to the questions, Opperman stated: "I assure her that there will be full consultation on the legislation.

"There will also be broad communication, but I will write to her on that point and place a copy of the letter in the Commons Library and the House of Lords Library so that all peers and members can see it."

In related news, legislation to reduce the fixed rate of revaluation of GMP for early leavers from 3.5 per cent to 3.25 per cent per annum from 6 April 2022 has been introduced to parliament.

The new rate, which reflects a long-term reduction in the rate of revaluation applied to fixed rate revaluation GMPs, will apply to contracted-out members who leave pensionable service in the period 6 April 2022 to 5 April 2027.

Whilst it will represent a small reduction in the increases members will see on their GMPs if these are uprated according to the fixed rate, schemes that revalue GMPs based on the fixed rate are expected to see a slight decrease in projected GMP costs.

The government ran a consultation on the proposed move to 3.25 per cent in September 2021, although it has since confirmed that this received just two responses, one from a private individual and one from a representative of a pensions industry body.

**Written by Jack Gray and Sophie Smith**

# USS pushes ahead with scheme changes despite strike action

**Planned changes to the USS's contribution structure and member benefit accrual are set to proceed after the Joint Negotiating Committee voted to press ahead with the package of reforms proposed by Universities UK to conclude the 2020 valuation of the scheme, despite ongoing strike action, after UCU's proposals to complete the valuation were rejected by employers**

The Universities Superannuation Scheme (USS) Joint Negotiating Committee (JNC) has voted to proceed with Universities UK's (UUK) proposed package of reforms to conclude the 2020 valuation of the scheme, despite ongoing strike action.

The changes will result in a 0.5 percentage point increase in employer contributions to 21.6 per cent from 1 April 2022, alongside a 0.2 percentage point increase in members' contributions to 9.8 per cent.

The salary cap for the scheme will also be reduced from £60,000 a year to £40,000 a year, with those earning above the threshold receiving a 20 per cent contribution into their individual defined contribution pot, and members' pension accrual rate will be cut from 1/75th of salary to 1/85th of salary.

However, following consultation feedback from members, employers have agreed to pay a further 0.2 percentage point of salary in contributions, to defer the application of a 2.5 per cent cap on future inflationary increases until at least the next valuation, with hopes that mitigations will be in place by then to further delay or prevent the cap.

A UUK spokesperson, on behalf of USS employers, highlighted the decision as "an affordable solution to the 2020 valuation", which provides a "more sustainable platform on which the scheme's longer-term future can be built".

However, University and College Union (UCU), which is currently holding strike action in relation to the proposed cuts to the scheme, has labelled the plans an "attack" on higher education staff, after employers rejected the union's alternative compromise proposals.

UCU also emphasised that whilst the cuts are based on a valuation of the scheme conducted in March 2020, assets have since recovered to pre-pandemic levels, with the deficit falling from £12.9bn in March 2020 to £2.9bn in January 2022, although this was based on the UUK reforms being enacted, with an estimated £7.3bn deficit without these changes.

Employers had previously rejected UCU's proposed changes to the USS that aimed to conclude the scheme's 2020 valuation, following a consultation.

The consultation drew responses from 97 employers, of which 93 stated that they did not support the proposals from UCU.

Three employers indicated conditional support and one provided support.

**Written by Jack Gray and Sophie Smith**

VIEW FROM AMNT

**The 1980s series *The Shock of the New* by Robert Hughes addressed the development of modern culture through the lens of art.**

At the crux of the review was the artist as someone who undertook their work to either seek to change society or reflect society's changes. They did not set out to make money but to put forward their perspective and ideas. However, throughout the series each new genre, be it Impressionism, Surrealism or Cubism, moved from being a 'shock' to becoming part of the art establishment and viewed as commercial products.

Similarly in pensions: The beginning of the modern state pension was the Old-Age Pensions Act 1908, which coincided with the Royal Commission on the Poor Laws and Relief of Distress 1905–1909, and was the first step in the Liberal welfare reforms towards the completion of a system of social security. A shock to the establishment of the time but now universally accepted.

Since then we have seen innovations like DB, DC, CDC schemes, master trusts and now the newest shock, superfunds. Unlike the artists or 1900s politicians who sought to change or benefit society, superfunds are a commercial proposition with investment and profit at its heart. We need to be careful pensions are not becoming a money exchange culture.

**AMNT member, Stephen Fallowell**

AMNT Association of Member Nominated Trustees

VIEW FROM THE PMI

Pensions Management Institute

**From the time that they were first announced, pensions dashboards have been seen as an extremely ambitious project. Whilst dashboards have been created in other countries, they have involved simpler pension systems and smaller populations. The pensions industry is currently working to a deadline of 2023 to develop an initial iteration of the new service. It is an increasingly onerous task.**

The technical challenges have never been underestimated. A system that can successfully interrogate hundreds of millions of records from a huge range of different computer systems and display information about all of an individual's accrued pension benefits in a complete and consistent manner represents a massive technical challenge. Even at this stage, there is debate as to whether the initial version of the dashboard should display information about accrued benefits or simply identify schemes which hold benefits.

At this late stage, we should perhaps ask if it would not be better to wait and focus on ensuring that dashboards, when launched, are able to meet public expectations and to guarantee a service that works properly, rather than rush into service something whose flaws risk losing public confidence. It would be far better for the dashboards to be the pensions industry's Crossrail than its Titanic.

**PMI director of policy and external affairs, Tim Middleton**

# **Market commentary:** Invasion inflation


The past month has seen one of the most historically significant events in our lifetimes as tensions in Eastern Europe finally erupted into the Russian invasion of Ukraine. As the situation continues to develop and new details start to emerge perspectives are certain to change, but all information is correct at the time of writing.

The market has shown signs of fluidity as the conflict developed from tensions to talks, to taking up arms. Hargreaves Lansdown senior investment and market analyst, Susannah Streeter, describes the state of the market just as tensions began to ramp up: "Financial markets took a turn for the worse after warnings from the US administration that there is evidence on the ground that Russia is moving towards an imminent invasion of Ukraine.

"Reports of firing in a border region and accusations that Moscow is orchestrating a false flag operation, an intent to pin the blame for starting conflict on Ukrainian forces, has ratcheted up tensions and led to more investors seeking less risky positions.

"The price of gold, seen as a safe haven in times of crisis has risen by another 1.37 per cent to $1,896 an ounce, an eight-month high."

It was not just gold that was affected by Russia's actions, with other areas of the global economy under threat, as Quilter Cheviot equity research analyst, Jamie Maddock, points out: "Russia's aggression in eastern Ukraine has sent oil prices tantalisingly close to the $100 per barrel mark, and it is likely just a matter of time before this barrier is breached.

"Whether the conflict is short-lived or long lasting remains to be seen but it will have an impact on the oil and gas markets

going forward given the role Russia plays in both of these.

"Prices have risen sharply and although signs are there that this is beginning to broaden out, higher oil and gas prices will do nothing to alleviate the stickiness of this inflation."

The shadow of peace talks floating over the conflict earlier in the month offered a brief change in the market. Streeter states: "A moment of calm has descended on financial markets with the prospect of a summit to address the escalating Ukraine situation offering some relief to investors with the FTSE 100 edging up in early trade.

"There has been a slight edging away from safe havens with gold dropping slightly but still around a 13-month high. Nervousness still hangs in the air and investors are set to stay on edge, highly sensitive to fresh political moves, or reports of sudden military action.

"The glimmer of hope that war can be averted pushed up the Russia-focused mining and steel operator Evraz, which rallied by more than 3.8 per cent. Airlines flew up on a calmer route to recovery, as investors also awaited more detail about a fresh lifting of Covid restrictions in the UK."

When the news finally broke that Russia had sent its troops into Ukraine, the oil market quickly responded. "A barrel of Brent crude leapt 2.3 per cent up above $97, its highest level since September 2014 amid nervousness of a constraint of supply from Russia, at a time of high global demand and lower inventories elsewhere," Streeter explains.

"The darkening skies over Ukraine and concerns about the knock-on effect for the companies and consumers already reeling from higher energy prices, contrast with the much brighter results coming through on the corporate side," she adds.

Since the invasion began, this economic change has not just been limited to oil and has spread across many aspects of the Russian economy, a point that HANetf co-CEO and co-founder, Hector McNeil, explains: "The price of gold often rallies during times of geopolitical uncertainty. For instance, following the killing of Iranian general Qasem Soleimani in early 2020, the price of gold hit levels it had not seen since 2013.

"The war in Ukraine, however, has the potential to be much more destabilising to financial markets. The conflict is potentially escalating and so too are the severity of sanctions placed on Russia. One economic historian has described the sanctions on Russia as 'a declaration of all-out financial warfare against Russia'.

"There is also pressure on energy markets and the likelihood of disruptions to supply. Higher energy prices were already the principal driver of inflation in Europe prior to the outbreak of the war. Energy prices have a significant weight of almost 10 per cent in the European Harmonized Indices of Consumer Prices. Therefore, higher energy prices will likely result in higher short- and medium-term inflation.

"There is also the risk of higher inflation through agricultural prices. Russia and Ukraine combined make up 27.9 per cent of global wheat exports. If there are any supply disruptions, this would have an impact on prices and consequently on inflation. Together with the impact from energy prices, this could lead to significant inflationary pressure. This plays into the historic uses for gold as a hedge for inflation and also market uncertainty.

"A final potential impact is on the supply of gold itself. Russia was the world's second-largest supplier of gold in 2021. Should they be unable or unwilling to export gold, this could have a negative impact on availability supply and potentially impact gold prices."

As the conflict rages on it is very difficult to say how the market will continue to change in the future. However, Hargreaves Lansdown select fund manager, Steve Clayton, offers his view on when things may begin to stabilise: "The market will not like any escalation, nor will it trust any settlement between the parties unless accompanied by a rapid demobilisation of Russian forces around Ukraine."

DeVere Group CEO, Nigel Green, offers advice for investors on what to do in this ever-changing time: "Investors should seek to top up their portfolios with high-quality equities ahead of a potential rebound as optimism becomes the more dominant sentiment.

"We've had a period of market jitters and nervousness – and we're still in it.

"For now, investors should be taking advantage of current lower values to enhance their portfolios for the longer-term growth of their wealth.

"They should also now be bolstering their portfolios, using sound investment decisions based on fundamentals such as diversification, growth potential, sensible valuations and profitability."

**Written by Tom Dunstan**

# Appointments, moves and mandates


Madeline Forrester

**The Pensions Policy Institute** (PPI) has appointed Madeline Forrester as chair of council.

She will take up the position at the annual general meeting on 30 June 2022, succeeding Lawrence Churchill. Forrester is currently MFS Investment Management managing director and head of global consultant relations, where she manages a global team.

She has also been a part of the PPI's council for nine years and a governor of the PPI for 10 years.

Commenting on the appointment, PPI director, Chris Curry, said: "The PPI has gone from strength to strength in the past 20 years and Maddi, along with the other members of council, both past and present, has been instrumental in this success. On behalf of myself and the PPI team I would like to congratulate Maddi on her appointment. I would also like to take this opportunity to thank Lawrence for his support and hard work; the PPI has evolved considerably during his tenure as chair of council."


Lindsay Boddison

**Phoenix Group** has appointed Lindsay Boddison as community investment consultant. The newly created role is expected to further strengthen the group's community and engagement team, with Boddison to oversee Phoenix Group's community investment programme, making recommendations on which activities to support. Based in Wythall, Boddison joins from ReAssure, where she worked for the past 10 years.


George Norval

**Barnett Waddingham** has appointed George Norval as senior pension management consultant. Norval has over 20 years' experience in senior pension roles, including group pensions manager at FTSE 100 and FTSE 250 companies. He will be responsible for supporting the group's clients in seeking solutions to industry challenges and meeting governance requirements, including compliance with The Pensions Regulator's code of practice.


Alain Kerneis

**Universities Superannuation Scheme (USS)** has appointed Alain Kerneis as its new trustee board director. He has also been appointed to the USS Investment Management board and to USS's Investment Committee, following the departure of Ian Maybury in December. He brings over 20 years' experience to the role, having previously been BlackRock's Client Portfolio Solutions co-head of investments.


Pretty Sagoo

**Just Group** has named Pretty Sagoo as managing director of its defined benefit (DB) de-risking business. Effective from 11 April 2022, Sagoo will report directly to Just Group CEO and current DB managing director, David Richardson, and will also become a member of the Just Group Executive Committee. She joins from Athora, where she was head of new business and pensions, overseeing the new business franchise.


Alexandra Westley

**2020 Trustees** has named Alexandra Westley as associate director.

Based in the London office, Westley joins from the Marks & Spencer Pension Scheme, where she was investments and sustainability lead for over two years, having also led their environmental, social and governance (ESG) and climate change strategy. Prior to this, she was based in the investment team at Willis Towers Watson.

**Brunel Pension Partnership** has appointed Jupiter and Mirova as co-managers on its sustainable equities portfolio.

The portfolio, which is focused on listed equities, has grown from £1.2bn assets under management at its launch in 2020 to £2.5bn, with Brunel therefore appointing further managers to support this growth. Environmental, social and governance considerations will continue to be placed at the forefront of the investment process, proactively pursuing companies that provide a benefit.

Commenting on the appointment, Brunel Pension Partnership portfolio manager, David Jenkins, said: "Following the growth of the fund, we received considerable interest in the new mandates. We are delighted to add these two exceptional sustainable managers to the fund."

Jupiter head of sustainable investing, Abbie Llewellyn-Waters, added: "It is clear to us that capital allocation has the potential to play an impactful role in addressing urgent environmental and social systemic challenges, and we look forward to working together with Brunel to achieve positive stakeholder outcomes."

# Why accessibility is more essential than ever in digital communications

## The impact on our health of living longer should be making pension schemes sit up and rethink their digital offer

Covid and lockdown have accelerated our expectations of what platforms and apps can offer. Now the communications teams of pension schemes should be looking at what they can do to improve their current digital experiences and to ensure that they are both accessible and engaging to all of their members – including those with disabilities.

At this time of change, we need to seize new opportunities to build innovative websites that include the kind of accessibility tools that will drive measurable engagement. Members are used to retail, travel and financial services websites that are intuitive and fully accessible. Now those same consumers, whatever their challenges and disabilities, should expect a similar experience with their pensions' platforms. The government has put in place laws for public sector websites and it won't be long before this will be rolled out across the private sector too.

The spending power of disabled households is often known as the Purple Pound but nearly three quarters (73 per cent) of potential disabled customers experience barriers on more than a quarter of websites they visit. It is estimated that the 4.3 million disabled online shoppers, who click away from inaccessible websites, have a combined spending power of £11.75 billion in the UK.

There is a danger that these problems will only get worse. We are living longer and so the post-retirement demographic will become larger as a proportion of the general population. People will be taking their pensions for longer periods and will require extra assistance with their interaction with providers.

Regulators, campaigners and politicians are now demanding that the pensions industry makes its communications more accessible so that everyone receives the same member experience, irrespective of their accessibility requirements. Having a website with content that is confusing if using a screen reader is not an option any longer.

A key provision of the Equality Act 2010 is that disabled people should have the right to access everyday goods and services. The definition of disability is very broad and is thought to cover around 11 million people in the UK. According to the Act, providers of services are obliged to make reasonable adjustments to the way they provide a service.

This time last year, when it launched its *Guidance for firms on the fair treatment of vulnerable customers*, the Financial Conduct Authority (FCA) stated that: "We want vulnerable consumers to experience outcomes as good as other consumers and to get consistently fair treatment across the sectors we regulate."

A major aim for all pension schemes should be to refocus on their digital communications and accessibility strategy. Taking advice from disability experts and looking at their digital experience through the eyes of someone who uses a website in a different way often challenges perceptions and enables schemes to make improvements that they would never have thought of otherwise.

When the Local Government Pension Scheme (LGPS) commissioned my communications agency, Landscape, to update it's member website, it made accessibility the focus right from the start. The new site, which will be launched shortly will be tested independently by users with a range of accessibility issues and ratified by them. How the content is structured and grouped together, the layout of the individual pages, the use of colour, the ability to use the calculators with a keyboard and not a mouse, have all been considered from a usability perspective.

Thinking of how those with a range of disabilities will interact with the new LGPS website and identifying what they need for it to be engaging and useful for them has been challenging but also refreshing. As the number of disabled people in the UK increases, those schemes that make their digital communications more accessible will be the ones that do the right thing for their members – and for society as a whole.

**Five quick wins to make your website more accessible:**

1. The average reading age in the UK is just nine years old, so use a tool such as the Flesch–Kincaid reading scale to ensure that your content is easy to understand.
2. Ensure that fonts are large and clear enough.
3. Use strongly contrasting colours ideally with a ratio of 4.5:1to indicate different subject and types of content.
4. Include a 'Skip to content' button so that the navigation can be bypassed if required.
5. Make sure that headings are logical, sequential and descriptive so that screen reader users can benefit from them.

**Written by Landscape founder and creative director, Ryan Sales**

VIEW FROM THE SPP

**“Your contingency plan is as important as your business plan.”** ***Pooja Agnihotri***

In its 2021 update to its annual funding statistics for UK defined benefit (DB) and hybrid schemes, The Pensions Regulator noted that fewer than a fifth (16.1 per cent) of tranche 14 schemes had additional security in the form of one or more contingent assets.

Of these, approximately one-third had contingent assets formally recognised by the Pension Protection Fund for the purposes of the risk-based levy calculation.

While we await the final details of the new funding rules, analysis suggest that the majority of schemes may find themselves unable or unwilling to meet the proposed ‘fast track’ parameters.

If so there can be little doubt that many trustees and sponsors will need to address or revisit the issue of additional support to justify a ‘bespoke’ approach to their funding, investment and, increasingly, endgame strategies.

It’s important that trustees consider all potential avenues and assess key issues, such as counter-party risk, enforceability, liquidity and, importantly, their relative attraction to the sponsor or parent.

Reliance on the covenant as part of an integrated risk management approach may not prove to be sufficiently robust in the years to come.

**SPP investment committee member, Robin Hames**

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# Diary: March 2022 and beyond

### PLSA ESG Conference

**9-10 March 2022**
**Online**

The Pensions and Lifetime Savings Association’s Environmental, Social and Governance (ESG) Conference will return in March 2022. It brings together the whole of the UK pensions investment chain on the issues that matter most. The programme covers every angle of ESG, dedicated exclusively to the pensions sector. The conference will be a digital event. Its digital platform provides matchmaking and multiple ways to connect with your peers, share insight and access thought leadership.

**For more information, visit:**
**plsa.co.uk/events/**

### Sustainable Investment Summit

**24 March 2022**
**Waldorf Hilton Hotel**

This one-day conference offers pension funds, insurance companies, charities and corporates the opportunity to both learn and network alongside their peers at such a key time for the sustainable investment industry. Offering delegates the opportunity to benefit from up-to-date knowledge and guidance to help them understand all aspects of the sustainable investment market ranging from negative screening to impact investment.

**For more information, visit:**
**sisummit.net**

### Pensions Age Spring Conference

**22 April 2022**
**Hilton Tower Bridge**

The Pensions Age Spring Conference offers pension funds and those working in the pensions sector the opportunity to learn and network alongside their peers. This one-day conference is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, and will feature insight from a range of speakers, including spokespeople from The Pensions Regulator and the Pensions Dashboards Programme. Registration for the event is now open, with places filling fast.

**For more information, visit:**
**pensionsage.com/springconference/**

### Pensions Age Northern Conference

**7 June 2022 2022**
**Park Plaza, Leeds**

This one-day conference will be returning to Leeds this year, offering pension schemes and pension professionals the chance to learn and network at one of the most unprecedented times in UK pensions history. Covering all aspects of pension provision, the Pensions Age Northern Conference is open to pension scheme managers, trustees, FDs, advisers, pension, and HR professionals; registration is now open.

**For more information, visit:**
**pensionsage.com/northernconference/**

**Visit www.pensionsage.com for more diary listings**

## Month in numbers

## £132bn

The pension pot of a typical person aged 50-64 in the UK is 58 per cent short of what they believe they’ll require, translating to a £132bn gap between expectations and reality, a report from the Social Market Foundation (SMF) has revealed.

## 214,000

A reduction in the auto-enrolment earnings trigger to £6,396, the NI lower earnings limit, would bring an additional 214,000 workers into scope, Pensions Minister, Guy Opperman, has said.

## 78%

More than three quarters (78 per cent) of UK retirees have not sought any professional advice on their retirement plans, a survey by Abrdn has found. The research also showed that 48 per cent of respondents were worried about potentially running out of money in retirement.

Nearly a third (31 per cent) of pensioners suggested that they had avoided seeking advice as the cost was off-putting, whilst 19 per cent said they believed that only those with a lot of money can benefit from professional advice.


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VIEW FROM THE ACA

**We recently responded to the Work & Pensions Select Committee inquiry into 'Protecting pension savers – five years on from pension freedoms – Saving for later life'.**

The key points in our response were:

- Whilst auto-enrolment (AE) has been successful in significantly increasing pension participation, we expressed our concern that this has created a false sense of security amongst many savers, many of whom will be surprised to reach retirement with inadequate levels of savings.

- This could be especially problematic for younger savers, for whom competing savings needs mean it could become increasingly difficult for many to build up retirement wealth over time.

- In addition to improving education, we repeated our suggestion to increase minimum AE contribution rates to 10 per cent (as part of a plan to gradually increase minimum rates beyond this) and that the earnings threshold (which currently stops millions being signed up for AE) should be reduced or removed.

- However, given the current climate we suggest that changes to AE requirements should be accompanied by additional flexibility, for example by allowing access to pension savings early in some limited circumstances, which may have been helpful to many employees during the pandemic.

**ACA chair, Patrick Bloomfield**

ASSOCIATION OF CONSULTING ACTUARIES

# In my opinion

**On the potential impact of Solvency II reforms on the pension buyout market:**
"There is no doubt that demand from defined benefit (DB) pension schemes to insure some or all of their liabilities could grow considerably. Our analysis projects volumes of up to £650bn over the next decade. But insurers are constrained by tough solvency rules which means capacity could fall short of rising demand making insurance less affordable. The proposed reforms to Solvency II have the potential to offer a boost to this market, increasing capacity and helping more pension schemes to reach their ultimate goal of buyout."
**LCP partner, Charlie Finch**

**On The Pensions Regulator's additional guidance on climate-related governance and reporting:**
"We expect this example will prove helpful to trustees and other industry stakeholders as they get to grips with the new, climate-related regulations. From October more schemes are set to come into the scope of these rules, so I also urge trustees and advisers of those schemes to make sure they are familiar with the relevant guidance in this area. Those running schemes out of scope of the rules but who want to do more to manage climate-related risks and opportunities may also find both our new example and final guidance helpful."
**The Pensions Regulator executive director of regulatory policy, analysis and advice, David Fairs**

**On the chances of the Private Member's Bill on auto-enrolment reforms being ready in time for the Queen's Speech:**
"We are in the latter part of this parliamentary session. It is the end of February and the Queen's Speech will come, in all probability – obviously I cannot commit, but it is usually – on the second Wednesday in May, so the House *[of Commons]* has a relatively limited period of time. The reality is that there is no real way for my honourable friend's bill to get through this House and the House of Lords in the time allowed, and that is the requirement of Private Members' Bills of the nature of his and all others, to be fair."
**Pensions Minister, Guy Opperman**

**On research that revealed that industry professionals are split on the impact of new scam transfer regulations, with 47 per cent still waiting to see what the reality will be for members:**
"The new statutory transfer regulations seem to be causing a split reaction in the industry. As is often the case with new regulations that are rushed in, as these were, there are grey areas that are likely to give rise to increased confusion, conflict, and claims. One of the most significant challenges that trustees will face are the subjective judgements that they and their administrators will have to make to assess the red and amber flags. These decisions will not always be straightforward, and the disconnect between the general guidance and prescriptive regulations has the potential to make them more challenging."
**Sackers partner, James Bingham**

**On the Dormant Assets Bill receiving Royal Assent, bringing assets from certain pensions and investments in scope of the Dormant Assets Scheme:**
"The industry will continue to work hard to find gone away customers. It is always the first priority to reunite customers with their dormant assets and customers will have a right to reclaim their asset in perpetuity. More transparency in the scheme's spending direction is still needed, which we hope will be covered in the spending consultation later this year."
**Association of British Insurers director of long-term savings, Yvonne Braun**

# Offering support

## Sophie Moore and Richard Cook consider how to support DC members in their retirement decisions

Defined contribution (DC) pension scheme members often do not have to make a single pensions decision during their working lives. They could be automatically enrolled into their employers' schemes, pay default contributions into the default investment strategy and be automatically allocated a default retirement age.

But when they decide to access their savings, members find themselves faced with complex choices that will affect the rest of their lives. They may need to decide how to invest the money in their pension pots, manage the income they withdraw each year, and balance up the risk of living longer than expected with the option of spending money in the years in which they are still active.

Aon's 2021 DC member survey found that members lack the support needed to make these decisions, with one in three saying they are not confident about making decisions that affect their financial future. Research from the Financial Conduct Authority (FCA) provides further proof that members are struggling, leading to poor choices. Of those that enter drawdown without taking advice, a third invest entirely in cash. If they had chosen a mix of assets instead of cash, they could boost their expected pension income by 37 per cent. Members are also reluctant to shop around for drawdown or annuity offers, even though doing so could make as much as a 10 per cent difference to their income.

We found that seven out of 10 DC members say they want support from trustees and companies to help them make these decisions – but in many instances, the onus is still with members to do their own research.

Regulators, employers and trustees are all starting to take note. The FCA says that "consumers need more support and protection", and employers are increasingly addressing financial wellbeing in their workforces, including retirement planning. Many trustees want a better understanding of their members' retirement journeys, and to make sure the support, education and guidance they provide matches those needs and market best practice.

**How can schemes and employers help?**
Schemes and employers can make some simple changes, which may create a big difference for members.

**Review communications:** The most obvious starting point is to review scheme communications, help and support. These could include signposting services such as MoneyHelper, as well as explaining what help is available from the scheme, employer and third parties such as independent financial advisers (IFAs).

**Find a preferred IFA:** It can be difficult for individuals to find a reputable and affordable IFA, so employers or trustees can help by sourcing a suitable adviser and negotiating lower fees on members' behalf. An individual looking for advice on their own might expect to pay between £3,000 and £10,000 in fees – but we have seen schemes negotiate this to well below £1,000. Aon's latest 2022 DC scheme survey shows that within the next three years almost 60 per cent of schemes plan to signpost members towards an IFA firm.

**Support the Pensions Advice Allowance (PAA):** The PAA allows members to take up to £500 from their pension pots tax-free and put this towards the cost of advice. However, not all schemes and providers support the PAA. Our research found that just over a third (37 per cent) of schemes currently allow access, and another fifth (20 per cent) expect to add support in the next three years.

**Signpost to a drawdown solution:** Our 2021 DC survey, showed that nearly six out of ten members expect to use drawdown to manage their retirement income. But the FCA found startling differences between members' choices depending on whether they take advice. Almost all (94 per cent) who do not take advice, use the drawdown product offered by their DC scheme provider, compared to just 35 per cent of those that do. Trustees and employers can help members by signposting to a drawdown solution, based on quality of service and good value for money. Our 2022 DC survey found that around two-thirds of schemes currently offer or are planning to offer a signposted solution, a significant jump from just one-third in our 2020 survey.

Helping members to make good quality decisions by offering access to advice, appropriate retirement options and clear communications will become more important than ever as the number of employees retiring from DC schemes increases. Trustees and employers must take action now to make sure all scheme members can make the best possible use of their pension savings.

**Written by Aon DC Consulting associate partner, Sophie Moore, and senior consultant, Richard Cook**

In association with AON

VIEW FROM THE ABI

**It is always a privilege to give evidence to the Work and Pensions Committee. The session in February focused on saving for retirement.**

Progress on pensions in the past decade has been positive. Auto-enrolment has been phenomenally successful in increasing participation in workplace pensions and the new state pension provides a foundation for saving.

However, the savings adequacy gap needs to be addressed urgently. Evidence shows clearly that many people face insufficient retirement income, which could lead to poverty.

Part of the solution is for automatic enrolment to be extended, with the age threshold lowered to 18 and qualifying earnings to be eliminated so that savings count from the first pound earned. Contributions should also increase over time and solutions are needed for the self-employed.

Pensions dashboards, and scope for improvements in advice and guidance throughout life, building on the support already available, should equip savers with the help required to make decisions when they want to and when they need to.

So if progress in the next decade is to match what we have seen in the last, a holistic long-term strategy to improving pensions adequacy and engagement is needed. Automatic enrolment extension, pensions dashboards and improving advice and guidance and access to it are all pivotal to this.

**ABI head of long-term savings, Rob Yuille**

ABI

# Soapbox: Raising expectations

Unprecedented sanctions have been announced amid Russia's invasion of Ukraine, as the global response has continued to escalate and countries around the world have made their support known.

Institutions have been quick to follow suit, with Visa, MasterCard and Netflix representing just a few of the companies that have suspended their services in Russia in response to the invasion.

Pension schemes have also been caught up in this trend, as Nest recently confirmed plans to remove all of its investment in Russian government bonds and Russian companies "as soon as possible", with similar action also announced by the Church of England pension scheme, Transport for London and BT Pension Scheme.

The Pensions Regulator (TPR) has also outlined its expectations for pension scheme trustees amid Russia's invasion, calling on pension scheme trustees to be "vigilant" and take steps to consider action that may be needed to align with the sanctions introduced by the UK.

And this may soon be a consideration for pension scheme trustees more widely, with the government recently giving backing to an amendment to the Public Service Pensions and Judicial Offices Bill, which allow the government to issue guidance to prevent LGPS funds from making investment decisions that conflict with UK foreign and defence policy.

Indeed, pension trustees are facing a growing number of considerations when setting their investment strategies, with pension scheme investments facing growing scrutiny in the public eye.

This is perhaps unsurprising given the industries continued efforts to act on environmental, social and governance (ESG) issues, and to communicate these efforts with members.

After all, engagement is not a pick n' mix, and whilst the impact of pension investments can act as an engagement tool, rising awareness will likely also bring increased expectations and scrutiny.

Russia's invasion of Ukraine has been rightly condemned, and public sentiment sits firmly behind the people of Ukraine.

And whilst trustees must be guided by the financial, pensions law firm Sackers has pointed out that, in practice, many of the current issues will have both financial and non-financial implications.

But issues are not always as clear cut as this, and this can present a challenge for trustees, who face various regulatory considerations, geopolitical tensions, and member concerns when making scheme decisions.

Pension money is increasingly identified as a resource that could be better utilised, whether this is to fight climate change or save the economy post Covid-19, and pension scheme trustees may need to walk a careful line to avoid falling short of member expectations.

Whilst this may present a challenge, it can also present an opportunity to help give members a pension to be proud of.

**Written by Sophie Smith**

# An important engagement

**Jonathan Watts-Lay explains why pension engagement is crucial for prosperity in retirement**

Many employees face financial worries at one time or another during their lives, and concerns over retirement can be a big part of this. In fact, our research found that 32 per cent of working adults worry about being unable to afford to retire when they want, and 41 per cent know they are not saving enough for a comfortable retirement.

Employees are often ill-prepared for the complex challenges that lie ahead as they approach retirement and many struggle to understand essential information such as tax, inflation risk or how investments and retirement income products even work. Our research found that these issues are a great concern for trustees with 89 per cent worrying that their pension scheme members don't understand the tax implications of accessing their pension and 70 per cent are concerned about a lack of engagement with members at retirement.

It is imperative that employees understand their pensions throughout their working life, as well as understanding the choices that are to be made at the point of which they wish to retire.

**So, what can be done?**

It's clear that early pensions engagement is crucial for prosperity in retirement. Many workplaces now provide interventions through financial wellbeing programmes that include financial education and guidance which can be segmented by career stage:

***Early-career – getting in the savings habit:*** Auto-enrolment has helped enormously to ensure people are contributing to pensions. However, support is needed to understand what level of income this may generate in retirement and whether contribution levels should be increased – perhaps with additional contributions from the employer. This can be difficult when the monthly budget is tight so broader money management issues may need to be considered too.

***Mid-career – staying on course:*** A mid-career 'financial MOT' can help people to see if their pensions and other retirement savings are on target, and what to do if they're not. Topics can include reviewing financial goals as well as starting to understand how income may be generated in retirement and ensuring investments are being managed in line with this e.g. an investment glide path to cash and bonds is probably not appropriate if wishing to go into drawdown.

***Pre-retirement – retiring well:*** In the years before retirement, support should be provided to help with planning for retirement and understanding retirement income options, clearing debt and maximising pension benefits and other savings in a tax efficient way. Then, around a year or two before retirement, people may also need help to implement their plan including thinking about their retirement goals, how to generate retirement income, understanding the risks, tax planning and how to seek further guidance and regulated financial advice.

We find that individuals who access such programmes emerge more confident, knowledgeable and more able to make informed decisions about their retirement; it has been no surprise to see significant numbers of members taking action and changing their retirement plans, increasing pension contributions and seeking out regulated advice as a result. For example, we find that about 80 per cent of seminar attendees request a callback for further guidance or advice following a retirement financial education session.

**But what's the best way to do it?**

Whilst companies may provide some information via a website or leaflet, actually having someone to speak to about their pension savings and retirement income options is far more engaging. In fact, some of the UK's leading employers are using either virtual or face-to-face seminars to help their employees. A number of other methods are also available to support staff depending on their preferred learning style and work environment such as interactive tools, videos and animations, and an online 'Financial Healthcheck' covering areas such as understanding savings options including pensions, and the income options at retirement.

Additionally, one-on-one guidance or financial coaching sessions could be delivered via a video call or via the telephone, which are particularly useful for those at retirement as it helps people gain a deeper level of knowledge around their options. This provision can also help employees to decide if they would like further support such as regulated financial advice.

It is vital that employers take steps to help their workforce take control of their finances, especially when it comes to securing financial security in retirement. This should lead to better outcomes for all.

**Written by WEALTH at work director, Jonathan Watts-Lay**

# Finding success in the world of pensions

**Aegon head of pensions, Kate Smith, chats with Sophie Smith about veterinary dreams, the perks of a lunchtime walk and her work addressing the gender pensions gap**

**What's your employment history (including jobs outside of pensions)?**
I began my career as a graduate trainee at Friends Provident and went on to work in various pension roles for Mercer, PWC and Aviva before joining Aegon in 2006. I also spent some time in Guyana, South America, working as a pension consultant for Guyana National Co-operative Bank Trust.

In my role as Aegon's head of pensions, I lead on a busy public affairs agenda with a focus on the ever-changing pension environment and the shape of the workplace pensions market. Through this role, I look to achieve good outcomes for customers, promote the value of saving and highlight the importance of regulated professional advice. In January 2020, I became *The Telegraph*'s pensions doctor where I help to unpick often complex reader questions.

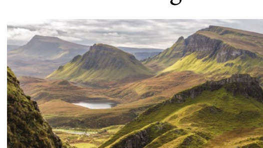
I am fellow of the Pensions Management Institute and Associate of the Chartered Insurance Institute. I'm also a member of various DWP and Tisa industry working groups.

**What's your favourite memory of working in the pensions sector?**
Being recognised for my part in bringing issues to light and progressing women in finance are some of my favourite memories. In October 2021, I was recognised as a role model for Women in Banking & Finance (WIBF) for my work in highlighting the gender pension gap. This is an important issue and in raising awareness of this, I hope to be an advocate for change and empower women to start to close the gap with their male peers.

**If you did not work in pensions, what sector do you think you would be in instead?**
Outside of pensions I am interested in health and nutrition, particularly the science behind food and how the role nutrition plays in health and development. If I wasn't working in the pensions industry, this would be an area I would most likely have explored. There are more overlaps than you might think between this sector and finance, as the relationship between health and wealth is key to overall wellbeing.

**What was your dream job as a child?**
Growing up I wanted to be a vet.

**What do you like to do in your spare time?**
In my spare time I enjoy activities in the outdoors. Living in Scotland means you aren't far from beautiful mountains and scenery for walking and exploring. When I'm in the office, you'll also often find me in gym taking part in an exercise class during a lunch break. It's a good opportunity to switch off for a short period and re-energise.



**If you had to choose one favourite book, which would you recommend people read?**
One of my favourite books is Douglas Stuart's debut novel, *Shuggie Bain*. It's a moving and emotive story based on his own life that follows a boy growing up in poverty in 1980s Glasgow with a mother battling addiction.

**And what film/boxset should people see?**
My recommendation for a boxset would be the crime drama *Peaky Blinders*. In terms of films, I would recommend *The Lost Daughter*, starring the brilliant Olivia Coleman.

**Is there any particular music/band that you enjoy?**
I like a variety of genres, but particularly enjoy music from the late 70s and 80s, including bands like The Jam. Music played a big part of my life while I was at university – the days when bands played at universities.

**Who would be your dream dinner party guests?**
The late poet and civil right activist Maya Angelou, Welsh actress and comedian Ruth Jones, the physicist Brian Cox and of course Sir David Attenborough.

**Is there an inspirational quote/saying you particularly like?**
"Women belong in all places where decisions are being made. It shouldn't be that women are the exception." *Ruth Bader Ginsburg*

"Success is liking yourself, liking what you do, and liking how you do it." *Maya Angelou*

**Written by Sophie Smith**

# ESG – a finance-first approach to investing

## Jon Cunliffe explores the balance between investing socially and maximising risk-adjusted returns

Numbers may be dwindling, but even today, a group of investors still subscribe to the Milton Friedman doctrine that corporations have no duty to be socially responsible. This doctrine argues that a firm's only responsibility is to legally maximise its stakeholder profits, leaving individual investors, consumers, and employees – rather than corporations – as the leaders of social causes.

While in the past, this approach was viewed to be rationally compelling, there are obvious problems with it. For example, a firm that takes its corporate social responsibility seriously may benefit from a greater community allegiance, which will ultimately benefit shareholders. Furthermore, and perhaps more damaging, is evidence that this approach can lead to an excessive focus on short-term profit delivery at the expense of longer-term investment and innovation.

However, when integrating environmental, social and governance (ESG) factors and acting as responsible investors, care needs to be exercised to not constrain investments too narrowly, because it will begin to reduce prospective risk-adjusted returns. More broadly, the more the focus shifts away from a finance-first approach towards giving social and economic considerations precedence, the greater the risk that future investment returns will be compromised.

Against this background, a pragmatic approach to ESG should always be part of any good investment manager's toolkit and is consistent with a finance-first approach to investing. For example, if a company is involved in polluting the environment, exploiting its workers or incentivising its managers to focus on short-term profit delivery, then these issues are likely to reduce the sustainability of its business model and therefore its attractiveness as an investment.

ESG considerations are therefore not a 'bolt on' to a pre-existing approach to asset allocation but must sit at the heart of how members' retirement savings should be deployed. While it cannot be conclusively proven, there is considerable academic evidence in support of the view that companies with higher-than-average ESG ratings tend to be rewarded with higher market valuations than their peers.

A key reason for this seems to be that these companies are better at managing the non-financial risks of their business models, thereby making them relatively more sustainable and less prone to a damaging de-rating by the market. For example, investors don't need to be reminded of the impact of the Deepwater Horizon oil spill or the emissions scandal on the respective share prices of BP and Volkswagen.

At The People's Pension, we have successfully integrated ESG into the stewardship of our members' retirement savings and, using Morgan Stanley Capital International (MSCI) ESG ratings, our default proposition has been rated AA, making it a 'leader' in managing ESG risks. However, this is only part of the broader remit we have as responsible investors.

Rather than adopting the best in class (the 'how') approach to ESG investing, responsible investing involves taking the active decision to remove (or choose) investments based upon the 'what'. Exclusions typically involve controversial weapons, addictive substances, gambling, and activities damaging to the environment. Therefore, in addition to ESG integration, we have used negative screens to help us divest £226 million from 147 companies involved in controversial weapons or linked to controversies involving human rights, labour, the environment, and corruption.

Given that responsible investment increasingly informs investor preferences, this approach should not necessarily entail sacrificing returns and, for example, can be used to reduce the likelihood of holding assets which may become stranded by climate transition. On this basis, an exclusionary approach can, in theory, augment the improved risk-adjusted returns delivered by ESG integration. We have taken this approach even further by implementing tilts to reduce the carbon emissions of the assets we hold on behalf of our members.

We want to be engaged asset owners, and we therefore expect our external managers to engage on behalf of our members to ensure good governance and the appropriate mitigation of non-financial risks. In so doing, we would expect this activity to positively impact our members' returns over the long term.

**Written by B&CE, provider of The People's Pension, managing director, investments, Jon Cunliffe**

In association with

# Stronger nudge to pensions guidance

**Matthew Swynnerton looks at the new DWP stronger nudge to pensions guidance requirements for trustees of occupational pension schemes**

In January, the government published a response to its consultation, together with regulations, on its proposal to introduce a 'stronger nudge' to pensions guidance for members seeking access to their flexible (generally, defined contribution) benefits.

When 'pension flexibilities' were first introduced in 2015, it was alongside the Pension Wise service, which provides free and impartial guidance to help individuals aged 50 and over understand the options available to them.

In response to concerns that the take up of Pension Wise guidance was too low and that significant numbers of DC pension pots were being accessed without guidance or advice being sought, the regulations aim to increase take up of Pension Wise guidance, by requiring trustees to ensure that members and their survivors with rights to flexible benefits have either received, or opted out of receiving, appropriate pensions guidance before proceeding with their application to receive or transfer with the intention of receiving flexible benefits. Trustees will need to present taking pensions guidance as a normal part of the application process and require members to make an active choice if they wish to opt out of receiving guidance. They will also be required to explain the nature and purpose of Pension Wise guidance and facilitate the booking of a Pension Wise appointment for the beneficiary as part of the application process.

**What does the stronger nudge entail?**
Broadly, trustees must: (i) offer to book a pensions guidance appointment for the beneficiary at a time and of a kind to suit them; (ii) if the offer is accepted, take reasonable steps to book the appointment; (iii) if the offer is not accepted, or if the trustees are unable to book a suitable appointment, provide the beneficiary with details of how to book the appointment; (iv) explain to the beneficiary that the application cannot proceed unless they have received appropriate pensions guidance or they have opted out; and (v) explain to the beneficiary that they can only opt out of receiving appropriate pensions guidance by giving the trustees an opt out notification.

**At what point should the nudge be given?**
The DWP wishes to give trustees the freedom to give the nudge as early as possible in the process, on receipt of an application to access or transfer benefits, allowing trustees some discretion to determine when this is.

**Who should be given the nudge?**
All relevant beneficiaries, including members and survivors, who contact a scheme in relation to (i) transferring their rights to flexible benefits or (ii) receiving flexible benefits from the scheme.

**Are there any exceptions?**
The stronger nudge requirements do not apply in relation to transfers where: (i) the beneficiary is under the age of 50; (ii) receiving flexible benefits is not the purpose, or one of the purposes, of the application; (iii) the trustees have received confirmation that the beneficiary has been referred by another scheme for appropriate pensions guidance and they have either received or opted out of that guidance; or (iv) the beneficiary is transferring rights into a relevant pension scheme which complies with the FCA's rules on disclosing information about the availability of pensions guidance.

**Tell me more about the opt out…**
Opt-out notifications can be verbal or in writing but must be made in a communication made solely for the purpose of opting out, although this could be satisfied by (for example) a phone call or email. The opt-out need not be in a separate communication where: (i) the beneficiary confirms they have already received appropriate pensions guidance or regulated financial advice in connection with the application in the previous 12 months; (ii) the beneficiary qualifies for a serious ill health lump sum; or (iii) the application is solely to transfer their rights to flexible benefits accrued under the scheme.

**When will these regulations come into force?**
These new requirements will come into force on 1 June 2022 and will govern any application made by a beneficiary on or after this date.

Concerns remain over the administrative burden of these new provisions, especially considering the new and increased due diligence requirements in relation to member transfer requests. However, with a tight timeline before the regulations come into force, trustees must review their processes once more and seek advice, where appropriate.

**Written by DLA Piper pensions partner, Matthew Swynnerton**

In association with DLA PIPER

# How protected are your schemes against fraud and cybercrime?

**Judith Hetherington explores the findings of Crowe's fifth *Governance and Risk Management Report***

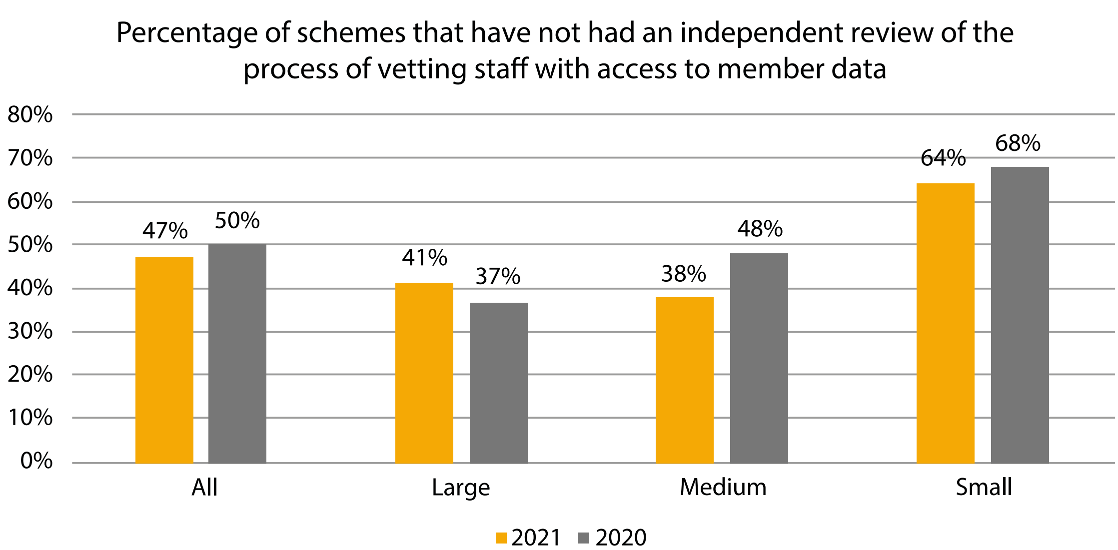
The past two years have been turbulent for many. In 2020, many service providers to pension schemes had to change their operations almost overnight to a more virtual service, and this has continued even since restrictions have been lifted. While fraud and cyber risks have always been apparent, given the changes to how suppliers have operated and the current state of the economy, there has been an increase in the attractiveness of pension scheme data to fraudsters.

Our fifth edition of the *Governance and Risk Management Report* considers some aspects of fraud and cybercrime, and we have identified some key questions for trustees to consider in regards to this.

**What controls and processes does your administrator have in place to counter fraud, especially in the process of changing members' data, and how they vet new staff with access to member data?**

The integrity of the people working for administrators is an important factor in preventing fraud. Even with the right controls in place, the minority of dishonest people can often identify and exploit vulnerabilities. Pre-employment vetting, and more extensive background checks for employees in positions of responsibility, is an important process to strengthen fraud resilience. Forty-seven per cent of respondents have confirmed that their administrator has not had an independent review of its process for vetting staff with access to member data prior to their appointment, to ensure it is capable of preventing fraudsters gaining access to their systems and data.

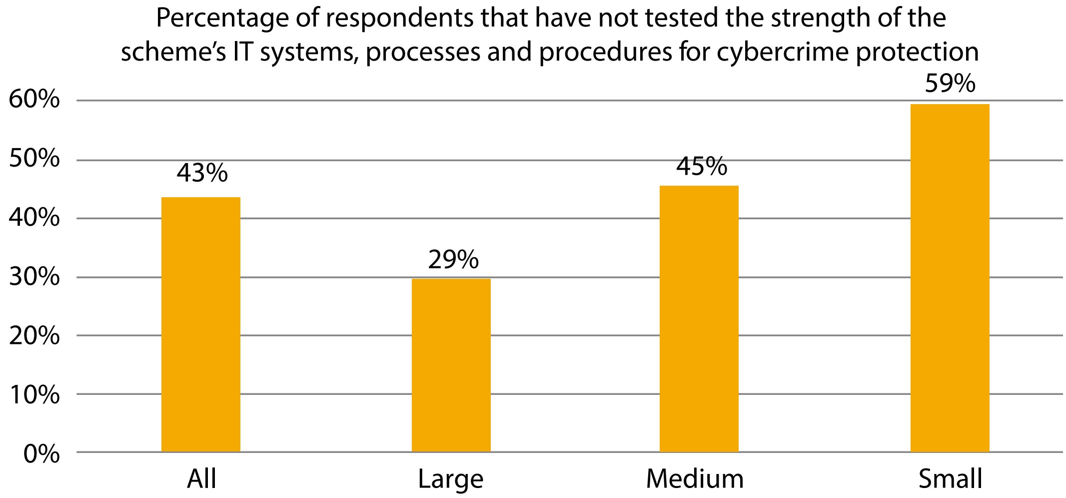
Almost half (47%) of all schemes have not undertaken an independent review of the processes for updating member details when informed of a data change. Such processes are targeted by fraudsters and are an important vulnerability that should not be left unchecked. In recent years, Crowe has seen examples of fraudsters using false information to change member details, therefore it is fundamental that trustees have assurance that the processes in place are sufficient. The survey results show that the issue is more prevalent among small schemes compared to large schemes.




**Does your administrator use electronic ID verification and if not, why not?**

Twenty-nine per cent and 63% of respondents confirmed that there is no electronic ID verification for UK members and overseas members respectively. From our experience, the majority of administrators have such an ID verification system in place for UK members, but this is less commonplace for overseas members.

Trustees should request information from their administrators concerning what system they have in place and if there is no system in place, trustees should be challenging on what plans they have for the future to put these tools in place.




**Have you assessed the vulnerabilities of your suppliers to cybercrime?**
The majority of pension scheme operations are outsourced to third-party providers, and as a result the majority of a scheme's cybercrime vulnerabilities will be outsourced too. The responsibility for managing cybercrime risks cannot be outsourced and remains a key part of trustee obligations. Despite this, 28% of all schemes have not assessed the vulnerability of their third-party suppliers to cybercrime. The figures range from 43% for small schemes, 33% for medium schemes, and 12% for large schemes. Over a third of pension schemes have not identified cybercrime vulnerabilities posed by third-party suppliers, and so cannot obtain assurance that the risks are being managed appropriately.

These results are concerning, especially given that cybercrime has been ranked as one of the top risks for DB and DC schemes in the previous two years and is so prevalent at present.

**Are you aware of your cybercrime vulnerabilities and how cyber risks are being managed?**
Forty-three per cent of respondents have not tested the cyber resilience of their scheme's IT systems, processes and procedures. The survey results show that the issue is more prevalent among small and medium schemes compared to large schemes. From review of the type of scheme that responded, the majority are administered by third-party administrators, therefore we assume that trustees have not considered it necessary to test the administrators' systems. We recommend that trustees obtain independent assurance concerning the extent to which their administrators are cyber resilient, in accordance with the National Cyber Security Centre's (NCSC) Cyber Assessment Framework.

**Do you have policies in place covering the data requirements and how this is transferred securely to all your relevant suppliers?**
It is surprising to see that the only supplier where 100% of respondents confirmed that there was a policy in place was the administrator. For all other suppliers, the confirmation that there was no policy in place ranged from 1% (accounts preparer) to 21% (annuity provider).

It is imperitive that trustees review the suppliers that data is transferred to and from and a policy is put in place covering the data requirements and how this is transferred securely to the supplier.

**How can Crowe help schemes with their governance and risk management?**
We can see that progress has been made over the past year over the mitigation of fraud and cybercrime risks. However, there is still work to do and with the new Code of Practice that is due to be issued in October 2022, trustee boards may need to demonstrate the steps that they have done to reduce the risk of incidents of fraud and cybercrime occurring, and appropriately manage any incidents that arise. We help and support trustees by evaluating pension scheme governance arrangements, including risk management, policies and practices.

**About Crowe**
Crowe is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, one of the top 10 accounting networks in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence. For more information, please visit: www.crowe.co.uk

**Written by Crowe pension funds partner, Judith Hetherington**

In association with Crowe

# A simpler conversion

**Jack Gray examines the Private Member's Bill currently making its way through parliament that aims to clarify and streamline the GMP conversion process for pension schemes**

Equalising guaranteed minimum pensions (GMP) is a process that pension schemes will be very familiar with. In 2018, the High Court ruled that occupational pension schemes must equalise pensions accrued since May 1990 to ensure people do not receive less pension income than they would have done if they were the opposite sex, and schemes have been dealing with the issue ever since.

The size of the task was already enormous, but the complexity of the conversion process has amplified the difficulty in equalising member benefits. To address the complexity, Independent MP for Rutherglen and Hamilton West, Margaret Ferrier, introduced a Private Member's Bill in June 2021.

Immediately, the industry issued its support for the bill, known as the Pension Schemes (Conversion of Guaranteed Minimum Pensions) Bill, which aims to amend and clarify existing GMP conversion legislation.

### The proposals

Introducing the bill to the House of Commons in June 2021, Ferrier stated that she chose to pursue the simplification of the GMP conversion process to help reassure occupational pension schemes that they are able to use the methodology published in government guidance to equalise the effective differences between pension amounts paid out to men and women.

"Historical inequalities of treatment between men and women in the pension system have long resulted in uneven amounts being paid out as GMPs in occupational pension schemes to men and women. This bill will begin to rectify these persisting issues," she said.

The bill contains several legislative amendments intended to allow regulations to clarify and streamline the GMP conversion process. These include clarifying that conversion applies to both earners and survivors, outlining which employers need to give consent, enabling clarification of the minimum survivor's pension required and removing the need to notify HMRC.

Reacting at the time of the bill's introduction, LCP partner and head of GMP equalisation, Alasdair Mayes, said it was "great news".

He continued: "It has been known for several years that the GMP conversion legislation has some rough edges. Survey after survey shows that GMP conversion, in some shape and form, is preferred by many as a means to equalise benefits for GMPs over the administratively complex 'dual record' approaches. Hopefully this bill will iron out the rough edges in the conversion legislation."

### Second reading

Following its acceptance as a Private Member's Bill, the bill moved onto its second reading in the House of Commons. In this debate, the government issued its backing of the bill, with Pensions Minister, Guy Opperman, thanking Ferrier for the work she had done.

"With respect, although this is a smaller bill than the 125 clauses of the Pension Schemes Bill that we took through the house earlier this year, it affects a significant number of our constituents and I am genuinely keen to progress it," he said. "I can therefore confirm that it is with pleasure that I give the government's backing to the honourable member for Rutherglen and Hamilton West, her bill and the work that she has done. The government supports the bill. We wish it well in committee."

Mayes added, as the bill moved onto committee stage, that it had made an excellent start in making GMP conversion simpler and more streamlined, but that there was still much

detail that needed to be set out in regulations, on which there may be a consultation.

**Committee stage**

Mayes' prediction that the regulations may be consulted on was proved correct as the bill passed through the committee stage. Speaking at the debate, Shadow Pensions Minister, Matt Rodda, expressed Labour's support for the measures included in the bill.

However, Rodda raised queries about communication, consultation and the wider imbalances between men's and women's pensions.

In particular, Rodda cited concerns as to how the changes are being communicated to those affected and argued that the bill must to commit to "full and timely consultation with experts in the industry and others before the government introduce the regulations".

"Obviously, we welcome the bill but while it is generally positive, sadly some people may be in line to lose out compared with previous expectations," he said. "They may need time to plan and adjust."

In response, Opperman confirmed that the government will consult on these matters: "There will be a full consultation among industry to which, obviously, opposition parties and all parts of industry can make representations; there will then follow regulations, which will be debated in this house," he stated.

Opperman also confirmed that he would write to Rodda to provide further details on other queries raised in relation to the bill, including gender equality.

**On to the Lords**

In the most recent development on 25 February, the bill completed its third reading in the House of Commons and will move on to the House of Lords for consideration.

Speaking at the report stage of the bill, Ferrier stated that the removal of the requirement for a scheme to notify HMRC if it converts GMP rights into other rights was requested by HMRC.

"The bill will simply help pension schemes that decide to use GMP conversion to do what they need to do to ensure payments are fair," she continued.

"I have engaged positively with representatives from the pensions industry, who have long called for these changes and welcome the bill's provisions."

As the bill completed its reading and moved on to the House of Lords, Ferrier said that she was extremely pleased and proud that the bill could help schemes that want to use GMP conversion, and that she was delighted by the cross-party support it had received so far.

**Written by Jack Gray**

**DIY equalisation**

Buck has announced that it completed a 'standalone' GMP equalisation project with the Valliant Group Pension Scheme. The pensions consulting, technology and administration services firm stated that it was the pensions industry's first GMP equalisation project that had been completed without the use of an existing service provider and the sector's first large-scale equalisation exercise with no direct link to an insurance transaction.

Buck said that its work with the Valliant scheme demonstrated that trustees could complete GMP projects as 'business as usual' exercises and were not tied to their current providers. Furthermore, it could signal that there is an opportunity to drive competitive pressure and efficiency in the GMP services market, which may lead to shorter project durations, reduced fees and improved member outcomes.

"GMP equalisation is a complex and time-consuming task, but this doesn't mean that schemes should wait to act, especially when their strategic journey requires the project to be completed sooner rather than later," commented Buck UK managing director, David Plitz.

"As our work with the Vaillant scheme shows, GMP equalisation exercises concern material amounts of money for individuals, and we're delighted to have brought these long overdue benefits to the members of the Vaillant Group Pension Scheme."

Equalisation was completed in just over 18 months for 4,500 pensioners through conversion using Buck's 'Square' solution. This included a full data audit and data cleanse alongside the equalisation calculations. It found that 60 per cent of the scheme's members with GMP needed an uplift, ranging from small amounts to over £1,000 a year. Some back payments were found to exceed £10,000, with an average of £900 a member.

# The elephant in the room

**Summary**
- The FCA estimates there are 27.7 million vulnerable customers in the UK.
- Identifying vulnerable scheme members is complex and individuals' circumstances change.
- Schemes can help by forming partnerships, working with employers and innovating.

**Even before the Covid-19 pandemic hit, many vulnerable people were already struggling to engage with financial services. How can schemes help them for the future, asks Maggie Williams**

Lockdowns, furlough, bereavement and ill-health damaged our collective mental, physical, social and financial wellbeing across 2020 and 2021. It left many individuals temporarily or permanently vulnerable, with potential long-term consequences for their pensions and other savings.

The Financial Conduct Authority (FCA) has a clear definition of vulnerability *[see boxout]* and recently issued new guidance on fair treatment of vulnerable customers. According to its October 2020 *Financial Lives Covid-19* survey, 27.7 million people in the UK showed one or more characteristics of vulnerability, making the new guidelines a crucial driver in ensuring that financial services providers offer inclusive support.

But Covid-19 isn't the only cause of vulnerability. The FCA's pre-pandemic February 2020 *Financial Lives* study found that over half (57 per cent) of adults with low financial capabilities felt nervous, overwhelmed or stressed speaking to financial services providers, or found it hard to find suitable financial products or services. Nearly a third (30 per cent) of disabled respondents found dealing with customer services on the phone confusing or difficult. And 20 per cent of adults who had a relationship breakdown in the previous 12 months had fallen into debt because they did not want to deal with difficult financial situations.

Financial Services Consumer Panel Member and Financial Inclusion Committee Commissioner, Johnny Timpson OBE, says that the next few years could prove even more challenging for people who are already struggling. "Recent events are only going to drive more vulnerability – we have a National Insurance increase, pay freezes, high inflation and rising fuel prices. There are hard times ahead."

Many of the millions of vulnerable customers identified by the FCA will also be in workplace pension schemes. However, Nest acting director of customer engagement, Eve Read, says that it can be challenging to identify vulnerable members "because while for some people vulnerability may be permanent, for others it may be temporary and subject to change". People who have previously not been vulnerable may become so due to lack of employment, injury, ill health or circumstances such as bereavement. Similarly, a vulnerable person might become less so in future, for example if someone finds new, stable work after a period of unemployment.

"Because of this complexity, we believe it is important to be conscious of the potential for vulnerability for all our members and to design services and products that cater for their varied and changing needs," adds Read.

"Engagement is difficult generally in pension schemes," says Comentis CEO and co-founder, Jonathan Barrett, "and if you overlay that with vulnerability, where people have other things on their minds, there is an even greater risk of drop-off. Schemes are often not aware of individuals' different circumstances, but still communicate with all members in the same way."

He says that, even if schemes can't identify individual vulnerable members, there are ways to find out more about the membership in general. "You could carry out a non-invasive annual questionnaire that helps to understand levels of vulnerability characteristics in the membership and give insights into challenges people are facing, for example," he says, adding that this is particularly valuable for members approaching retirement. "As you approach retirement, there is greater risk of cognitive decline and grouping of different vulnerabilities, but pension providers rarely have any idea of who might be vulnerable in their populations."

Covid-19 reduced the opportunity to meet members face-to-face and put greater reliance on digital tools – potentially making vulnerability even harder to identify and support. "But even with face-to-face advice, vulnerability can be difficult to spot," says Barrett. "People who are vulnerable are often good at masking it and putting on a brave face."

While technology can offer potential solutions, making sure that it is accessible to all scheme members and can be used at scale is also important. "We have additional support in place to help the 'digitally excluded' who are unable to access our online platform," says Read.

Read adds that Nest can better help individuals if they are willing to confidentially share some details about themselves. "Depending on the circumstances and with the consent of the customer, vulnerability or specific needs are logged within the system. For example, if a member identifies themselves as being dyslexic, with their permission we add this to their notes, so that in the future we can communicate with them in an appropriate way."

Other than hearing from members themselves, perhaps the most obvious indicator that someone is vulnerable financially is that they stop making contributions. "Where members have taken time off work and/ or have stopped contributing to their pension, this should raise a flag with the scheme or company," says Hymans Robertson head of DC engagement, Kirsty Moffat.

"You could see a cohort of scheme members that have to make the decision to reduce their contributions or cease altogether from a financial capability

perspective," adds LCP senior consultant, Heidi Allan. "We've heard the term 'heating or eating' referred to over recent months. I feel we will also have consider 'eat now or eat tomorrow' as the ongoing cost of living crisis continues to escalate."

Identifying and supporting vulnerable savers requires a three-way approach between schemes, employers and individuals, argues Barrett. "Supporting vulnerability needs to be joined up and we need to understand what is proportionate. For example, if someone has suffered a family bereavement, is it the pension scheme's responsibility to support them, or should that come from the employer?"

Just Group's group communications director, Stephen Lowe argues that schemes can certainly play their part. "All schemes should have a vulnerability policy or strategy in place to guide their actions as a starting point. Member-facing staff should be trained to look for and identify characteristics of vulnerability and should be well-versed in all circumstances that could trigger vulnerability."

Helping members with their wider wellbeing is another way that schemes can show support. Moffatt says: "In cases where members have health conditions, or are going through life events, it is very important for them to understand exactly what benefits they are entitled to and how they can access these."

Timpson adds that this can go beyond pensions – he gives the example of Scottish Widows, which has formed a partnership with cancer charity MacMillan to give support and guidance to pension customers affected by cancer.

He says that other pension schemes could consider a similar approach. "Trustees could think about looking at partnership programmes – charities can offer support with specific illnesses such as Parkinson's or Alzheimer's, and there other bodies such as Age UK and Turn2 Us that can help too."

Larger-scale changes, such as introducing savings schemes alongside pensions could also help, argues Allan: "Greater flexibility and the option to build rainy day savings alongside future savings would be a good start. This would allow members to redirect a portion of their contributions into a flexible savings pot that they can use as their buffer, providing protection should something unexpected happen."

Read concludes that it is vital that schemes look for ways to address vulnerability now, to help members. "With an accelerated shift to digital and the likelihood of a potential increase in the numbers of 'vulnerable customers,' significant consideration needs to be made in financial services to understand what serving vulnerable customers looks like in a predominantly virtual world."

**Written by Maggie Williams, a freelance journalist**

### What is a vulnerable saver?

The FCA identifies a vulnerable customer as: "Someone who, due to their personal circumstances, is especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care."

It identifies four key categories of vulnerability:

- Health: Health conditions or illnesses that affect the ability to carry out day-to-day tasks
- Life events: Life events such as bereavement, job loss or relationship breakdown
- Resilience: Low ability to withstand financial or emotional shocks
- Capability: Low knowledge of financial matters or low confidence in managing money, and low capability in other relevant areas such as literacy or digital skills

# The Pensions Regulator and criminal action

## The regulator's new tougher powers and what they mean for those investigated


The Pension Schemes Act 2021, attracted a slew of interest when it came into force last year, most notably in respect of s107, which inserted two new criminal offences into the Pensions Act 2004 (PA04) – one for 'avoidance of an employer debt' (s58A PA04) and the other for 'conduct risking accrued scheme benefits' (s58B PA04). Both offences carry a maximum penalty of seven years imprisonment – a substantial increase from the two years imprisonment that previously had represented the maximum sentence available for other PA04 criminal offences.

Whilst the conduct the two new offences relates to could previously have been dealt with by means of regulatory action, namely through the imposition of a Contribution Notice under s38 PA04, such action was limited in its scope. A Contribution Notice could only be issued to a person that was, or was connected with, a scheme's sponsoring employer. The new offences are not so limited and could, for example, cast its net wider to capture sponsors, trustees and/or advisers.

The broadening of The Pensions Regulator's (TPR) powers in this way clearly indicates that both government (in passing the bill that contained the powers) and TPR desire a tougher stance to be taken in respect of reckless or intentional conduct that puts pension savings at risk. Although TPR will undoubtedly hope that the mere existence of the new offences will, of themselves, have a deterrent effect, the regulator will almost certainly, of its own volition, start look for conduct that might fall foul of them. Although the offences will, by their very nature be complex to investigate, TPR will be keen to flex its new powers. Why would government gift it these new offences if it did not expect them to be used? TPR will also be mindful that if criminal action fails to materialise any deterrence effect will inevitably melt away.

### TPR and criminal offences

Prosecuting pension related crime is not new ground for TPR; the regulator's criminal powers are not solely limited to offences created by pensions legislation. Indeed (unless otherwise restricted to a different specific prosecuting authority) TPR can investigate and prosecute any offence, provided that it would help TPR carry out its statutory functions or is incidental to carrying them out. For example, TPR has prosecuted conduct relating to misusing or misappropriating scheme assets as a fraud under the Fraud Act 2006.

### Interview powers

TPR has a number of investigatory powers available to it. These include compelling people to attend an interview, to answer questions, and to give an account of their actions to the regulator. However, in circumstances in which TPR does use its compelled interview powers, any responses given cannot be used against the interviewee in any subsequent criminal proceedings. For this reason, it is anticipated that in criminal cases, these powers will usually only be used in respect of evidence gathering from witnesses.

Where TPR wish to speak to a suspect in a criminal case, then they must follow the relevant legislation and Codes of Practice issued under the Police and Criminal Evidence Act 1984 (PACE). Most importantly this means that any interview must take place under caution and that the individual can decide whether to answer questions or not.

### Interview tips

So, what should you do if you find yourself becoming entangled in a TPR criminal investigation and called to attend an interview? There are a number of steps that apply to all interviews regardless of the individual's status. First ascertain on what basis you are being interviewed. Are you a witness or a suspect? Second, take steps to discover the scope that your interview will cover – what period of time? What actions? Third, prepare thoroughly. Review any pre-interview disclosure fully.

Ultimately, the best advice in preparing for an interview is to get early legal advice. Informed legal advice will allow you to prepare properly and therefore perform at your best in a TPR interview. A legal representative in attendance at an interview will be looking out for your interests, will provide continuing legal advice, and will ensure the interviewers act appropriately and do not stray outside of the remit of the interview.

**Written by Corker Binning partner, Claire Cross**

# Stepping into danger

**Gill Wadsworth considers the many pitfalls retirees may inadvertently fall into when drawing down their pension savings and how the industry can help them avoid the risks**

**Summary**
- Failure to seek guidance leaves UK pension savers facing significant financial risks when drawing their retirement funds.
- New 'stronger nudge' rules are accused of being insufficient in pushing people towards existing guidance services.
- Pension providers are developing solutions to better protect savers but they need more freedom to offer personalised guidance.
- The advent of collective defined contribution schemes could help manage decumulation risk.

There is a huge risk that unguided and unadvised pension savers will make terrible mistakes when they come to draw their retirement savings. This is the view given by Labour backbench MP, Nigel Mills, to a parliamentary business debate this March on the take up of pensions guidance and advice.

Mills said: "We have a hugely complex pension system and people don't always understand their options or take advice when making decisions. This means they make what might have been an avoidable mistake which has a detrimental effect on their quality of life. The question is what can we do to improve that situation?"

## Choices

The latest pensions debate was part of a wider effort from government and industry to improve outcomes for those savers making use of the freedom and choice legislation introduced in 2015.

Millions of savers access income drawdown, access to tax-free lump sums and other flexibilities designed to make the at retirement market more flexible.

Yet the Financial Conduct Authority (FCA) Retirement Income Market Data shows that in 2019 to 2020, half of all pots accessed in the contract-based retirement income market were done so without advice or guidance.


And doing so, according to Hymans Robertson partner, Kathryn Fleming, leaves members at risk of making a host of potentially catastrophic financial decisions.

"There are so many ways in which people can make bad choices that can have risky implications for their financial security once in retirement: Taking too much money too early, bad drawdown investment choices, reacting inappropriately to market movements and in some cases not drawing down enough. Our research shows that most people don't know how much they can reasonably expect by way of an income in retirement," Fleming says.

## Nudges

In response, this January, the Department for Work and Pensions introduced 'stronger nudge to pensions guidance' regulations for occupational schemes that Minister for Pensions and Financial Inclusion, Guy Opperman, said are "an important measure designed to help people make informed decisions about accessing their pension savings".

The new rules will encourage members to make better use of the government's free Pension Wise service at the point of decumulation. Trustees and managers of occupational pension schemes must book a Pension Wise appointment as for members and if they do not wish to take guidance, this should be 'an active and considered decision'.

The FCA, meanwhile, introduced its own set of nudge rules for contract-based schemes. From 1 June 2022 pensions providers must give consumers a stronger nudge to Pension Wise guidance when they decide to access their pension savings. Providers will be required to refer customers to Pension Wise guidance and explain the nature and purpose of this guidance.

Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey, says that while the introduction of nudges is welcome, there remain issues with ensuring consistency between the contract- and trust-based regimes.

"The stronger nudge to guidance

has the potential to really help people make more informed retirement income decisions and boost awareness of Pension Wise. However, we need the rules to be as closely aligned between trust- and contract-based schemes as possible to avoid confusion, and even disengagement," Morrissey says.

More criticism of the stronger nudge approach came from this January's Work and Pensions Select Committee report *Protecting pension savers—five years on from the pension freedoms: Accessing pension savings.*

The select committee says the guidance proposed by the DWP and FCA "will not be enough to make receiving pensions guidance the norm".

**Radical action**

Instead, it wants the government to commission research that will allow for more radical action. This includes automatically arranging appointments with Pension Wise, including a trial of people having an appointment at age 50 and at the point they want to first withdraw money.

The committee also wants to set ambitious targets for improved guidance take-up rates of around 60 per cent. Current rates are just 10 per cent.

Former Pensions Minister, Ros Altmann, says: "The industry has often complained about the cost of extending the reach of Pension Wise, but I believe the government needs to insist that this is an essential service for pension customers and one that the industry itself should support, because only then will pension customers be able to make better use of their lifelong funds."

While regulations may help individuals make better at-retirement choices, the committee wants more innovation from pension providers, through products that include a combination of different approaches, such as taking some in cash, having a guided drawdown for the early years of retirement and then locking into an annuity later.

Altmann says: "The pension freedoms have not led to a raft of interesting new user-friendly products for people to use when withdrawing their pension income from their pension pot. The old options of those who do not take an annuity either taking cash or drawdown, are relatively unchanged."

Altmann is critical of income drawdown, which she says has "much higher charges than *[a member's]* original pension fund, even if they are intending to just leave the money invested and accumulating more investment growth".

**Industry assistance**

Responding to the criticism, Legal & General Investment Management co-head of DC, Stuart Murphy, agrees it is incumbent on providers and trustees to support members in decumulation, and says the industry is responding.

"There has been huge evolution in target-date funds away from lifestyle strategies. Eighty-five per cent of new schemes that we implemented last year *[were target-date funds],* which means members are more likely to be invested in the right assets as they approach retirement," Murphy says.

But he says he would like to see more freedom for providers, currently restricted by rules around offering financial advice, the chance to offer personalised guidance.

"Personalised guidance is not about making a recommendation to members but rather helping them make better decisions. It can be digital or face-to-face and the provider bears the cost. The advent of personalised guidance could take *[decumulation]* from something of a wild west to a modern approach."

Fleming agrees personalised guidance is critical to improving at retirement decisions.

"Pension providers may offer guidance, access to advice, annual statements to try to help people navigate decumulation choices, but member engagement is low. The guidance is often provided in the wrong format and infrequently, and this is not helped by the fact that providers are very restricted in what they can comfortably say."

She continues: "Digital tooling can really help get targeted messages across safely and impactfully and digital developments in decumulation is a priority area of focus for many providers."

The advent of collective DC (CDC) schemes may also help protect members in decumulation. In CDC schemes, members pool their retirement savings into a single fund, meaning they share the risks associated with uncertainty about investment performance and longevity. This risk sharing allows the scheme to invest in assets with higher expected returns.

Aon head of CDC, Chintan Gandhi, says: "CDC can deliver a retirement income for life without the member having to buy an annuity or make complex financial and investment decisions along the way in retirement. This alleviates many of the decumulation risks inherent in the system."

Last February the Pension Schemes Act 2021 received Royal Assent, which put the wheels in motion for greater use of CDC schemes in the UK.

However, as Gandhi notes, these plans are "not for everyone" and it will be some time before their structures are fully understood and put to the test.

More than five years have passed since freedom and choice came into force, yet Altmann says members are still "fumbling in the dark due to excessive complexity, disjointed regulation and insufficient guidance or advice".

There is a relatively concerted effort to improve the lot of pension members in decumulation but success rests on implementing a coherent and radical set of changes that pushes members to the support they need.

**Written by Gill Wadsworth, a freelance journalist**


# Transfer regulations: Tricky points to consider

**The change to the statutory transfer regime, enabling trustees to prevent a transfer if red flags occur, has been celebrated as another weapon in the fight against scams but it does also create a number of issues for trustees to navigate, reveal Nicholas Laird and Sruti Banerjee**

In November last year, the government introduced changes to the statutory transfer regime that allow trustees to prevent a transfer to another scheme where specified conditions are not satisfied. While these new provisions act as a valuable weapon in the fight against scams, the list of amber and red flags have given rise to a number of nuanced issues for trustees to navigate.

As a brief reminder, pursuant to the Pension Schemes Act 2021, trustees are obliged to ensure that, with respect to a proposed statutory transfer:

- None of the listed red flags are present; and
- Where any of the listed amber flags are present, advice from the Money and Pensions Service (Maps) is sought.

One such red flag is where *'a person without the appropriate regulatory status*

**Transfer volumes**

DB pension transfers fell to a record low for the second consecutive month in January, falling by a further 6 per cent, according to XPS Pension Group's Transfer Activity Index.

The index revealed an annualised rate of 47 members out of every 10,000 transferring their pensions in January, the lowest rate since the index launched in 2018 and a fall from the previous record low of 50 members out of every 10,000 recorded in December 2021.

However, the XPS Pension Scam Flag Index, which shows red flags for a potential scam or for poor member outcomes, rose to 50 per cent, having stayed below this in the previous four months. The scam index in December 2021 had 41 per cent of transfers showing at least one warning sign of a potential scam. The most prevalent warning flag identified was a lack of member understanding regarding fees to be paid to the receiving scheme.

XPS also reported that its Transfer Value Index fell in January by 2 per cent, to a month-end average of £253,000.

Meanwhile, the average pension transfer time slowed further in Q4 2021, with both overall and simpler transfers recording an increase in the average transfer time over this period, according to figures from the Origo Transfer Index (OTI).

The index showed that the overall average transfer time for the quarter was 13.4 calendar days, compared to 13.2 days in the previous quarter.

Alongside this, the index revealed a 'marginal' increase to 11.3 days for simpler cases, up from 10.9 days in Q3.

However, Origo noted that half of all transfers being undertaken were completed within seven days.

*has provided pension transfer advice to the member or carried on some other regulated activity in respect of the transfer'.*

This becomes particularly pertinent when members transfer to overseas pension schemes, as there will usually be an overseas firm advising on the transfer into the receiving overseas scheme that may lack authorisation to advise on transfers in the UK.

In such situations, there will often be a UK regulated financial adviser (UKRFA) providing appropriate independent advice as well because where the value of a member's defined benefits exceeds £30,000, members are obliged to provide evidence to their scheme administrator or pension provider that they have taken regulated financial advice about the transfer.

Trustees may wish to consider asking the member to confirm that the UKRFA has also considered the receiving scheme, so that the trustees can get comfortable that there is no such red flag and therefore proceed with the transfer request.

One of the amber flags, namely where 'there are overseas investments included in the receiving scheme', also gives rise to some queries mainly because the regulations do not narrow down the meaning of 'overseas investments'.

Given the number of receiving schemes that may fall within this category, trustees are left wondering whether: (i) Maps will be overloaded with requests, leading to difficulties in providing the required guidance within the six-month statutory deadline to make the transfer; (ii) they are able to fully rely on 'clean lists' (i.e. lists of low-risk receiving schemes) prepared by scheme administrators; and (iii) there is a clear approach in differentiating between the many schemes that will inevitably be caught by this amber flag.

While there are no definitive answers to any of these questions, trustees can take the following steps to minimise risk:

- Be cautious in interpreting which schemes fall into this category: as the scope of what this amber flag means is tested and clarified, trustees will find it easier to apply.
- Monitor 'clean lists': whether through regular review or via a formal protocol, trustees should ensure such lists are accurate.
- Streamline processes: implementing an organised process with clearly delegated roles will allow schemes to deal with transfer requests efficiently.

Distinct to the issues associated with the red and amber flag lists lies broader questions such as the application of the transfer regulations to non-statutory transfers. Although non-statutory transfers are governed by the rules of each particular scheme, and may often be discretionary, The Pensions Regulator has clearly indicated that trustees should still apply the checks described in the regulations to such transfers and in doing so, fulfil their fiduciary obligation to the transferring member.

While a red flag cannot act as a prohibition on a non-statutory transfer, it may form the reasoning in refusing a non-statutory transfer where such a transfer is subject to trustees' discretion. Further care will be required where the member benefits from a unilateral right to transfer.

The transfer regime is due for review in 18 months but until then, trustees are advised to navigate the regulations with care.


**Scams and the gender divide**

Pension transfers "continue to be a target for fraudsters" as 11 per cent of transfers by men showed serious warning signs of a scam in 2021, compared to 6 per cent amongst women, recent research from XPS Pensions Groups revealed.

Of the cases examined by XPS's Scam Protection Service across the year, 11 per cent of transfer requests from male pension savers demonstrated a red flag, compared to 6 per cent for women.

It also revealed that higher transfer values were more likely to show signs of scams, as while the average size of a pension transfer was £211,000 across 2021, the average size of transfer displaying a red flag was £279,000.

**Written by Linklaters counsel, Nicholas Laird, and trainee solicitor in the pensions team, Sruti Banerjee**

# Honesty is the best policy

**Tom Dunstan talks to Pensions Ombudsman and Pension Protection Fund Ombudsman, Anthony Arter, about the new Pensions Dishonesty Unit and other recent developments for TPO**

**What are the main areas that TPO see as issues referred to them? Has that changed or evolved at all in recent years?**

**Anthony Arter:** It's stayed constant over the years. The main subject matter of complaints are usually issues dealing with the payment of retirement benefits, misquotes, misinformation, issues with transfers, payment of ill-health benefits.

We are seeing a gradual increase in the number of auto-enrolment cases where contributions haven't been paid. This is a combination of factors. There are now millions of employees that are or should have been auto-enrolled, a considerable number. Many small businesses are struggling as a result of the Covid pandemic, which has resulted, in some cases, of pension contributions not being paid into an appropriate pension arrangement.

**Was it these trends that made you feel the Pensions Dishonesty Unit (PDU) needed to be created?**

**Arter:** The number of pension scams has steadily increased over the years, but it was the number of high value determinations I have dealt with recently, that made me want to establish a dedicated PDU to investigate allegations of serious breaches of trust, the misappropriation of pension funds and dishonest or fraudulent behaviour by pension scheme trustees.

The most important case that made me realise how important it was to establish this unit concerned the three Norton Motorcycles schemes, which had been set up by Mr Garner, the owner of the Norton Motorcycle company. Over £10 million of members' pension savings were lost. I decided that the best the way to deal with this case, in order to provide a remedy for all of the schemes' members, would be to use the independent trustee, Dalriada, who had been appointed by The Pensions Regulator.

I was able to determine the whole case for all 274 members of the three schemes rather than just the 31 members who had complained to me. That scheme was really the catalyst for me to recommend the unit's establishment. Having a specialised unit focusing on these types of cases, not just for the few people that might complain to us, but for all the members of a scheme.

I believe that the establishment of the PDU, using the civil standard of proof, is such an important advance for the public, but also for the industry as a whole, supporting the vast majority of excellent trustees and well-run schemes and deterring those trustees who have an ulterior dishonest motive. For me it's part of the jigsaw that's missing between The Pensions Regulator (TPR), with regulatory powers and criminal sanctions, and the Pension Protection Fund's Fraud Compensation Fund.

**Can you please explain more about the dishonesty unit – how it's structured, how it works and how it sits within the wider TPO office?**

**Arter:** It's a specialist unit that sits within our casework directorate. It is made up of a team manager, senior adjudicators, lawyers, senior counsel, and the head of adjudication. The cases are referred to us directly by members and independent trustees and indirectly by TPR and the Pension Protection Fund.

There are two potential primary workstreams. The first is against individual trustees and for these cases there are generally no obstructions to making findings against the trustees. They must have a fair opportunity to defend themselves against a finding by me of personal liability.

The second workstream is complaints made against corporate trustee companies that requires me to pierce the corporate veil to make a direction against directors. Now, that is a challenge from a legal perspective as it is a high bar to make findings against individual directors in a personal capacity.

In both cases the approach is to assess the investment decisions of the trustees and whether those investments were made to the detriment of the members and in breach of trust, legislation and/or common law.

**It is currently running on a pilot basis – how long will this trial run for and what will you be assessing during this?**

**Arter:** It's currently due to run until November this year. The success of the unit will be determined on a number of measures, and this includes the amount of money that is recovered and paid back into the scheme, the contribution to success for regulatory and enforcement action, and the assistance provided to other tribunals/Fraud Compensation Fund.

**What are the types of cases you expect to deal with within the dishonesty unit?**

**Arter:** Typically, it will be cases where a member was persuaded to transfer into a trust-based occupational pension scheme, established to allow the members to invest in high yield but actually unregulated high risk and unusual investment arrangements. The investments will often be set up with a high level of sophistication to make them appear legitimate.

A trustee acting with appropriate regard for the members' interest would not have selected those investments and would have sought professional advice. So, there are various facets of behaviour that can constitute dishonesty or fraudulent conduct in the context of trustees' duties. Often the investments will have, by the time the case comes to me, little or no value. Other types of cases might involve the purchase of shares in the sponsoring employer company, as was the case in Norton Motorcycles, which I mentioned earlier, with the pension monies used to keep a company afloat.

**"The establishment of this PDU is such an important advance for the industry. For me it's part of the jigsaw that's missing between The Pensions Regulator with regulatory powers and criminal sanctions, and the Pension Protection Fund"**

**Can you give any broad examples of the work it has undertaken so far?**

**Arter:** At the outset there were 33 cases identified as appropriate for consideration by the PDU. We must be reasonably sure we can recover members money before devoting finite resources. My determinations are not limited in the redress I can award in respect of loss.

Since November last year, we have had a further 20 cases referred to the unit. Over £37 million has been fraudulently taken from the schemes we are investigating.

To date I have held three PDU oral hearings, which has allowed me to reach a decision on whether the trustee has any personal liability to repay the monies lost by the members.

Once I have made a determination there is then the question of enforcing it where a trustee does not comply with my directions. We are now considering, on a case-by-case basis, whether it is appropriate for TPO to assist the members, or for members to take their own action. We have currently two enforcement actions that we have submitted to the high court on behalf of members.

**Assuming the pilot goes well, what benefits do you expect to have from the unit; what difference do you hope it will make in the long term?**

**Arter:** Repayment by the wrong doers of the lost pension savings successfully enforced through the courts. A contribution to related successful regulatory and enforcement activity, for example: the insolvency service; director of disqualifications; TPR prosecutions; TPR appointment of independent trustees where decisions previously have been taken not to make one; findings of dishonesty adopted by other tribunals/Fraud Compensation Fund; and improved customer service and members'/stakeholder feedback. What's very important though is evidence of a change in trustee behaviour, to really deter fraudsters setting up these pension arrangements.

**Are there any other developments in the pipeline for TPO, or any other plans for how it'll structure its workload in the future?**

**Arter:** Last year, despite Covid, we had a 6 per cent increase in our efficiency through streamlining our systems and changing our approach to casework. This year it's been 10 per cent, and that's without any increase in resources. Unfortunately, that doesn't keep up with the increasing demand – the increasing number of complaints that we receive.

We have recently been given some additional funding to assist in dealing with our ever-increasing demand. This provides an opportunity for new approaches to casework and further streamlining of the way in which we triage cases, and this feeds into our model for continuous improvement without loss of quality.

**Written by Tom Dunstan**

# Case study: *PPF + DWP vs Paul Hughes + others*

**Sophie Smith takes a closer look at the events that led to recent court judgments on the Pension Protection Fund, and the progress that made so far in implementing the necessary changes**

Paul Hughes may not be the most famous pensions figure, but many will be aware of the key legal action that bears his name: *The Pension Protection Fund (PPF) and Department for Work and Pensions (DWP) vs Hughes and others.*

This case was one of a number of recent court judgments that prompted widespread changes in the compensation provided by the PPF and represents nearly two decades of efforts.

Hughes retired with a pension of circa £63,000 aged 57, three years before his normal retirement date, expecting this to be protected under the 1997 Pensions Act.

However, in 2005 the Heath Lambert pension scheme, which Hughes was a member of, announced that its sponsor had become insolvent.

The scheme subsequently became one of the first schemes to be assessed for membership of the PPF, which had been introduced by the 2005 Pensions Act to help support members of failed schemes.

However, this also removed the protection given under the 1997 Pensions Act to early retirees who retrospectively became subject to a cap, in many cases substantially reducing pension values.

As a result, Hughes was informed that his pension had been reduced from nearly £70,000 to £17,481 when the scheme entered assessment.

"As this change was brought about by a new Pensions Act, the chances of an individual ever getting anything changed was so remote that one really didn't quite know where to where to begin," he says.

After spending three years unsuccessfully taking the case against his pension fund trustee to The Pensions Ombudsman, Hughes was introduced to Grenville Hampshire, who had experienced similar issues and would become a key partner in this legal battle.

**A decades long effort**

"Together and with other colleagues from both of our firms, we tried very hard to get somewhere with politicians to understand our problem and help us get some justice," Hughes explains.

However, Hughes says that whilst Pensions Ministers were "sympathetic" and "very happy" to discuss the issues faced, they "did absolutely nothing".

"We progressively felt that we had to consider using the law to put some pressure on government and hopefully get somewhere," he adds.

A 2007 European Court of Justice (ECJ) ruling would prove key to this, as the 2007 *Secretary of Sate for Work and Pensions vs Robins* ruling concluded that whilst governments are not responsible if a pension fund fails, no member should receive less than 50 per cent of their pension entitlement together with scheme indexation.

The Grenville Hampshire case failed in the High Court in 2014, but was successful at the Court of Appeal in 2016. However, the court ruled that further clarification was still needed from ECJ and, in 2018, the ECJ confirmed that the PPF must pay at least 50 per cent of members pensions entitlement, plus scheme indexation.

"That was really good news," says Hughes, whose pension increased substantially as a result of this ruling.

Nevertheless, there were still matters awaiting further clarification, including the PPF's use of the so-called Hampshire uplift, one-off compensation calculation aiming to ensure an individual would receive 50 per cent of benefits, as well as the continued use of the PPF compensation cap.

**Victory on the horizon**

The *Hughes v PPF/DWP* case was referred to the High Court by judicial review in 2020, and then taken back again to the Court of Appeal by the PPF and DWP in 2021. In these court cases, the claimants were also joined by the pilot union Balpa.

The Court of Appeal ultimately

concluded that the use of the Hampshire uplift was legal, although it agreed that the PPF compensation cap was unlawful and must be disapplied.

"We were very pleased. Thinking where we began, it was quite hard to believe that we would ever be successful because a few disaffected individuals rarely take on the government and win," says Hughes of the judgment.

"I had little expectation of succeeding," he continues, "but if the government, in the form of the DWP, takes away almost £50,000 from your pension, it is very motivating.

"I'm obviously delighted for my colleagues who helped along the way and certainly for Grenville and his team, but there are potentially thousands of other people who are going to benefit."

And further wins have since been achieved, as the PPF has confirmed that the proposed six-year arrears payment limit will not be implemented, and full arrears will be paid.

Hughes has also received communications to inform him of his arrears in recent weeks, which is in line with the proposed timeline from the PPF, with the disapplication of the cap and the majority of payments expected to be made by the end of 2022.

Whilst Hughes emphasises that the staff at the PPF have been generally helpful, he admits that he had hoped they would have been able to calculate arrears for all affected members by now.

"It is disappointing, as we are all getting older, that it is going to take to the end of 2022," he continues.

"I am hoping that the rest of my colleagues are going to have their arrears payments advised to them very soon."

The lifeboat is facing significant implementation challenges however, as a spokesperson for the PPF explains that the pace of implementation has been affected by the fact that the lifeboat does not always have the relevant data for uncapping, because it was never anticipated it would need this data when the schemes transferred to it.

"It has also been affected by our decision to offer members the option to take part of their uncapping increase as a lump sum and pay any resulting tax charges," they explain. "We believe this is the right thing to do, but it does require us to undertake complex and time-consuming calculations for each member.

"We publish news stories and FAQs on our website, and if we need further information from members to be able to process their payments, we'll write directly to them."

**Reaping the rewards**

Progress is underway, however, as a DWP spokesperson comments: "We are working collaboratively with the PPF to ensure that members affected by the judgment receive their full entitlement."

A spokesperson for the PPF also emphasises that the lifeboat has "acted quickly" to establish how the court rulings could be best implemented, particularly in light of the "significant implementation challenges" posed.

"The compensation levels that were the subject of these challenges were set by Parliament in the Pensions Act 2004," a spokesperson explains, continuing: "In the Hampshire case the ECJ gave a clear decision that this legislation did not meet the requirements of EU law and that we must change our approach to make sure compensation never falls below 50 per cent of scheme benefits.

"We acted quickly to establish how this could best be done – the judgment posed significant implementation challenges given the PPF was never designed to track scheme benefits. We published our approach on 5 November 2018 – this was then challenged in the Hughes case causing implementation to be put on hold.

"On 19 July 2021 the Court of Appeal supported our approach, and we're now progressing with making payments and increasing compensation to affected members.

"We're also disapplying the PPF compensation cap, following the Court of Appeal's decision that it's unlawful on the grounds of age discrimination."

And the PPF also emphasises the pride it has in the work it does, stressing that "without it, many people would face significant financial hardship", with research revealing that 75 per cent of DB pension savers do not know their pension is protected if their employer fails.

"We protect millions of people throughout the United Kingdom who are members of defined benefit pension schemes, to make sure they'll be looked after if the employer responsible for funding the scheme they've paid into fails," a spokesperson states.

The lifeboat is also quick to reassure industry levy payers, as a spokesperson for the PPF confirms that, as at January 2021, the number of PPF pensioner members subject to the compensation cap was 630.

"We've previously estimated (Feb 2020) that removing the compensation cap would add approximately £200 million (discounted to present values) to our liabilities in respect of future compensation," a spokesperson explains. "This is just under 1 per cent of all such liabilities. Our reported funding position already makes allowance for this cost."

Frustrations remain, however, as the 25 claimants involved in the legal action will be required to meet the PPF's legal costs, after the court upheld its use of the Hampshire uplift.

"It seems most unfortunate, given the huge number of people that are going to benefit, because if all beneficiaries made a small contribution then the fees would be spread on a much fairer basis," he says.

Despite the success in this case, it is clear that there is still room for improvement by politicians and the industry to ensure that members voices are being heard, and acted on, without resorting to costly legal action.

**Written by Sophie Smith**

**Summary**
- It has been predicted that 2022 will be a record-breaking year for pension risk settlement deals.
- Improved funding levels and competitive insurer pricing are potential catalysts for increased activity.
- Deals of all shapes and sizes are expected as schemes increasingly target full buyout.
- Insurers appear to be confident in meeting demand, although some deals may be prioritised over others.

# Record breakers


**This year is predicted to be the biggest ever for the pension risk settlement market. Jack Gray investigates the factors that could drive the forecast increased activity and whether insurers have the capacity to meet scheme demand**

Following the sharp downturn in funding levels at the outset of the Covid-19 pandemic in March 2020, defined benefit (DB) pension scheme funding levels have been steadily improving. The Pension Protection Fund (PPF) 7800 Index shows that the aggregate DB pension surplus stood at £146.4 billion at the end of January 2022, while the funding ratio was 109.1 per cent.

These conditions have led to companies predicting that 2022 will be a record year for pension de-risking activity. Mercer has forecast the year to have £60 billion worth of deals, beating the previous record of around £54 billion seen in 2020, while WTW estimates transactions to total £65 billion. Meanwhile, LCP predicts the market to see volumes of between £30 billion and £50 billion for each of the next five years.

### Catalysts

As funding levels have improved more than expected, many pension schemes find themselves in the position of being further along in their journey plan than anticipated. This has led to an increased demand for pension de-risking deals, especially buyouts. According to LCP partner, Imogen Cothay, the improving funding levels relative to the cost of buyout is being driven by several factors: Higher interest rates, competitive insurer pricing, and longevity and Covid-19.

"Many schemes are now looking at seizing the opportunities this presents," Cothay continues. "This includes increasing hedging levels to bank gains and de-risking asset portfolios. Many schemes are also looking at buy-ins and buyouts. The buy-in/out transactions are likely to come through primarily in H2 2022 as it takes time to progress such transactions. We also seeing a change in mindset as even the sponsors of very large schemes are considering activity in this space."

Standard Life business development manager, Kieran Mistry, concurs, stating: "The market expectation for 2022 is based on the continuation of what we've experienced over the past few years; schemes with ever-improving funding levels looking to remove risk. Bulk annuities are now the widely accepted gold standard for removing risk and increasing member certainty."

Aon senior partner and head of risk settlement, Martin Bird, notes that while schemes may have been hesitant during the pandemic, as we emerge from it many are seeking to progress projects at pace as they move towards endgame.

"This is also evident from the results of Aon's latest *Global Pension Risk Survey*, which suggested that buyout has for the first time overtaken self-sufficiency as the most common long-term objective, with 65 per cent of respondents expecting to reach their long-term target within 10 years," Bird adds. "We are most definitely experiencing this in practice and are readying ourselves for a very busy year."

WTW senior director, Shelly Beard, notes that schemes are "perhaps three to five years ahead of where they planned".

"This is amazing for those trustees and for the members who can get the additional security earlier than expected," she says. "It does bring some practical challenges; schemes might not be investing in particularly liquid assets, for example, if they thought that they had another five years."

**All shapes and sizes**

Although the number of buyouts in particular are anticipated to rise, some industry experts predict that 2022 will see a mix of buy-ins, buyouts and longevity swaps. "On the bulk annuity front, we are seeing an increasing trend towards schemes targeting full-scheme buyout as opposed to a phased buy-in approach, particularly at the smaller end of the market," explains Bird.

"Schemes with liabilities below £100 million are able to achieve settlement more efficiently than ever before through streamlined processes. With more insurers entering the deferred market, we also expect to see more attractive and competitive pricing for full scheme transactions. For larger schemes, full scheme buyout transactions are also increasingly common, particularly reflecting improved funding positions and as schemes accelerate towards their endgame."

This is corroborated by Cothay, who states that LCP's current pipeline of bulk annuity deals consists of around 75 per cent full scheme transactions, with the rest being partial buy-ins. "Our pipeline includes the full range of sizes from multi-billion transactions down to plenty of sub-£100 million transactions," she says.

Beard expects that the longevity swap market is going to be busier this year and will make up around £25 billion of WTW's predicted £65 billion of de-risking deals. She continues: "I think we will see all types of deals. On buy-ins and buyouts, I think it is going to be pretty equal. Five years ago, pretty much all the activity was dominated by pensioner buy-ins, but because of those funding level improvements we are seeing more and more buyouts.

"As I speak to insurers at the moment, they and the reinsurers are pretty hungry for vanilla pensioner buy-ins because they see so many buyouts coming down the track and they always like to get a nice balance of business between buy-ins and buyouts."

Meanwhile, Mistry expects that the mixture of deals in 2022 will depend on a small number of "very large" transactions. "If we were to make an educated guess, by value we'd expect bulk annuities to outpace longevity swaps, and for buyouts (or full buy-ins) to outpace partial pensioner buy-ins," he adds.

"In the wake of the pandemic, we're seeing more schemes with insolvent employers looking to secure their members' benefits above PPF levels through bulk annuities, an unfortunate trend we expect to continue for some time."

**Meeting demand**

The increased demand for de-risking deals will not translate to a record-breaking year if insurers do not have the capacity to meet it. However, industry experts appear to agree that insurers' capacity for de-risking will likely be sufficient, with Beard stating: "There certainly seems to be enough capacity in the market at the moment. As well as the increase in systems, a lot of the insurers have built up their teams over the past 12 months."

"We believe there is capacity within the insurers for the volumes we are projecting until around 2025," comments Cothay. "This reflects the increased appetite and competition within the insurers. The insurers have raised significant capital over the 12 months and are targeting increasingly larger transactions."

However, Cothay warns that it is less clear whether the capacity will continue to be there for the volumes it is projecting beyond around 2025.

"There is the possibility that medium-sized transactions get squeezed and that the higher volumes put upward pressure on pricing," she continues. "We do, however, take some comfort from the planned Solvency II reforms."

Mistry notes that there are a few areas that "could pinch" as volumes increase, including availability of suitably high-yielding long-dated assets, longevity reinsurance capacity, capital availability and people resource to get deals done.

"Aside from resourcing, some insurers indicated that asset sourcing may impact their ability to deliver over the coming years," explains Bird.

"With an increased focus on ESG across the pensions sector, insurer asset holdings are coming under more scrutiny with schemes now asking ESG-related questions as part of their request for quotations.

"While some insurers are further along the track than others towards a goal of investing in environmentally friendly assets, there is no doubt this will continue to be a growing area of consideration for schemes and, in turn, increased insurer demand for these asset classes."

**Written by Jack Gray**

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**Fixed income's role in achieving net zero:** *Scott Freedman outlines Newton's thoughts on the prospects for global fixed-income markets and the crucial part that bond markets are likely to play in the transition to a low-carbon economy* **p50**

**Time to focus on ESG:** *Abigail Williams considers how ESG considerations are being incorporated into pension funds' fixed-income allocations* **p52**

# Fixed income and ESG focus:

## Lighting the way to net zero

**Newton Investment Management fixed income portfolio manager, Scott Freedman**

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# Fixed income's role in achieving net zero

**Scott Freedman outlines Newton's thoughts on the prospects for global fixed-income markets and the crucial part that bond markets are likely to play in the transition to a low-carbon economy**

The role that fixed-income markets have in funding the journey towards a better environmental and social future is a crucial one, as most of the future funding towards that aim is expected to come from debt rather than via equity. We view this process very much as a 'journey', because a large range of stakeholders will take time not only to agree on the roadmap and how best to achieve it in our lifetime, but also on how to collectively put their plans into action.

**Challenges ahead for fixed income**

At the same time, while fixed-income markets continue to provide some positive investment opportunities, they are facing a range of potential threats in 2022, particularly from inflation and the removal of monetary stimulus by central banks. We expect that these concerns will be particularly influential in government-bond markets until the second quarter of this year, but from that point on we would anticipate a more stable safe-haven environment for yields.

Yet, as mentioned above, this is undoubtedly a challenging backdrop for fixed-income markets, and, to add to the pressing issues facing bond investors, the *Intergovernmental Panel on Climate Change's (IPCC) Gap Report* for 2021 warns that the world is on track for 2.8 degrees Celsius of warming by the end of the century based on current policies. As bond markets strive to play their part in countering the threat posed by climate change, we have seen a significant recent acceleration in 'green' spending, as the number of companies making firm net-zero commitments continues to grow.

**Huge capex, growing debt…**

Additional spending requirements to achieve net-zero carbon emissions range from the low to high single-digit trillion dollars per year; to provide some context on the scale of the challenge ahead, the world's 2,000 largest non-financial companies are expected to have paid out $3.7 trillion in 2021 on business-as-usual capital expenditure alone.

Whichever way you cut it, this is a huge amount of additional capital that needs to be funded, and global debt to GDP is only going to increase further as a result. For us, this increases the need for global monetary policy to remain accommodative to maintain access to low-cost funding. However, it is cheaper to act now than to have to deal with the consequences of inaction later.

We believe the next step will be the further internalising of 'externalities': companies will have to pay a price for carbon emissions – a cost which society bears today. This has material implications, in that the acceleration of cost pressures for higher emitters will increase credit risk, thereby limiting access to capital that can be acquired at attractive interest rates. As climate regulations increase, we may see more stranded assets, while business models and carbon-intensive companies are likely to see steeper credit curves (higher spread compensation for debt with longer maturity). This will not just be the case for companies, but for countries too, with sovereign credit risk being an important consideration when seeking access to markets for funding.

**Fixed income's growing role in the transition**

In terms of key opportunities, we believe the role fixed-income markets have in funding the transition away from carbon-intensive economies will become increasingly critical. Most of this funding is expected to be financed by debt from governments, international development agencies and companies, rather than via equity. We expect it increasingly to come through 'labelled' bonds (bonds with specific environmental, social and governance (ESG) or sustainability objectives), such as green, social, sustainable and sustainability-linked bonds, as well as through 'vanilla' bonds. Private capital will be key as government balance sheets will struggle to sustain the necessary level of investment required, which will be needed for all sectors and countries – not just the most carbon-intensive ones.

There are already some big central-bank stimulus programmes in place, but we believe these are just a start. Sustainable finance has been growing quickly, but it is still small, and much more will be required for the world to achieve net zero. Take the labelled-bond market, for example; although it has reached $1.5 trillion in outstanding issuance, this only represents 1.2 per cent of the global bond market.

**Increasing accountability of stakeholders**

There is the risk that a slight premium that can exist for green bonds today could potentially limit the growth of the market, but the demand for green products continues to grow. Over the next few years, we think there will be less need for bond issuance to be in labelled-bond form. The increasing accountability of all stakeholders, including governments, companies, investors and asset owners, should mean less need for labels but more emphasis on differences in the cost of capital between issuers.

While investors must be on their guard against the threat of 'greenwashing' or overstating the environmental impact of products, we believe this growth in demand for labelled-bond issuance and other sustainable fixed-income assets will continue to gather pace. Our view is that thorough due diligence and careful continuing analysis of ESG factors for issuers from a holistic perspective, rather than a single project and asset focus, can help investors avoid greenwashing pitfalls. And it is not just investors putting pressure on companies; net-zero policy is driving banks to expect clients to demonstrate a credible carbon-reduction plan as part of the 'greening' of their loan books.

**Pivotal role**

While the wider backdrop of monetary and fiscal policy will be important given the likely increasing quantum of debt, we believe both central banks and fixed-income investors can and will play an increasingly pivotal role in directing capital to projects that can help move the planet to a potentially more equitable, lower-carbon way of life.

To avoid a proliferation of different standards, it will be important to encourage cohesive regulation to enhance the role of the financial system. The private sector needs to have rigid frameworks in place to give some confidence around potential returns on capital. There is a potential risk that diversion of financial and labour resources to potentially less productive efforts could contribute to creating inflation.

Finally, we must remember that there are social consequences to funding the climate transition, so green targets should not be considered in isolation. Public finance needs to align with climate goals and economic development objectives, while mainstream capital also needs to be mobilised alongside green capital.

**Need for a just transition**

The investment community is beginning to recognise the significance of social challenges, especially since the onset of the global pandemic. Our view is that environmental and social factors should not always be separated, given the importance of the idea of a 'just' transition. We must remember that there are also social consequences to funding the climate transition, such as the change in profile of workforce skills required and robustness of the ethics within new supply chains, i.e. ensuring that the environmental focus does not cause any significant harm in terms of social considerations. We believe that this concept therefore lends itself to sustainability-linked bonds, which can incorporate a broader range of key performance indicators (KPIs), such as social targets that the issuer should be also held accountable for.

None of this will be achieved overnight, but what we can say for certain is that the shape of the fixed-income market is changing at a considerable rate; we expect to see a future in which fixed-income markets play an increasingly important role in providing positive environmental and social outcomes for society.

**Written by Newton Investment Management fixed income portfolio manager, Scott Freedman**

In association with NEWTON Investment Management

# Time to focus on ESG

**Abigail Williams considers how ESG considerations are being incorporated into pension funds' fixed-income allocations**


**Summary**

• There are indications that a growing number of pension funds are considering fixed-income allocations as part of their ESG efforts.

• Motivations include increased awareness of ESG factors that pension funds can influence, regulatory changes, perceived investment opportunities and rising pressure from activist groups.

• A wide range of tools are available to fixed-income investors to allocate capital targeting better ESG outcomes.

• It has been suggested that a clear framework, with consistent standards across regions of the world, would help investors to compare and contrast issuers and bonds and better hold them to account.


In the drive to improve sustainability performance, a growing number of pension funds are considering fixed income allocations as part of their ESG efforts. So, what types of strategies and approaches can pension funds consider to adopt a more organised and holistic treatment of fixed-income allocations in such efforts?

**Stewardship role**

According to Capital Cranfield professional trustee, Mark Hedges, all pension funds will consider ESG within their fixed-income allocations because they are required by the regulator to consider non-financial factors and risks when considering their investments.

This does not mean that they necessarily change their allocations to focus on sustainability or ESG investments but "when they reach decisions, they take account of those factors".

That said, he also observes that more recent requirements relating to the implementation of TCFD mean that pension funds will have to set metrics around carbon in their portfolios, and a forthcoming change will require a metric demonstrating how pension funds are aligning to the Paris Accord on limiting temperature rises to 1.5 per cent above pre-industrial levels.

"Increasingly this is seeing pension funds adopting investment strategies that more specifically address ESG. Whilst the initial focus has been on equities, this is now also being addressed in fixed-income portfolios," he says.

For Hedges, this development is motivated by a number of drivers, including increased awareness of ESG factors that pension funds can influence changes via their stewardship role, and regulatory changes such as TCFD, as well as from the investment opportunities identified and marketed to pension funds by asset managers and increased pressure from activist groups.

Elsewhere, Newton Investment Management portfolio manager, Scott Freedman, observes that, in the past, fixed income lagged equities in terms of being more explicit on how investors consider ESG factors.

"The assumption was that 'how can you engage when you're not a shareholder?' But this was a wrong assumption and, at Newton, we have been engaging with issuers and considering ESG factors as part of our credit analysis for many years," he says.

Freedman believes the role fixed-income markets have in funding the transition away from carbon-intensive economies, as well as for improved social outcomes, will become "increasingly critical" – and also that "most pension funds understand this and absolutely consider their fixed-income allocations within sustainability efforts".

"Often fixed-income investors are the largest providers of capital, and on an ongoing basis when debt is refinanced. Asset owners and investors are realising that within their fixed-income allocations they are able to more directly allocate capital towards better environmental and social outcomes," he says.

Amundi head of euro aggregate and lead portfolio manager, Isabelle Vic-Philippe, agrees that most pension funds have begun their journey towards responsible investing and are considering ESG in their fixed-income allocations. Even though the investment objectives of pension funds can vary significantly, she points out that they all tend to include ESG consideration in their fixed-income investments, as they constitute by nature a large part of their assets.

"This progress has been fostered by the increased availability of data, from a few hundred companies included in equity universes, to thousands in a corporate bond world," she says.

"Pension providers are progressively being commanded by their different stakeholders to do their fair share in the global fight against climate change, calling for greater integration of climate change considerations in their investments," she adds.

**Strategies**

Given the fact that pension funds cannot ignore these strong pressures coming from multiple directions, Vic-Philippe says they may consider several options to translate the ESG dimension in their fixed-income allocations and portfolios, according to the weight of assets allocated to this ESG/sustainability space.

"Some pension providers may choose to change their traditional fixed-income approach to integrate ESG policy and sustainability objectives. Historically, it has often started by excluding sectors or a list of issuers, then by integrating ESG criteria in the management of their fixed-income portfolios," she says.

In terms of concrete strategies, Freedman points out that there are a growing number of tools available to fixed-income investors to allocate capital targeting better ESG outcomes – and that there can exist a higher level of accountability in place between the investor and issuer, which is so important.

These improvements can be achieved with 'labelled bonds' – bonds with specific ESG or sustainability objectives, such as green, social, sustainable and sustainability-linked bonds – as well as through 'vanilla' bonds. When selecting such approaches, Freedman also warns that greenwashing risks remain, which is why is it "crucial to consider each issuer and instrument on a case-by-case basis".

"Given we experience ESG integration across all fixed-income asset classes, it is possible for pension funds to allocate their fixed-income assets towards sustainability efforts. Their ESG philosophy will be an important driver of where they allocate to, as the way their underlying investments are managed needs to resonate with that," he says.

Although it is possible to allocate to one area, such as a net-zero focus, Freedman also believes that it "makes good sense to consider investing with broad improved ESG outcomes in mind, as it is hard to separate the E, S and G".

"For example, we must remember that there are social consequences to funding the climate transition, such as a change in the profile of skills demanded from the workforce required and the robustness of ethics within new supply chains – that is, ensuring that the environmental focus does not cause any significant harm to any social factors," he adds.

For Federated Hermes' head of sustainable fixed income, Mitch Reznick, any approach to the fixed-income allocations "should also respect that matters of ESG and sustainability are capital structure-agnostic, meaning that they are corporate-level factors that affect all financial stakeholders one way or another".

"The benefit of fixed income is that, as an investor, there are multiple access points to invest in a name, such as terms, structure, secured, senior, subordinated, loan, bond and so on. As such you can more precisely allocate risk based on your ESG-informed view of the name, he says.

**Continued growth**

Looking ahead, Barnett Waddingham's principal and senior investment consultant, Pete Smith, predicts that the identification and acquisition of relevant ESG data relating to unlisted companies and issuers will continue to be a key challenge.

"It's a growing area of consideration, because it's a growing part of pension scheme portfolios generally. In time, as sustainability feeds its way through to annuity pricing a greater focus on sustainability in bond management is likely to develop," he says.

Moreover, although it remains a small market in the context of the global bond market, Freedman anticipates continued growth in ESG-labelled bond issuance after 2021 to set new records.

"We expect to see a continued broadening out of sectors as labelled issuance is still quite concentrated in the finance, utility and real-estate sectors.

Freedman also warns of a risk that fragmentation and tiering will begin to appear in some labelled bonds, such as new-format green bonds, with environmental targets within some sustainability-linked bonds starting to reference science-based targets.

His view is that the market needs a clear framework with consistent standards across regions of the world, which would help investors to compare and contrast issuers and bonds and better hold them to account.

"New labels may also be developed, but we believe that this could run the danger of creating 'label fatigue' and increasing the risk of greenwashing. Over the next few years, we think there will be less need for bond issuance to be in labelled-bond form. The increasing accountability of all stakeholders, including governments, companies, investors and asset owners, should mean less need for labels but more emphasis on differences in the cost of capital between issuers," Freedman says.

**Written by Abigail Williams, a freelance journalist**

In association with NEWTON Investment Management

**Summary**
- The dominance of equities within DB portfolios has declined.
- Private debt and infrastructure investment fit well with the cashflow-matching requirements of DB schemes.
- The difference in available assets according to scheme size is starting to shrink.
- Scheme maturity and their end goals also determine portfolio structure.

# Creating the right blend

**Laura Blows explores asset allocation trends within DB scheme portfolios**

A DB scheme portfolio, by blending together different asset allocations, paints a picture of its future goals. But just like any work of art, it may need tweaks and retouches as the years go by to ensure the image does not get faded away by environmental changes.

### Equities

The long-term trend towards de-risking has resulted in one of its staple 'colours', public equities, no longer dominating the canvas as it once did.

According to LGIM head of solutions, Will Riley, changes in UK DB schemes' asset allocations are most clearly viewed through the lens of their inexorable journey towards buyout or self-sufficiency.

Traditional fundamental equity mandates are seeing less demand, with DB schemes preferring to access via a market or factor-based index approach, or specialist high conviction mandate, he says.

Allocations to alternative asset classes have also increased at the expense of equities for those schemes able to manage the additional complexity, Riley adds.

While public equities do continue to be the primary asset used to generate returns for schemes, Hymans Robertson co-head of trustee DB investment, Elaine Torry, says, what has been changing over the past couple of years is the mix of equity strategies that schemes hold.

"There has been a growing interest in equity allocations that have an ESG tilt. This ESG focus for equities has typically been driven by regulatory requirements for schemes to demonstrate that this has been considered, and a belief by trustees that it is the right thing to do for the long-term success of their scheme and its members," she explains.

On the private equity side, the illiquid nature and long build-up and run-off periods mean that, for many schemes, new investment in private equity is becoming less appropriate, Torry adds.

Lower yields and increasing investor sophistication have led to greater interest in private markets, but "private equity holdings are likely to be somewhat transitory for maturing schemes", Riley agrees.

"Overall, equity allocations have been decreasing for many years", he adds, "as schemes look to reduce risk by investing more in liability-matching government and corporate bonds."

### Credit

Indeed, credit assets are increasingly becoming a key feature within the portfolio picture.

"The focus is increasingly on identifying assets that generate secure income streams and cashflows," Russell Investments head of strategic client solutions, David Rae, says. "This is true in both the liquid and illiquid space – high quality investment grade credit and private debt."

"As the range of credit assets has continued to grow, particularly since the financial crisis in 2008, this has better provided trustees with opportunities to seek returns in the credit space, even if not at a stage where they are requiring cashflow/not particularly mature," Torry says.

According to Torry, a particularly popular credit asset is private debt, where many schemes are starting to see their first forays into private debt funds mature. "The consideration now is whether to reallocate to the private debt asset class or invest the proceeds somewhere else," she states.

Riley says that private debt and infrastructure investment fit well with the cashflow-matching requirements of DB schemes, and that while demand for traditional growth-focused fixed-income assets has declined, schemes are instead investing heavily in buy and maintain credit mandates as a key part of their liability-matching portfolios.

Asset-backed securities are a continuing to be a staple of many schemes' asset allocation, "due to the floating rate nature of the coupons, which is attractive in a rising rate environment, and the secured nature of the coupons", Torry notes.

Speculative grade credit has also been an area that many schemes have included in their asset allocations, which "in part is due to the relative returns that they provide over their investment grade counterparts", she adds.

### ESG

ESG integration and sustainable investment considerations are now a key focus for trustees, leading to a rise in thematic investing across all asset classes, LGIM head of solutions, Will Riley, notes.

The focus on responsible investment is likely to be the single biggest factor that will continue to drive the adaption of asset allocations for DB schemes, Hymans Robertson co-head of trustee DB investment, Elaine Torry, agrees.

In liquid markets this focus will lead to different styles of implementation, with the introduction of factor-based strategies, different benchmarks and different objectives, such as aiming to reach net zero, Aviva Investors head of UK and multinational DB pensions, Matthew Graham, says. "We may also see new asset classes/strategies evolve in areas such a carbon credits."

However, Torry notes the extent to which new mandates and asset classes are introduced is less obvious. "The most notable trend will likely be 'cleansing' portfolios of existing assets, eg by overlaying existing assets with a carbon filter, rather than selling and investing the proceeds in alternative funds," she predicts.

**Scheme size and maturity**

DB scheme size traditionally determined the nature of the portfolio 'masterpiece' created; smaller schemes were limited to the primary colours of equities and fixed income, with larger schemes able to access a wider range of investment hues.

However, "in terms of size, the difference in asset allocation between large and small schemes is reducing as more pooled fund products become available in non-traditional asset classes that have lower minimum investment criteria", Torry says.

The maturing nature of DB schemes over the past few years and their increased cashflow requirements to pay pensioners has also led to a shift in asset allocation from capital-seeking to income-driven investments," Aviva Investors head of UK and multinational DB pensions, Matthew Graham, agrees.

"This shift has been further supported by a large number of schemes being better funded and looking to de-risk. Income return driven investments such as credit, property, infrastructure and private debt can provide stable return with strong cash yields," he adds.

"Larger schemes are further along [*de-risking]* journeys than smaller schemes on average, and have higher allocations to both liability-matching bonds and alternative asset classes," Riley adds.

For those schemes looking at self-sufficiency/low dependency, there are a wider range of potential asset classes, Graham acknowledges.

"Much like the annuity book of an insurer, but with the added flexibility of a pension scheme, they can consider a wide range of public credit and private market assets," he says.

"At the other end of the spectrum, a scheme looking to buyout in the next couple of years would not look to introduce private market allocations and would instead implement through public credit, gilts and liquidity investments."

**Inflation**

Threatening to tear a hole in schemes' portfolio pictures is inflation. However, LDI strategies can be a useful tool to brush over any cracks.

Rising inflation is a concern for pension funds given their inflation-linked liabilities, Riley acknowledges, "but heavy investment in index-linked bonds and inflation swaps by UK schemes as part of LDI portfolios over many years means that many are already well-protected".

Schemes that haven't fully hedged can take some comfort from the fact that caps on pension increases mean the full effect of high inflation isn't passed through to scheme liabilities, he adds. "Nevertheless, recent price rises are serving as a call to action for those that have been slower to implement LDI mandates, with some schemes increasing their index-linked bond holdings as a result."

**Future trends**

Along with inflation, regulatory change – including the DB Funding Code and the UK's approach to insurance solvency regulation post-Brexit – will have implications for schemes' asset allocation, Rae notes.

According to Torry, a typical DB scheme in three to five years will likely be a blend of 20 per cent growth assets, such as public listed equities and property, 40 per cent income assets (eg investment grade corporate bonds, speculative grade corporate bonds, private debt and asset-backed securities) and 40 per cent LDI/protection assets such as government bonds and swaps, and buy-in policies.

"At a more granular level, the allocation to growth and protection assets is likely to be relatively consistent across schemes," she says. "However, where this will likely differ between schemes is the income asset allocation and how hard the income assets are having to work. The higher the return and the greater the need for cashflow, the more likely the income assets will be weighted towards private debt, asset-backed securities and other forms of secured lending."

So the individual portfolio pictures may vary by scheme, but they all broadly hang within the same de-risking gallery.

"Over the next few years, we expect schemes to increasingly focus on how well-prepared their portfolio is for insurer buyout, as this will be the ultimate goal for many," Riley says. "Government and corporate bonds will be used for protection against an increase in buyout prices, but it will also be important for trustees to consider whether the assets they hold can be transferred to an insurer or are sufficiently liquid to be sold if not."

**Written by Laura Blows**


**Summary**
- Pensions dashboards are the obvious example of an open finance approach to pensions, however there are plenty of benefits and uses for them beyond that.
- Trustees could benefit from open finance by offering members affordable financial advice.
- Open finance could be used to boost member engagement by making pensions more accessible and visible.
- Open finance does not mean the pension sector does not need to worry about educating members and consumers.

# Opening up

**Open finance has garnered interest from the FCA and it could pave the way for far-reaching industry changes which, experts believe, would reap rewards for consumers**

Open finance describes the sharing of consumer data from across the financial services sector, including pensions, insurance and mortgages, to third parties, which in turn could unlock further innovations that have the potential to deliver transformative benefits to consumers.

In terms of regulation, open finance is something the Financial Conduct Authority (FCA) has talked about in the past, but there are currently no obligations on financial services firms to create any kind of specialist technology or dataset to fit in with an industry-wide open financial initiative.

The regulator, however, seems excited by the concept. In a March 2021 feedback statement on open finance, the FCA said such a move could allow third-party providers to use data from consumers and businesses to develop "innovative products and services that meet consumers' current and future needs."

To implement open banking, which formally came into force in the UK in January 2018, a set of standards for the open banking ecosystem, the Open Banking Implementation Entity, was set up. Currently, no similar set of standards exists for open finance, but Cushon founder and CEO, Ben Pollard, believes one may be necessary to successfully launch open finance in the UK.

"The incoming pensions dashboards are a prime example of an open finance approach, consolidating a wide range of financial information in one, accessible place," says the Pollard. "However, this approach can only be successful if all providers share high-quality data consistently and in a useable format, so other providers can access it.

"In open banking, this was achieved through the creation of the Open Banking Implementation Entity, so it's likely something similar will be needed for open finance."

**Affordability and competitive products**

As Pollard highlights, the pensions dashboard is the obvious application for open finance in the pensions sector. However, there are plenty of uses for it beyond that.

Open finance could, for example, offer trustees the chance to provide their members with affordable financial advice.

Financial Technology Research Centre director and founder, Ian McKenna, says new financial advice systems like Destination Retirement from Hub Financial Solutions – an automated service providing regulated retirement advice – and M&G's hybrid advice service MAP – short for 'Map your financial future with M&G Wealth' – "will make regulated advice accessible and economic for millions of consumers who currently find it a luxury they are unable to afford".

These hybrid advice options, which are often fronted by humans with the advice calculated by technology in the background, will have a transformational effect on the workplace pension market, McKenna says, and as a result benefit consultants who "should now be looking for their advice automation system providers".

For PensionBee chief engagement officer, Clare Reilly, one of the draws of open finance is it will effectively force industry giants to create better products, which will lead to better outcomes for customers.

"The consumer demand for apps and tools that use open finance technology has enabled competition to flourish in the *[financial services]* sector," she says. "The renewed pressure on incumbent providers to offer modern, competitively priced pension products that reflect the needs of 21st century consumers can only help drive better retirement outcomes for consumers."

**Boosting member engagement**

One of the greatest challenges facing the pensions sector is member engagement. More than two-thirds (67 per cent) of UK adults did not log-in to their pension portal between March 2020 and 2021, according to Canada Life, and over half (56 per cent) of respondents have not read any of their pension statements.

Elsewhere, research commissioned by the Association of British Insurers found an estimated 1.6 million pension pots worth £19.4 billion were unclaimed, which is in part because people forget to tell their pension provider when they move house. Just one in 25 people think about telling their pension provider when they move to a new home, which risks misplacing, and ultimately forgetting about, their pension pot.

Experts believe open finance could substantially boost member engagement. Pollard says in the context of pensions, open finance is primarily about visibility, which could play a huge part in getting people to better connect with their later life savings.

Pollard says in a time of high job mobility, particularly among young people, consumers tend to focus on the pot they are currently paying into, even potentially disregarding former pots they have accumulated.

"While a pot may look 'small fry' viewed in isolation and 'not worth engaging with', once it is consolidated within a single total, it becomes worth engaging with," he explains.

In addition, Pollard says, engagement could be boosted by implementing a tech approach and modernising the pension industry, much in the same way apps have engaged consumers with their personal finances and non-pension investments.

"Providing insight into future financial stability can also encourage people to alter their financial behaviour, for example, encouraging them to save more if they are not on track for their retirement goals, and also help people stay on top of multiple different pensions," he adds.

Accessibility brought about by open finance could prove to be another major driver of engagement, according to Penfold co-founder, Chris Eastwood.

"Open banking and open finance can enable providers to help people automate their pension savings. Customers won't have to exit their pension portal to make changes. Instead, they can view and access their savings in one place, the same as they could use mobile banking to see their savings."

"It's this accessibility point that will be key to driving engagement with pensions, particularly among younger savers who have come to expect a high level of accessibility due to the likes of Monzo and Starling," says Eastwood.

The self-employed could also be encouraged to save into a pension via open finance. Eastwood says through open banking technology, savers can connect their bank account to Penfold and select a percentage of their excess income to save. Penfold could then analyse their finances, and, in scenarios like an increase in income, trigger a nudge that encourages them to increase their pension contribution.

**Not a 'job-done' scenario**

While open finance has many potential benefits, it could run into problems if it is not delivered thoughtfully and technically well.

Chief among these concerns is the idea that open finance offers a 'job-done' solution to existing issues within the pensions industry.

"While more automation will help to enrich the pension experience, it should not be allowed to replace engagement – it is important for providers to still prioritise educating their customers on the benefits of pensions and how to get the most out of them, alongside greater tech," says Eastwood.

Then, there is the danger the technology itself may simply not be very good – an outcome that could wipe out any engagement benefits.

"There are always potential drawbacks to any technology solution, be that data quality and poor functional design," says Punter Southall Governance Services client director, Gerald Wellesley. "Guidance and support on how to use the more holistic data an individual presented with will still be needed – having information in front of you doesn't necessarily mean you understand and know what to do with it."

In addition, protections must be put in place for consumers to ensure they avoid any unfavourable outcomes that could result from having better access to their money, according to Tisa Digital CEO, Harry Weber-Brown.

"Protections need to be put in place to prevent mis-selling, scams and poor decisions being made," he adds.

**Written by Hannah Godfrey, a freelance journalist**

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# Dashboards roundtable

CHAIR

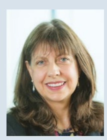
**Andy Cheseldine, Independent Trustee, CCTL**
Andy joined Capital Cranfield in 2017. Before joining the firm, Andy acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB arrangements 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. Andy is also chair of the Small Pots Co-ordination Group.

PANEL

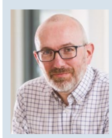
**Anthony Badger, FS&I API Lead, Axway**
Having joined Axway at the end of 2020, Anthony is spearheading the company's growth in FS&I, driving industry adoption of Axway's API lifecycle management solution throughout the UK's finance services and banking sector. He has nearly 20 years' experience managing and growing technology businesses focusing on digital customer identity and experience. Prior to joining Axway, Anthony held executive sales roles at leading firms including Everett (now PwC Europe), ForgeRock and Hitachi ID Systems.

**Geraldine Brassett, Client Partner, Capita**
Geraldine is accountable for service delivery and strategic direction for a portfolio of large TPA clients at Capita Pension Solutions (CPS). She is also responsible for the overarching data solution that is available to CPS clients and provides support on broader client initiatives such as the analysis, client impact and implementation of legislative and market changes. She chairs the GMP Equalisation Working Group and the Pasa working group responsible for producing guidance in relation to other GMP-related matters.

**Chris Curry, Principal, Pensions Dashboards Programme**
Chris was appointed as principal of the Pensions Dashboards Programme at the Money and Pensions Service in 2019, on a part-time basis. Chris brings valuable expertise and insight gained in his other role as the director of the Pensions Policy Institute, where he continues to work part-time. Chris has worked on important projects, such as the Department for Work and Pensions Auto-Enrolment Review Advisory Group in 2017, where he was co-chair and led on providing advice on the theme of contributions.

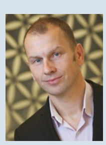


**Emma Douglas, Workplace Director, Savings and Retirement, Aviva**
Emma joined Aviva in October 2021 as director of workplace savings and retirement business, with the accountability to deliver the best possible outcome for over four million customers/members and their £81 billion of assets as they save for and access savings in later life. Emma is also the chair of the Pensions & Lifetime Savings Association (PLSA), having previously chaired the PLSA's policy board since 2018. Before joining Aviva, Emma held the position head of DC at Legal & General Investment Management.

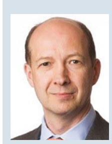


**Martin Freeman, Platform Director, Smart**
Martin's deep knowledge of the pensions industry makes him one of its most respected technology leaders. During his career, he's been responsible for technology managing the pensions of millions of people. Today, as platform director, Martin makes sure Smart's design and engineering teams are producing market-leading, valuable, innovative products. Martin is a regular contributor to the press and speaks at key industry events.

**Jamie Jenkins, Director of Policy and External Affairs, Royal London**
Jamie has worked in financial services for over 30 years, primarily in the area of long-term savings. He has held positions in operations, marketing, proposition development and policy. In 2017, Jamie was appointed by the Department for Work & Pensions to chair the auto-enrolment review on coverage. In 2018, he held a global role, speaking to people around the world about different retirement systems and how countries were facing up to the challenge of an ageing population.



**Kenneth McGaughey, Head of Future Proposition, Standard Life**
Ken has been embedded in the Standard Life's proposition and product management teams for around ten years, having joined the company just prior to demutualisation in 2006. Before moving north to Edinburgh, he spent time with various actuarial consultancies and reinsurers, and began his career with Abbey Life – now also part of the Phoenix Group. He is passionate about the idea of pensions dashboards, and their potential value to customers and the group.

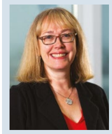


**Paul McGlone, Partner, Aon**
Paul is an actuary and a partner at Aon, where he has worked for over 30 years. His primary role is advising trustees of DB pension schemes, but alongside that he leads Aon's team providing advice on cyber resilience to pension schemes, and is part of Aon's team dealing with the implementation of pensions dashboards. Paul is former president of the Society of Pension Professionals, sits on PLSA's policy board, and chairs the joint industry forum subcommittee on pensions dashboards. Paul is a regular contributor to the press and speaks at key industry events.

Dashboards roundtable

**Helen Morrissey, Senior Pensions and Retirement Analyst, Hargreaves Lansdown**
Helen joined Hargreaves Lansdown in 2021 as a senior pensions and retirement analyst. She works with the media to raise awareness of key retirement issues to help people build financial resilience in retirement. Helen has 18 years' experience in the pensions industry. Prior to joining the firm, Helen worked as a pension specialist at Royal London, where she provided media comment and research on issues such as auto-enrolment, investment, retirement income and state benefit take up. She was also an award-winning pensions journalist.

**Stuart Murphy, Co-Head of DC, LGIM**
Stuart is co-head of DC and leads the management of LGIM's DC business. His responsibilities include client management, client proposition, relationship management strategy and managing the support for the Legal & General Mastertrust and IGC – this includes chairing the Mastertrust Scheme Strategist Forum. Stuart has been with Legal & General for over 20 years fulfilling a number of roles within the bundled DC business. He is a regular contributor to the pensions press and speaks at key industry events.



**Rachel Vahey, Head of Policy Development, AJ Bell**
Rachel is head of policy development at AJ Bell. She helps lead AJ Bell's response to the changing pensions and savings environment, as well as analysing how new legislation and regulation affects providers, financial advisers, and customers. She's well known within the pensions and savings industry, and regularly speaks at public events, alongside writing press articles and other content.

**Andy Whitelaw, Head of Administration Strategy, BTPSM**
Andy joined BTPSM in 2015 having previously worked at Willis Towers Watson as a pensions actuary. At BTPSM, Andy is responsible for the strategy, projects and data functions within member services and is leading the preparations for the dashboards project at BTPS alongside other key strategic projects including GMP equalisation. Andy sat on the data working group for the pensions dashboard project and has been heavily involved in the liaison with both the dashboards programme and DWP on this topic.

# Pensions dashboards: Making strides

**As pensions dashboards come one step closer to reality, our panel of experts reflect on the progress dashboards are making, the first and subsequent steps that need to be made by the industry, and what the opportunities post-dashboard will be**

**Chair: Where are we now with the pensions dashboards?**

**Curry:** On 31 January, the Department for Work & Pensions (DWP) published a consultation around the pensions dashboards regulations and it's important that this is very much seen as a consultation. The Pensions Dashboards Programme (PDP) also published updated standards alongside this consultation.

I'm here today in listening mode. I want to hear what you think of where we've got to. We are aware there are still challenges and, even though we've published a lot of information, there are still areas where we don't have the answers yet. We will be working hard with the industry to find those answers, partly through consultation and partly through testing.

I'm also pleased that we are now in the actual physical build of the

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# Dashboards roundtable

infrastructure and, by the end of May, we should have an end-to-end service that we are testing. We're working with seven alpha participants from pension providers and three potential dashboards providers as well, and learning from them is going to be incredibly important to flush out some of the issues that we're going to face as we go forward.

But we know the whole programme is going to be an iteration; we're going to be learning and developing as we go through. Some of the big questions, things like estimated retirement incomes (ERIs), will need to be flushed out as well as lots of technical issues, such as how and when people connect.

The integrated service provider market is of real interest to us as well because, ideally, we don't want 40,000 different people trying to connect into the dashboards ecosystem all in one go.

**Badger:** Onboarding experience is going to be critical. Being able to give people control over how they connect and what data they want to share in order to take advantage of the dashboards' capabilities will be central to the experience and application programming interface (API) enablement is the way to ensure secure and granular data capture and sharing.

**General sentiment**

**Chair: How do people here today feel about dashboards to date?**

**Murphy:** Overall our view is really positive. It's good that the draft regulations are out and there is some clarity there – it's helped move things forward. Being one of the alpha providers, we are quite well advanced in terms of the build and the work side of things.

One focus for us has been around the 'find' part of it, as we're obviously going to get a lot of find requests coming in. We then need to be able to bring data out of the system and play it back in view mode. The big unknown is how many find requests we're going to get. But overall, we are well advanced.

Also, we have a pension tracing tool that we use already, MyFutureNow, and have seen some fantastic engagement. We soft launched that over the past eight months and have had 10,000 members use it already, so it shows there's an appetite there. What's also interesting is that we have traced quite a few pensions that the members had forgotten about.

One concern we do have is around the reporting requirements and the amount of reporting back that we need to do to multiple bodies. It does seem like a lot.

**Badger:** This is where standards come into play. Being able to report back to multiple participants in the ecosystem in a standard way is a core capability that APIs can assist with.

**Douglas:** We are also an alpha provider and the fact that the dashboards are on their way is great – there's a timetable, there are plans, things are moving, all of which is brilliant.

To date, we've seen lots of organic requests for consolidation. How much easier will that be when you've got everything together on a dashboard? So, overall, I'm massively positive about it.

We do have some concerns. One is how the dashboards are going to display the information – what are people going to see and how comprehensible and useful is that going to be to them? Also, how clear are we going to be about limitations of the early dashboards, what they can and can't do? The ERI is also going to be a big concern – how we explain that in a way that people can understand.

The second concern is behind the scenes – how do we get the data there, how do we get it right, how do we deal with a partial match? We will get some answers through testing, and many of us here today work with defined contribution (DC) schemes mainly, but I do worry about getting some of that defined benefit (DB) information on the dashboards. If it's not electronic in the first place, that's not going to be easy.

Finally, in order for the dashboards to fulfil what we all want them to do, they have got to give you a complete picture of your pension wealth. Once you've got that, there's so much more we can do in terms of helping people understand what income they can expect in retirement.

**Freeman:** We are also very excited about the dashboards. The technology side doesn't scare us as an organisation but, for the industry more generally, the dashboards feel a bit like an asteroid that's hitting the pensions planet and might wipe out a few dinosaurs. Where you've got very old code bases that are hard to respond to, things will be a struggle.

We're asking two simple questions, "do you recognise this person?" and "what have you got for them?" If we can't answer those two simple questions easily, then we're going to have to answer for decades of technology under-investment.

What also concerns me are some of the unintended consequences – we could potentially have thousands of angry people realising they've got a few thousand pounds that they can't get hold of, meanwhile they're struggling to pay their bills. So the knock-on effects for support teams could be significant.

So, we are all currently focusing on data, and that is absolutely right, but some of those downstream issues are also

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going to become equally significant at some point.

**Jenkins:** Around five years ago, I attended similar roundtables to this where fintech companies were saying they could build all of this in 10 minutes. I'm not sceptical about people's ability to do so, but it was clearly a longer-term project that required getting everyone on board; it wasn't just about building the tech. That includes consumers. We're kidding ourselves if we think there are millions of people out there who can't get on with their lives until we've got pensions dashboards. They will be hugely useful, I'm not downplaying that, but I don't think the public has a general awareness of them. So we need to bring consumers on this journey with us when it's the right time to do that, and I'm confident we will.

But to me it's never been about timescale, it's been about doing it right. That is far more important.

This is also a step on a journey technologically. We're not going to stop at the dashboards – we'll move on with the technology, so getting it right is far more important than stumbling into getting it wrong or not bringing stakeholders with us, or not having good data, whatever it may be. That would be a big mistake.

So we're in the right place; we've now got a timescale everybody's working to, and it feels much more formalised now.

**Badger:** Stakeholder analysis is also essential. Some stakeholders will be thinking about how to provide lean integration for dashboards provision including how to make sure cloud infrastructure can be leveraged alongside internal systems. Opening up internal systems with transformative technologies like API management will enable better flexibility for creating the decision-making environment in a consistent way with better trust.

**McGlone:** I come at this from largely a DB perspective and there are some quite different issues to DC. DC schemes have a pot of money, DB schemes have legacy benefits going back for decades, which need to be calculated, sometimes based on information hidden in old files; even getting to the starting line by calculating a basic benefit is harder, before we do anything else with it.

So, although the DB community is supportive of it, there are concerns around things like resources – how do we prioritise this compared with GMP equalisation and all the other things we have to do?

An even bigger concern is what does compliance look like? For example, I cannot give you every member in every scheme. If compliance in a DB world looks like 95 per cent of schemes are online and 95 per cent of people can find their data and 95 per cent of ERIs are available, we can do that. That's achievable.

But if you make it 96, 97 or 98 per cent, each step gets progressively harder; and if success looks like 100 per cent, that's what worries people. We can't do all of it for everybody and a lot of questions will be around how you deal with the exceptions. How you deal with the cases that, for whatever reason, just don't fit? If we can solve that, then we're there.

The other worry is that there are a lot of good conversations being had but behind closed doors – we need to open up those conversations to the wider industry and get everybody else talking about it too.

**Whitelaw:** I similarly come at this from a primarily DB perspective and we're excited about the project and really pleased to see it's making progress and we now have some firm timescales to work to. We are confident we'll be able to meet the requirements based on what we know so far. We've done a lot of work already that will help with the implementation of dashboards, not just because dashboards are coming, but because that work supports our wider objective to improve service to members. We've made significant improvements to our data quality and have also built the functionality to run all our main calculations in bulk. This means that once we have the final definition for 'estimated retirement income', we're confident we'll be able to produce this figure for our members in bulk, however it's defined.

But that is for 95 per cent plus of members – there will be more work to do for the small number of exception cases than there will to do the 95 per cent plus. If we target 100 per cent from the outset, it will create a lot more work for pension schemes and may not be achievable, at least from day one.

**Vahey:** We are also feeling really good about dashboards. It's good to see that they are happening; it's good that the jigsaw pieces are falling into place. It feels like we've been talking about dashboards for such a long time. Jamie *[Jenkins]* referenced five years ago, but I'm going back 20 years when this was an idea. It's been a long time coming.

I agree about the conversation needing to open out – some people even in the pensions space are still not aware that this is actually happening.

On the DWP consultation, while I agree we need to keep the momentum going, I do wonder how we can respond to all those pages in six weeks! What

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also worries me is partial matches and I haven't yet got to the bit in the regulations where I get some clarity on that.

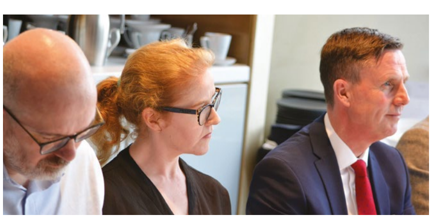
Also this really is a cottage industry – it is a cottage industry of lots of phone calls. It's a cottage industry of cleansing data. It's a cottage industry of answering questions.

**Badger:** You're absolutely right in terms of the challenges and also it's not just the data matching – it's presenting it back to the dashboards in the correct format and standard that is required. If that data is in many different depositories and it's structured in different ways, it's going to be a challenge to present everything back in a clear way.

**Curry:** I am reassured there's lots of positivity here, and the issues that have been raised today are the ones we know about. On partial matching, we're aware of the issue. We have put in the draft regulations a mechanism to allow people to check and say, "we might have something for you, but can we have further information so that we can try to move it from a partial to a full match".

Ultimately, long term, we will be targeting 100 per cent, but that's not in the first iteration. I can't tell you what proportion of partial matches people are going to get and I can't tell you what proportion of 'non-compliance' will be acceptable or not, because that's going to come through the testing that we do with the alpha participants, with the early volunteers.

Even as we go through the onboarding and staging, it's going to evolve. This is an iterative process – we're not deciding now what it's going to look like, or what people will have to do. We need to learn from experience.



It's important, also, that we get something that works and is good, rather than getting something early. That's what the programme is set up to do. So we've been deliberately ambitious in terms of requesting a lot of information – things that we know (because we have tested) that consumers value and the reasons why they will go to pensions dashboards.

We also have to be very careful about how we show people this information and how we help them understand it, which is why the design and display standards that the Money and Pensions Service (Maps) is going to be responsible for will be consulted on over the summer. This will be important in helping to determine exactly how that works.

Ultimately, the most important part of our work is not the technical bit. It's understanding what the customer wants, what the customer is going to use and how they are going to use it. With every single workstream, there's a user testing and a user research strand, which we are continually updating to make sure that every issue that we come across, if we're not sure what the answer is, we test it. Then we find out what people think, how people respond, what people understand.

## Consultation thoughts

**Chair: What are your thoughts on the DWP consultation and the PDP standards?**

**Brassett:** On the whole, our expectations around the content of the regulations and the standards were very well managed by DWP, PDP and The Pensions Regulator (TPR) – there wasn't anything in there that we weren't expecting. So that open engagement with the industry has been hugely beneficial and needs to continue.

There were also points of detail in the consultation that have been very helpful. At Capita, we work with some very large public sector schemes and part of my role is to focus on the end-to-end consumer journey – we feel that the standards and the consultation have given us much more information to help us map out those consumer journeys. It is important we remember that, from a customer perspective, it is not just about the time in the ecosystem; their view is also influenced by their experience of what happens before and afterwards. For example, what services will be provided to customers who have additional questions, if they need clarification, or want to take their benefits? It is all about that end-to-end consumer journey.

The other important outcome from the publications is that it has been a catalyst in terms of engagement with trustees. We have seen a significant increase in awareness and interest in the pensions dashboards. We still don't have all the detail and not everything is finalised, but it's enough to get us going.

**Badger:** This underscores the importance of putting experience first and understanding what's available from a consumer perspective. API Marketplaces can facilitate this by ensuring that data provision can be linked to real outcome for consumers.

**Morrissey:** Just to pick up on that engagement point, one thing that has come across in this whole process is the real engagement from the DWP and TPR along the way and we see that as a real positive – we feel like we've been taken on the journey as opposed to just having to wait for what's coming back at us.

**Freeman:** We also felt the consultation was detailed and clear. There is some technical detail that we need to think about and work out, which we will do so; but separately there is clearly

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Dashboards roundtable

a tension between wanting to protect consumers – which would make you tend to be extremely prescriptive in what you're going to allow the dashboards to do – and then balancing that with innovation and questions around whether you are going to allow people to download their data and then go out into the wider financial environment. That is one of the most interesting bits for me.

**McGaughey:** I don't know how many consultation responses I have written over the course of the past two years, but every single one of those consultations has had in it somewhere that we need more clarity.

The Pensions and Lifetime Savings Association's (PLSA) top issues that were put out just before Christmas – i.e. the key issues the PLSA believes must be resolved to make the initial pensions dashboards successful – included ISP technical connections, GDPR compliance, the liability regime, the liability framework, view data requirements, timelines and regulations – and we've now got a lot of that, or at least a lot more insight even if I don't like all of it and it's challenging! There are bits that I wish we weren't being asked for; but at least we've now got something we can shoot at.

If I can ask DWP and PDP to do one thing now though, I would say please stop. Stop changing the regulations. Get them cast in stone. If we have got something that we can earmark, we can get moving. I recognise a lot of the problems that have been raised today about getting data in the right place at the right time for the right people and so on, but those then become problems to solve rather than dealing with the moving goalposts all the time.

Also, if things are more definitive, I can then package this up, hand it over to the delivery team and get resource allocated to it. I can say to them: "Stop talking about dashboards, and also stop talking about all the other data projects we've got going on in the business. This thing now needs to be delivered."

That then allows people like me to start thinking about the even more interesting stuff – all the exciting things we can do with it when it's actually available.

**Murphy:** I have a question around buyout plans. When it comes to tracing, often the most commonly lost pensions are in relation to buyout plans. Is that coming under phase two?

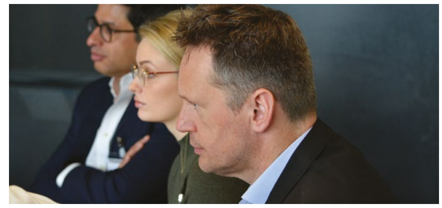
**Curry:** Yes, they're not within the scope of phase one, for a number of reasons.

**Murphy:** What about DC pensions in payments? As pot sizes increase, DC pensions in payment will become more crucial.

**Curry:** Indeed, but expanding the remit now would make dashboards more difficult to deliver. Also, if one of the main reasons for the pensions dashboards initially is to reconnect people with lost pensions, then if they're already drawing the pension, it's not lost.

However, this does then lead to the point about what dashboards are currently expected to be for and what they might eventually become because, as many people have said, this is a big task already as it is. It's really difficult to work out what problems we're then going to cause. By bringing all the information together to allow people to find their pensions, to see the information, to see the values, to have a much clearer idea of where they are on their pensions journey and where they might get to on their journey, we may also open up a whole other can of worms about what they might then do.

In a way, going back to the asteroid point, what we're doing is highlighting



problems that already exist. We're just making it easier for people to do something. They can already do the wrong thing. They already do the wrong thing. There are loads of pension scams out there. Now, one of the downsides of dashboards is that they might make a pension scam more attractive to the scammers and more dangerous and more disadvantageous to the individual.

That's why we are looking very carefully at that interface between dashboards and externally.

We will find the right balance. Perhaps unusually for a user journey we want to make a bit of friction. We want people to have to think and act and do something rather than it happening automatically. What we don't want is people pressing a button on a dashboard which suddenly moves all their money into one place without them realising that's what they've done.

We don't want to stop people doing that if that's the right thing for them, and this comes back to some of the delegated access that we're going to allow for pensions guidance and in particular the Maps and Pension Wise services, and IFAs too. We will be looking at what else might be possible there but it will be, at least initially, very tightly managed.

There won't be calculators on initial dashboards either but we'd expect there to be links to calculators very close to dashboards so people can access them if they want to.

**Jenkins:** It's interesting how we talk about customers in terms of the products they're in – DC, DB or buyout – but

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# Dashboards roundtable

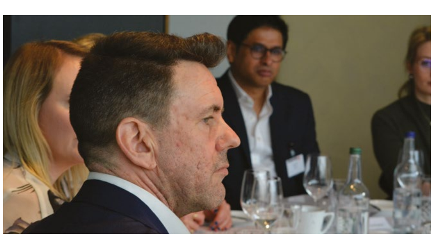
customers don't think of their pensions that way. They won't understand that, for example, because they have a buyout policy, it will come much later in the rollout of the dashboards programme.

Many have no idea they've even got a pension, never mind what type it is. So the marrying of our thinking with customers' lack of understanding is important as we go through this. It plays to my point again that we were right not to have rushed the dashboards, because doing them badly in the early stages would have been a bad start we might never have recovered from.

**Curry:** We have two types of language we use on the programme. When we're talking to providers we have to use terms such as DB and DC – we need to understand the differences between the various pension products out there. We also need to be aware of the different language the state pension uses. We then have to think about how all of these different terms can be shown in a compatible way on the dashboards that people will understand.

Through all of our consumer research, we try not to use any pension terms such as DB or DC because people won't know what we are talking about. Instead, when we think about it from the consumer aspect, we have to think about what is it that they want to know; how they want to see it.

Also, when it gets into some of the display issues/the design standards, some things might be slightly uncomfortable for the industry because we're going to go with what the consumer understands.



**Preparation to date**

**Chair: To what extent has industry started to prepare?**

**Whitelaw:** There are a few strands to this. There's data, technology and member journeys. On the data side, we've actively been preparing and are in great shape as already mentioned.

I'm still not 100 per cent clear on how exactly ERI will need to be calculated for split normal retirement age (NRA) members but, wherever we land, it's a relatively easy tweak for our bulk calculations so we can do it either way.

On the IT side, we are still waiting for more detail from the dashboards programme, for example full details of the API that will be used to connect with the dashboard. However, we have had really positive engagement with our system provider, Procentia, and will use them as our integrated service provider (ISP) which is great for us as will mean we don't have to get any new third parties involved. However, there is only so far we or they can take things until we have more details and are able to do some active testing – but we are looking forward to taking part in the beta testing phase, and would be very keen to understand more about how the alpha testing has gone.

Then on the member journey side, we have started to think about how these will work, but to really progress this we'd like to do some testing with BTPS data.

**Badger:** This is where an API strategy is key. It's not just about the data but the packaging and consumption of that data as capabilities the dashboards can take advantage of. It's about opening up systems in new ways that provide new views on existing data.

**Murphy:** I have talked about the work we're doing around alpha and beta and the technology side of things. The other thing that we're also doing alongside this is considering what the potential impacts might be, the calls we're going to get, how members are going to model with it.

The positive point that came out recently that pushed the government around personalised guidance is also fundamental to the future success of the dashboards.

So in terms of work we're doing, it's not just around dashboards but what sits alongside and supporting them. It was pleasing to hear the point about delegated access – one consideration there does need to be providers. Providers are offering an end-to-end personalised guidance service, and to have the delegated access would be crucial to help support that as well.

What we haven't addressed as yet is how we are going to make consumers come to the dashboards. There is an old saying, 'build it and they will come', but we know that isn't the case here. So we are all going to need to work to ensure that, as well as anything that's done by government or whoever else, we do what we can within our communications to help ensure consumers do come to the dashboards.

**Douglas:** The great thing is that we've been able to start. We've got everything we need. We've got technical, operational and data workstreams. It's all underway.

On the data side, we are sometimes picking up a rock and finding a nest of scorpions underneath! Even in DC there's some older policies, they've got with-profits, they've got guarantees. I accept what everyone says about DB as well, that there are challenges. But, saying all that, now is the time that we're going to be able to work through those challenges. It's great to be able to get started and also then start thinking about what else we are going to be providing alongside some of this information.

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Dashboards roundtable

There was a reference earlier to calculators. That's absolutely essential because projection tools are going to be much more useful for people. So rather than just projecting forward your one pension with your current employer, you can see a holistic view. Projecting forward one pension may give you a miserable outcome, but projecting forward more than one pension and adding the state pension will help your future look more positive. This will also help bring things like PLSA Retirement Living Standards and other industry initiatives to life.

**Brassett:** We also have our alpha workstreams in place but we're taking a look at our broader capability. One thing that would help us at the moment is to understand some of the language that's going to be used on the dashboards so that we can start to look at consistency with other communications that we issue. It is going to be very confusing for our members, for example, if we call DC benefits 'a pot' and the dashboards call it 'a fund' and I am sure there are lots of other examples we could think of.

We don't necessarily need to see the pages at this point, but to understand the language and tone that's going to be used would help because there's a lot of value added to the customer if we can align what we send them with what they see on the dashboards.

The same challenge will apply to DB arrangements. Increasingly larger DB clients, who'll be the first to stage, have websites, so it's not unfamiliar territory to provide online information for DB members. Less so for smaller clients, but then we've got longer to help them get ready for dashboards because they're going to onboard later. Also, quite a number of smaller DB schemes are getting ready for buyout, so it is likely that some of these transactions will be concluded before staging.

We are also looking at the implications of other points of detail that have been raised already such as split NRAs and late retirements. This may be another instance where the industry should be helping itself by working collectively to try and find solutions to some of these issues. A lot can be gained from sharing good practice and helping each other.

**Badger:** An API approach can ensure governance and consistence of pension dashboards' data using consistent language and an abstraction across all pension providers and products.

**Morrissey:** We all have the data challenge issues, getting everything ready from a technological perspective, but the need to communicate everything well is key. The people in this room, we live and breathe this stuff so we know what's going on, but there are still lots of people within this industry who are not quite onboard with the fact that the dashboards are happening, when they are happening, and what their potential responsibilities might be.

So we've got to give a lot of thought as to how we communicate all this properly for trustees and also the wider audience. The possibility of an increased number of pension scams has been mentioned. We know how quickly scammers evolve to meet changing scenarios. I've seen, for instance, several news stories in the general press about dashboards. It's not going to take scammers long to start ringing people and saying, "we can help you with that".

So it's about helping people to know that this is coming but also what they need to look out for in terms of potential scams. These scammers work very quickly.

**McGlone:** I'd make two points. First, on the design standards. I think this will be the first time that a number calculated

by a pension scheme is presented in a way that the pension scheme has absolutely no control over. Every other time we show a number, we control what goes around it. People are nervous about that, so the design standards are critical.

On progress, and to what extent people are starting to prepare, the big DC providers/big DB administrators certainly are. The problem is that, as a DB administrator, there are actions that we cannot take until our client approves the budget. Fortunately, the 20,000-plus life schemes are engaged enough that we can be getting on with it, but many schemes don't want to do anything until the regulations are finalised.

So, the sooner we can pin things down, the better; we need to give some level of certainty so we can get our clients to say "yes, let's go ahead".

**Brassett:** Also, when is the right time to start recruiting and training the people that we need to support us once dashboards are live? We focus very much on the tangible deliverables but we need people to support our members in an industry that's already stretched.

**Curry:** We want to pin the regulations down as soon as possible and, if we can't pin them down soon, then we want to give it as much certainty as possible, so everybody's clear what's going to happen.

Because they're affirmative regulations, they have to go through parliament again, but we're fairly certain that by the time we lay them before parliament, hopefully in the early summer, they will be fixed and won't be

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# Dashboards roundtable

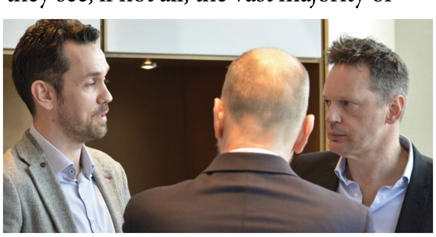
changed.

I also agree it's important that we don't just look at dashboards in isolation. All the PDP is responsible for is delivering pensions dashboards, but there's DWP, TPR, the Financial Conduct Authority (FCA) and Maps – all responsible for helping people understand the numbers, getting the guidance right, improving financial capability/literacy and so on.

All of these things need to happen alongside pensions dashboards. We can't just show people numbers and hope they're going to understand them and work with them.

On communication, one of the early responses to consultation was that there's a lot of fatigue setting in. I don't recognise that at all. I recognise it in the industry. People have been talking about dashboards for a long time. But outside of the pensions industry, no-one really knows about them and, for a while, I'm happy for it to stay that way. Dashboards are not ready for consumers yet, so we don't want them alert to them until we can tell them either here they are or this is when you're going to be able to use them.

We can't tell them when they're going to be able to use them yet because one thing you won't find in any of the regulations is when we're going to make dashboards live to the public – that's because we don't know when the best time will be. That's going to be part of the user testing that we do. We've got a fairly clear steer from the testing and research we've already done that people will only be really happy using dashboards when they see, if not all, the vast majority of



their pensions as part of that.

So, if we are hoping for the vast majority of information being on the dashboards before they go live, that also means we will have a bit more time to make sure that we get the language and the display right too. It's not going to be from April 2023 when we start getting the data in. We don't need it necessarily done by then. We want a very good idea, we don't want it to be changing that much from that point but it can be fine-tuned and we can work with it after that to make sure it works.

Finally, long term, dashboards will continue to evolve. Even if we set standards around how things are displayed, how things are designed, if it can be improved on, we will improve it and there's allowance in the regulations for that to evolve over time. In terms of the display setting etc, we will also consult on them because that's the right thing to do and it will give us the best set of standards possible.

**Chair: What should be the first and subsequent steps?**

**Badger:** So the standards will adapt and they'll have to because people want different things.

The first step is to understand the specifications. If you don't understand them from a technology perspective – and I appreciate not everyone is technical – seek advice. Seek industry advice outside of your domain in terms of what this means and also what it could mean because there's a lot of potential in the dashboards to do things such as create a single source of truth.

You're going to all this effort to present people with the dashboards but that doesn't benefit you necessarily unless you can then trigger some kind of workflow from that.

On GDPR, by having a single source of truth, you can then utilise that for invoking and revoking consent. It creates all kinds of trigger points after that.

The second stage will be to decide what your strategy is then. To use Aviva as an example, Aviva has a very good app, MyAviva, and from a gamification perspective, you want to consume everything in the app and be rewarded for your loyalty to the app. So by having that in a single source, I'm more likely to go to Aviva than the dashboards if I can consume the dashboards in the MyAviva app. So if the strategy is not to present that, you need to think about what your strategy is beyond.

On DB, and the member journey, if I am a HR adviser and I am providing membership schemes for 100,000 employees, they maybe don't want to go to the dashboards. They want to go to the HR portal and see what their entitlement is. So it's a way of enabling that. So the dashboards are a part of that but maybe there's a way to present the dashboards back into different technology stacks that you don't control.

In the longer term also, this is about creating value – not value to you as providers, but value to citizens.

I am also concerned about the smaller providers – they will struggle. So there's potentially a need for industry to look at a way to support the smaller providers.

An API strategy will make it easier for more participants to join and get onboarded to the pension dashboards ecosystem including smaller providers.

**Brassett:** First and subsequent steps – we talk a lot about data but it's an obvious place to start because if dashboards go live and people can't match, then customer confidence will be lost. So as an absolute minimum, we should be starting to look at matching data now.

Another area to focus on is ERI, and that's not just about what we deliver but

In association with

Dashboards roundtable

understanding the best way to provide this information. For example, is it storing a value and calling that or completing calculations on request; and, if we are going to store values, how often should these calculations be refreshed? This needs to be considered against a backdrop of ensuring the necessary controls are in place for the provision of this information.

Then also, in terms of next steps, we need to ask ourselves what we need to do as an organisation, because this isn't just a game changer for the industry – it's a game changer for us as a provider. Do we need to give more digital capability to the smaller schemes, for example? Do we need to set up websites for them?

There are all these sorts of areas or aspects of our services that we need to consider so that, when a member accesses the dashboards, we have got the capability supporting that to make it a positive experience from start to finish.

**Jenkins:** The point about smaller providers and schemes is interesting – how they will participate, whether or not they consolidate. These are all pieces of the agenda for pensions, which are not within the scope of the dashboards to solve but clearly dependencies that we need to think about.

I think of the dashboards project as largely a catalyst that will drive forward many of the things that we all agree are broadly good things to do. But that again plays to this point about doing it in an orderly manner rather than just rushing it through, not dealing with those other issues at the same time and that's an interesting challenge.

There will be small schemes where the only option available to them might be to consolidate or find somebody who can help them – we have got to tackle those issues.

**Curry:** Dashboards are digital and in order for dashboards to work, the industry needs to be digital so we'd expect, over time, record-keeping to be digital and calculations to be automated.

**What are the likely hurdles and how can they be overcome?**

**Douglas:** We have already talked about data. Security is another big issue and that came out of the user testing as well that, for particularly older people, they wanted to know whether the dashboards were going to be secure. Also how they were going to be secure, and how you make people feel confident that they are secure,

There are ways that we can do that. The technology standards exist but it is also something that has to be addressed from a communications point of view.

Resource is an interesting one – we are starting to think about what people are going to do once they can access the dashboards. Are they going to consolidate? Are they going to call more? Are they going to call less? We don't know at the moment but when dashboards appear, there will be more demands coming in. How are we going to service those demands without 100 per cent knowing what those demands are going to be? Inevitably our response will evolve over time.

Then I always come back to the useability of the dashboards, and this is where user testing will be essential. According to the research, it was people with low financial confidence who were most positive (80 per cent were positive) about seeing all their pensions in one place, so we've got to make sure it's easy enough to understand. We don't have a great track record, as an industry, of making things simple, so that will be a massive challenge to make the dashboards useable for the people who will get the most benefit out of using them.

**Freeman:** Picking up on the point about the hurdles and struggles of the smaller providers, I do wonder if this will lead to either a huge move towards consolidation at a time when providers are having to deal with so many other things, or whether you're going to end up with these orphans that no-one will want to touch because their data is so poor.

The balance between accepting a scheme with less than ideal data for commercial reasons and not accepting that scheme is shifting, because if you do take it on, you're going to have this huge long tail of historical bad data.

So, I do wonder if we're going to see a few unwanted schemes wandering around the pensions universe looking for someone to take them on and everyone shutting the door.

**McGaughey:** There's no point shying away from it – there is poor data out there, and we see cases where we are not talking about trivial amounts of money, either, as things can build up over time.

**Murphy:** In terms of hurdles, once we go live, there may be some member hurdles. Getting people to actually come back and re-engage with it.

We also need to do our best to ensure that as much information as possible/ all of their pensions are there for people when they do go on and take that first look.

Finally, how we do help those members that have got small pots? With DC, typically 80 per cent are still cashing-out in full; they aren't taking an income from it. How do we overcome that? So there are hurdles to get us live, then there

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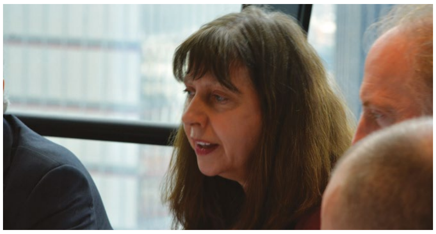

are hurdles around how we keep the general public and members engaged.

**Whitelaw:** One point I would like to make is, as a pension scheme, we are slightly nervous about the multiple dashboards approach. I know the decision's been made, but if we're providing our data in a way that we don't know exactly how it's going to be presented, particularly with the issue of scams and risk of members making decisions that they will go on to regret, it is a worry.

One of the questions that our trustee asks at every meeting is how many people have transferred out? How many of those do you think were a bad decision? What caveats have you got every time you present a transfer value to your members? So there will be a nervousness on providing data when you don't know how it's going to be presented and could potentially be presented alongside misleading information about transfers. We have put an awful lot of educational material for members in all of our written communications and on our online portal (which does display transfer values) around the risks and issues members should consider and do have concerns that other dashboard providers with different (in particular commercial) objectives won't do likewise.

**McGlone:** I agree – and while it should be portable, it is quite scary.

**Curry:** It is and some of these discussions are exactly the ones that happened during the passage of the Pension Schemes Bill and are continuing to happen. That's why there are questions in the consultation about it to work out exactly where that line should fall.

On this point of multiple dashboards, we think there are very few people who will actually go looking for a pensions dashboard. Most people will come across it by accident while they're doing something else and hopefully it will trigger them to take a closer look.

Or they'll remember where it is and come back to it at some point when something else happens. If there's only one dashboard, we'd have a real difficulty driving people to it but, saying that, we are looking at this closely and we'll be very specific in the design and display standards to ensure that, wherever information is displayed, it's displayed in the same way. So, it's always the same numbers for people, irrespective of which dashboard they go to and they'll be displayed in the same way as well. There'll be some flexibility around the edges but, as I mentioned, we're going to be consulting on this over the summer.

One thing we can control is that transfer values won't be on dashboards, because that would be dangerous. The idea of someone seeing a value which is probably larger than anything else they've ever had is frightening, and is one of those behavioural areas where you do what is in the individual's interest.

I also wanted to touch on the security point – a lot of what we're trying to do with security is actually in-built in the design to make sure that it's as secure as possible.

Even the data isn't stored elsewhere, other than where it's currently stored. The only thing that moves is information about whether there is a pension or not and then the dashboard connects individually, specifically to that provider to draw that information in. So we want to limit who can see it and who has access to that information, as much as possible.

We can never make it perfectly safe and lots of the issues are going to arise when people have the information, rather than the ecosystem itself, but that doesn't mean we're complacent about the ecosystem. We're working very hard to make that safe and secure.

**Badger:** On the delegation of authority, I do think there's a missed opportunity in the first phase of the dashboards to open it up to IFAs once you know what you have and therefore the ability to delegate authority to them.

From a hurdle perspective, a real challenge will be getting people to buy into the idea that you can go to dashboards and then do something with the information – and so we need to educate people around this i.e. help them understand what they can do with this information once they have it.

**Chair: What help/support is in the market? What help would providers/pension funds like to see out there?**

**Badger:** I do think there will be some push-back from industry – there'll be exemptions and rules and people challenging specifications and design, which then limits the impact. Also, it's unfortunate that the non-alpha providers are unable to test their data now.

In terms of what can we do to support, we feel as a vendor that we have been locked out of the conversation in terms of what we can offer to support this. Not just from a solutions perspective but from regulatory perspective.

It's not fair to say to us, "you just want to sell software". Well, yes we do, but we also want to make that software fulfil a need. So it's an observation that needs to be considered – open finance is what we're headed towards, so let's open it up to everybody to participate. That might create more conversation and you're not

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Dashboards roundtable

going down a one-way street then.

**Jenkins:** I agree we are moving towards open finance and there will therefore be a requirement for additional support there because, the further we go with this digital agenda, the further we go beyond what a traditional pension provider does. It will become more of a tech project than a pension one.

**Brassett:** We are all going to be trying to solve the same problems and there is the potential to make implementing dashboards easier by sharing good practice. We are never going to get the level of detail that we need in regulations and guidance but maybe if we work collectively as an industry, we can solve challenges such as split NRAs, late retirements and the DC projections.

**Curry:** We try to work very closely with a whole host of different industry organisations and bodies. PLSA, ABI, PASA, SPP. We need that collection point where people can exchange ideas, talk about what's going on, what works and what's not working.

We're hoping, and it's definitely our plan, that we will be sharing very widely the findings from the alpha trials/alpha participants for both the providers and the dashboard providers as well. We want to get that information out so everyone can learn from it because the only way we're going to get through this is by doing it and, every time you do it, you learn something new. If you can help everyone else learn that as well, then that is great. So we want this to be as collaborative as it can be.

**Jenkins:** We touched on scams earlier and the fact that people could be potentially more exposed to scammers once the dashboards are live – I do think this is an area we need to pick up in earnest. Not as part of the dashboards project but in future as we move towards this digital environment. It's not the same as cybersecurity, that's a different thing. There are all sorts of people who can help you with that. Scams are much more about human vulnerability and preying on people's susceptibility to being coerced into doing things.

So at some point we need to look at this carefully and think about how we get into the mindset of what's going on and try and tackle it from a systemic point of view, because what we're doing at the moment isn't working and I do think that becomes more important in an increasingly digital world.

**Vahey:** I agree it's worth shining a light on that to be looked at, almost as a separate problem alongside the dashboards. The dashboards are going to shine a light on lots of issues but the issue of pension scams is a big one.

We are trying to do so much as an industry now to try and solve the problem but more needs to be done.

**Opportunities going forward**

**Chair: What other opportunities do dashboards offer?**

**Freeman:** This comes back to that balance between security and giving people freedom to innovate. I suspect the opportunities wider than the dashboards will be the ones that give better overall experiences to members, that sense of connection; the ones where they also happen to stumble across the dashboard within that environment are going to be the ones that thrive. If things are complicated or it is tricky to get hold of information, they will be the ones that struggle.

**Murphy:** Future opportunities will be around that engagement piece and what we can do for members. It is about building the support, the guidance, everything around it and it will help – if we get it right, and we link up to the right tools and the right support – with addressing the savings gap as well. This is also going to drive increased consolidation, there's no doubt about that.

**Whitelaw:** For us as a closed DB scheme, our main objective is to get the best member outcomes and make sure our members make the right retirement decisions. There are two strands to that. First they need to know they've got a pension with us and dashboards will help with that (albeit we are in regular contact with all but a very small minority of members). Second, they need to understand it, and I'm conscious that the dashboards may present some data that is going to be difficult to interpret. The dashboards are never going to be able to explain the quirks of every DB scheme, so the best outcome for dashboards for our members, in my view, is if they encourage engagement and drive more members to visit our BTPS member portal where they will be able to run retirement calculations at various ages and explore and really understand all their different retirement options.

**Douglas:** I think it is the communication alongside the dashboards that will make them even more powerful. Having people's pension data in one place will be brilliant. But we have to first help people understand what they are seeing and then show them what they can do with it – what happens next – and where they can access guidance and advice, if needed. That is taking the view that the dashboard are the start rather than the end of the journey.

Finally, the industry collaboration point that's been raised is a good one.

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# Dashboards roundtable

Lots of work has been done but we should make sure that all the associations come together to share some of the frequently asked questions and how we can resolve them.

**McGaughey:** Where do we want the pensions world to be in 2035? Do we really think we're going to transform the pensions environment with better benefit statements? Or do we really think we're going to transform the pensions environment with better pre-retirement journeys and better letters? Probably not. They will help but they are not game changers but for now these are the only things on the table.

By 2035, people are going to be sitting with an app thinking about their pensions in an entirely different way. If we don't take dashboards as an opportunity to actually do some proper attitude change on the engagement side, then we might as well just pack up and go home now. We have got to get started on this. We can't change the world overnight but we really do not want the 2035 experience to be the same as the 2022 experience, which in a lot of ways is the same as the 1995 experience.

**Badger:** It's a very interesting point and if you think about the open finance model that we were talking about before, there are apps that can sweep up your change. If you go and spend £3.50 in Starbucks, for example, then 50p goes into a trading app, potentially. So there's the potential to rely on your pension pot to be topped up by your loose change.

So there is an opportunity to look at how you better improve the member journey as well as the member experience. Why do a once-a-year transaction when you can do it daily?

**Vahey:** We're looking at re-positioning how somebody reads this information to make it really useable. That's great if it's in the dashboards but it's got to be everywhere else too.

This is a chance to really change pensions. All we want is to just tell people what they've got, what they can do with it and how they can get a better life. So the changes we make to communicating this on the dashboards need to be reflected back to change regulations for statements. Dashboards and statements need to be as one.

**Jenkins:** Over the next two to three years, it feels like we will be potentially solving a number of industry problems with the digitalisation of pensions and the dashboards will be a catalyst to all that. As part of that, even if we get members to the point where somebody goes online and says "I've got three of my four pensions here and one's missing", that's a sign of engagement. That's a start.

Then if you look forward a few years, there's a whole wealth of opportunities here to really engage people. Whether that's through nudges or more intuitive guidance. The kind of stuff that can be done very easily and very economically online that cannot otherwise be done in the current environment. In the first instance of course we need to get it right, make it credible and get it launched.

**Morrissey:** There are so many opportunities. We have talked about how one pension might not look like a great retirement income, but then you pull in two or three previous workplace pensions and all of a sudden the world is looking a bit brighter; but the ability to also bring in state pension data will have a huge impact on what people's overall retirement income is. It could potentially be transformational in giving a holistic view of total pension income that will really help people plan.

Then my second point is that there's a real opportunity here to point people more towards advice and guidance as well. A lot of people want more support, but they don't know where to get it and the dashboards could be a way of pushing people in the right direction which again helps with better customer outcomes.

**Curry:** I would like to wrap up by talking about two different journeys. Firstly, there is the journey that the dashboards programme is going on. This is the first iteration. Lots of things will follow but this is an important, necessary first step because nothing can come until we get the data right for dashboards, because it's that same data that populates everything else that comes after that.

Also, what's even more important, is the consumer journey and dashboards are not the destination. Dashboards are a starting point. We want people to start at dashboards, not finish at dashboards. So everything that we've been talking about today, about what happens after, is really important.

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# It's good to save

**A recent survey found 'constant rule changing' to be the biggest concern to pension savers, *Pensions Age* asks: What can the industry do to help reassure savers of the benefits of long-term saving?**

We must keep members focused on the present benefits of saving for their future, rather than only teaching them how to manage their pensions. We need to encourage them to take pride in their savings and see their pension as their own money, emphasising the idea of 'savings' rather than 'pension'.

Flexible drawdown means that members can retain the ability to access and spend some, or all, of the money they've saved, long before the average person could afford to retire – despite changes to the minimum retirement age and uncertainty about future allowances and reliefs.

That doesn't mean that they should but it does mean that they could, and that whatever changes subsequently occur – whether tax, regulatory, or change in pension provider – it will still be their money. And, the amount of money members have later in life will be significantly higher due to any tax relief and employer payments that they can benefit from now.

**SEI Institutional Group DC director, David Snowdon**

There are many benefits to long-term saving and the pensions industry must continue to explain these in a way that is simple for people to understand. This year marks the 10th anniversary of automatic enrolment and that is a great story to tell; more than 10.5 million more workers saving an additional £28.5 billion into pension pots annually.

Explaining the huge benefits of long-term saving needs to come mainly via positive engagement from providers and the industry needs to be careful that it doesn't unnecessarily worry consumers with a narrative about constant rule changes. The reality is that changes relating to tax normally only impact a small minority of savers.

There are big, potentially very positive, changes coming, such as the introduction of dashboards, which will enable people to see all their entitlements, including the state pension in one place, and this should only enhance savers' retirement journeys.

**B&CE director of policy Phil Brown**

In our view, it all starts with financial literacy. Data, clear education, and a comprehensive, action-oriented approach can be effective tools to reassure pension savers of the need to stay invested for the long-haul. Here, employers can play a big role in helping employees understand the benefits of long-term saving, by using targeted communications aimed at driving retirement readiness while reinforcing the importance of starting to set money aside for a pension pot early on in their careers.

Pension managers can also partner closely with pension providers to design and deliver strategies that meet the expectations of pension savers and support their decision making. This can be achieved by helping to deliver the right amount of information at the right time of savers' pension journeys, while focusing that information to what is strictly necessary to provide a clear, easy path for them to follow.

**BlackRock head of global consultant relations UK, Claire Felgate**

# Pensions history

## The actuary in merchant banking

Speaking to the Institute of Actuaries Student Society on 31 March 1964, George Ross Goobey explained that with its traditional background of life assurance it was not unnatural that the investment training of actuaries concentrated on the principles of long-term investment. The short-term money market was relegated to a more remote part of the course of reading. Merchant banking, with its accent on short-term lending and investment, was another field that was beginning to claim the attention of actuaries. It was interesting to reflect what part actuaries could play in such a sphere.

He went on to outline the chief avenues of activity of a typical London merchant bank. These included the traditional banking field of accepting deposits from customers and lending these funds to other clients such as discount companies, hire purchase finance companies and local authorities, as well as to commercial and industrial enterprises, to an increasing extent. Merchant banks were often pioneers in dealing with new problems, such as the provision of medium-term finance for very large capital projects in overseas countries.

Acceptance credits, foreign exchange, investment management, new issues and share registration were some of the other services offered by merchant banks that he also covered.

He felt that not only would the actuarial profession be strengthened by an extension of its activities into merchant banking, but also this fact could be of great use to the insurance world in which actuaries receive their basic training. Merchant banks generated and channelled a tremendous range of entrepreneurial ideas, many of which involved projects larger than they could prudently finance from their own immediate capital resources. Life assurance companies tended to be searching for profitable ways to invest their available funds.

The full text of the talk can be found in the George Ross Goobey collection at: www.pensionsarchive.org.uk/our-collections

**The Pensions Archive Trust chairman, Alan Herbert**

## Fun and games

### Wordsearch

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

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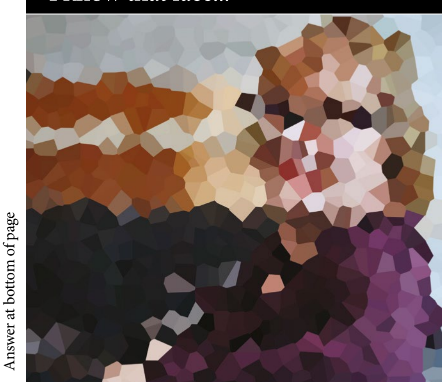


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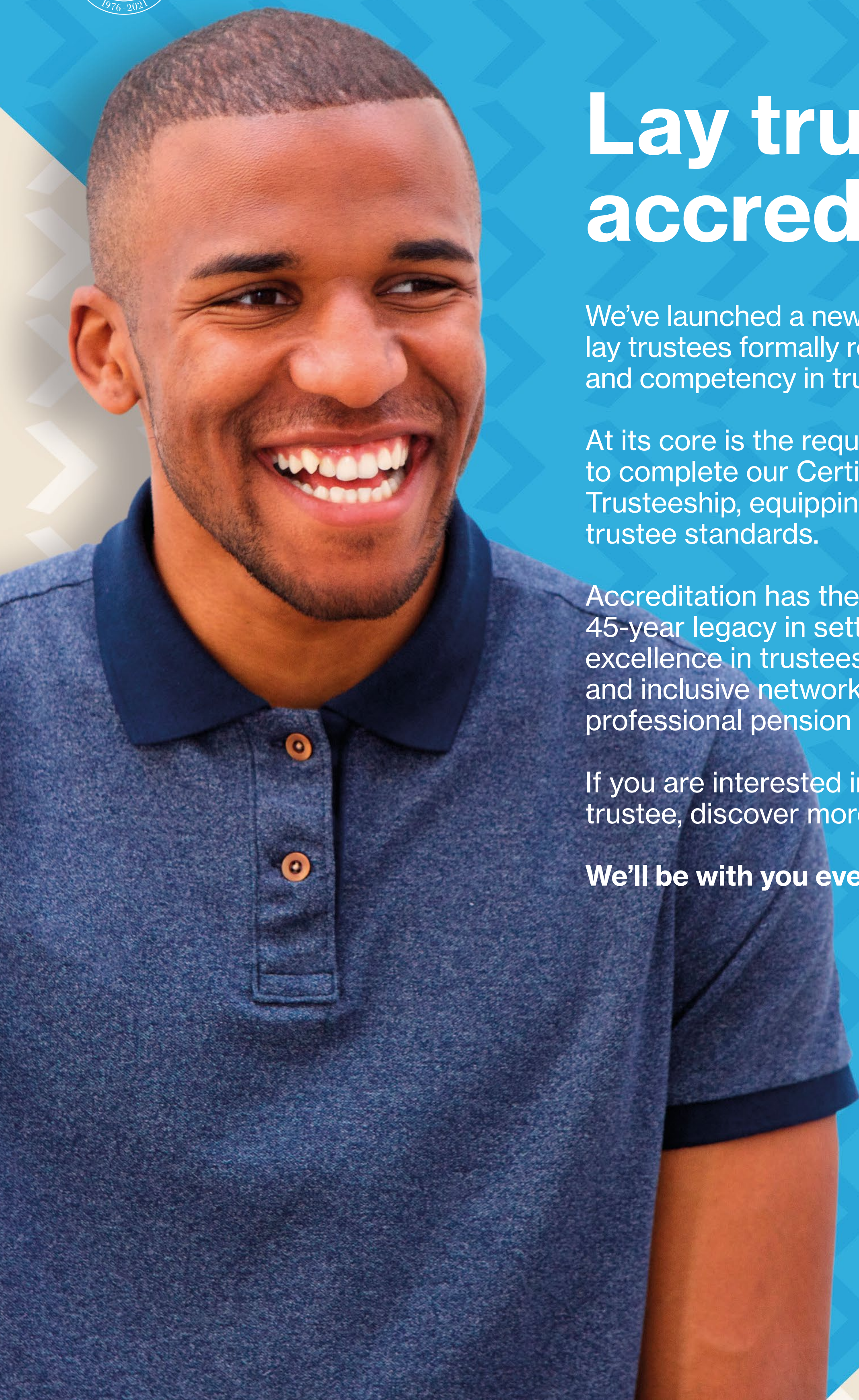

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