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Why commercial pensions dashboards are getting cross-party political support

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March 2024

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Editorial Comment

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I can't help but feel this government has a timing problem.

Not just with the short amount of time it has until the next General Election to turn around a lag in the polls. Nor with the inordinate amount of time it took Chancellor Jeremy Hunt to announce his Spring Budget this month, amidst the loud heckling and panto-booing from both sides of the chamber.

No, to me, the timing of the government's tinkering with the pensions industry keeps being a little 'off'.

For instance, while the Budget used to be the showcase for big announcements, with pensions no exception, this year was once again a disappointment. Thanks to the now apparently acceptable standard of leaking key announcements prior to the big day, the pensions industry knew what was to come. Which was mere confirmation and tinkering of proposals made over the past year through the Edinburgh and Mansion House reforms.

"The government clearly does not feel that time has run out yet to make significant reforms"

In the Budget, the Chancellor confirmed that he would "continue to explore" a pot for life model, along with continuing the push for greater pension fund investment in the UK *[read more on page 10]*.

He also reiterated the shocking news he unveiled to the sector in the week before the Budget (which I'm sure we all appreciated, being announced on a Friday afternoon, the day after another enjoyable but demanding PLSA conference in Edinburgh – great timing!).

This was the plans for DC schemes to be required to publicly disclose their level of investment in UK businesses by 2027, along with 'underperforming' schemes no longer allowed to take on new business.

The timing of this announcement must have been annoying for those running the PLSA conference, not least because the DWP launched a consultation on plans to make DB surplus extraction easier, alongside the formation of a public sector consolidator operated by the Pension Protection Fund, just prior to the event's commencement.

Surely some of these juicy announcements shoehorned before and after the conference could have been saved for Pensions Minister Paul Maynard's speech at the event?

But worse than the poor timing of what was said, is what has not been said at all. We are still waiting for important changes to be announced.

Maynard stated in his conference speech that the government intends to consult on expanding auto-enrolment (AE) "at the right time that we judge most viable".

As the government had already pledged reforms to AE, but was yet to set out a timetable for introducing the changes, many in the industry, myself included, hoped that the Budget may have been considered the 'right time' to kickstart these pledges. Once again, we were disappointed.

We know this government is at risk of being on borrowed time. So, it's unsurprising that it's perhaps reluctant to announce measures to take money out of people's pockets. It may not feel, in an election year, it has the time to effectively explain that the end result is the person having more money at retirement.

However, it has had almost seven years to lower the minimum age and remove the lower salary threshold as recommended in the *2017 Auto-Enrolment Review,* along with ample time to at least propose a timeline for the desperately needed increase in contribution levels.

And with its recent drive for greater pension fund investment in the UK, the government clearly does not feel that time has run out yet to make significant reforms.

However, there seems to be a mismatch of timing.

Instead of – or as well as – starting a new goal, for which it may not be in power to see through, the government could have used these months to complete desperately needed reforms to ongoing projects, such as AE.

If it hurries, there is still time to do so. After all, Maynard teased in his conference speech that the government is looking to both launch, and respond to, a number of key industry consultations this year.

We wait in hope. Tick-tock.

Laura Blows, Editor

Join the Ministry of Justice at the Judicial Pensions Administration Contract Retender Industry Day on 29 April 2024.

The Ministry of Justice invites all Third-Party Pension Administration Service providers to participate in our supplier engagement event as we prepare to launch our tender for a new Judicial Pensions Administration Contract in the summer of 2024.

This is your opportunity to learn more about the Judicial Pension Scheme (JPS), our unique requirements, and to discover the opportunities being brought to the market.

As a key government department, the Ministry of Justice is dedicated to upholding justice and supporting the essential work of the Judiciary. Every day, judges make critical decisions that impact lives, and it is crucial to attract and retain top legal talent in this field. The Government has recently reformed JPS through the introduction of a single scheme for all judges. JPS 2022 is considered a long-term solution that will attract and retain high-calibre judges, guaranteeing the proper functioning of the justice system and the UK's wider prosperity. JPS additionally consists of several legacy schemes, providing benefits to most judges in the United Kingdom.

The JPS Pension Administrator plays a vital role in ensuring judges receive a quality service and efficient scheme administration. We have created an enhanced specification of requirements that align with the needs of our membership, and this has been designed to be appealing to the market.

During our Industry Day, you will have the chance to engage with various teams within our organisation, including Technical, Contract Management, Data, and Remediation project teams, to get to know us and to our way of working.

Learn about our membership structure, unique scheme considerations, data specifics, ongoing projects and required innovations. Take this opportunity to have your questions answered and participate in one-on-one meetings to delve deeper into our requirements and address any queries you may have.

Mark your calendars as we prepare to launch our tender for a new Judicial Pensions Administration Contract in summer 2024. Join us for this event to discover the unique opportunities it presents.

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Location: The Ministry of Justice, 10 South Colonnade, Canary Wharf, London, E14 5EA

For further event details and registration, visit our website https://www.find-tender.service.gov.uk/Notice/007019-2024.

We look forward to welcoming you to this informative and collaborative event.

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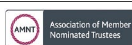

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PENSIONS*Age*

Publisher
John Woods
Tel: 020 7562 2421

Editor-in-Chief
Francesca Fabrizi
francesca.fabrizi@pensionsage.com

Editor
Laura Blows
laura.blows@pensionsage.com

Associate Editor
Natalie Tuck
natalie.tuck@pensionsage.com

Deputy Editor
Jack Gray
jack.gray@pensionsage.com

News Editor
Sophie Smith
sophie.smith@pensionsage.com

Reporter
Paige Perrin
paige.perrin@pensionsage.com

Design & Production
Jason Tucker
jason.tucker@perspectivepublishing.com

Accounts
Alina Susca
alina.susca@@perspectivepublishing.com

Commercial
John Woods
john.woods@perspectivepublishing.com

Camilla Capece
camilla.capece@perspectivepublishing.com

Lucie Fisher
lucie.fisher@perspectivepublishing.com

Tom Pickford
tom.pickford@perspectivepublishing.com

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Managing Director
John Woods

Publishing Director
Mark Evans

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Dateline - February 2024

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

2 February The **Department for Work and Pensions** (DWP) shared new pensions dashboards guidance, setting out the issues pension scheme trustees or managers should consider if they are applying for a deferral of the connection deadline.

2 February The Pensions Regulator (TPR) stressed the need for pension schemes' cyber security and business continuity plans to cover a range of scenarios to ensure the safe and swift resumption of operations if an incident should occur.

2 February TPR provided an update on the work undertaken following the liability-driven investment (LDI) crisis in autumn 2022, which suggested that recent improvements in DB funding levels would have occurred even without the LDI episode.

5 February Economic Secretary to the **Treasury**, Bim Afolami, stressed the need to mitigate any potential risk of regulatory arbitrage in the permanent regime for DB pension superfunds.

5 February The UK's ageing population means that the state pension age would need to rise from the current 66 to 70 or 71 to maintain the status quo, the **International Longevity Centre** suggested.

6 February The **DWP** announced that all automatic enrolment (AE) thresholds will be maintained at their 2023/24 levels in 2024/25, reiterating its intent to still consult on plans to remove the lower earnings limit "at the earliest opportunity" *[read more on page 18]*. This was alongside new research, which showed that lowering the earnings threshold for pension AE from £10,000 would likely encourage AE participation due to 'passive pension behaviour'.

7 February Concerns over the gender pension gap were renewed, after research from **Now Pensions** and the **Pensions Policy Institute** found that women will need to work for an additional 19 years to close the gender pension gap, facing a £136,000 shortfall at retirement age.

7 February Industry experts called for "urgent reform" in the workplace pension savings system, after the **Pensions and Lifetime Savings Association** (PLSA) revealed significant increases across its Retirement Living Standards *[read more on page 34]*.

7 February The **DWP** launched a Small Pots Delivery Group to help design its new approach to tackling deferred small pension pots, which is expected to benefit the average saver by £700 at retirement.

9 February The **Financial Reporting Council** published a revised version of the Actuarial Standard Technical Memorandum 1 (AS TM1), which is set to come into force from 6 April 2024.

14 February HMRC shared further guidance on key issues surrounding the removal of the lifetime allowance (LTA), although industry experts warned that there are still unanswered questions and further clarity is needed.

16 February Data from the **Association of British Insurers** suggested that last year was a "milestone year" for annuities, as total sales increased by 46 per cent to £5.2bn.

19 February The **Ministry of Justice** launched a consultation on the draft Judicial Pensions (Amendment) Regulations 2024, which are designed to help facilitate the efficient functioning of the Judicial Pension Scheme.

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

20 February Data from **TPR** revealed that the DB and hybrid pension scheme landscape has continued to shrink at a consistent rate over the past year, with the number of schemes falling by 2 per cent since 2022.

21 February The **Work and Pensions Committee** (WPC) was told that changes are needed in the way fiduciary duty is being interpreted to ensure trustees can consider climate change issues, as it held a one-off session on its 2021 pension stewardship inquiry.

22 February TPR urged pension trustees to "take stock" and think about further developing their approach to managing wider environmental, social and governance (ESG) risks and opportunities.

22 February TPR announced that it is making organisational changes as part of its 'strategic shift' in the way it oversees the occupational pensions market *[read more on page 14]*.

22 February The **government** confirmed that it will push ahead with its planned changes to the NHS Pension Scheme regulations, with effect from 1 April 2024. This includes plans to implement the second phase of member contribution rate changes and apply an automatic CPI indexation of relevant contribution tier thresholds on 1 April annually.

22 February The **Finance Bill 2023/24,** which includes legislation to complete the abolition of the LTA, received Royal Assent, although further regulatory updates are expected to address industry concerns.

23 February The **DWP** launched a consultation on new plans designed to help make DB surplus extraction easier, and gather views on plans for a public sector consolidator operated by the Pension Protection Fund.

28 February TPR confirmed that its DB Funding Code will be published this summer, stressing that there will be time for trustees to prepare ahead of the new regime coming into force *[read more on page 12]*.

28 February New CEO of the Money and Pensions Service, Oliver Morley, acknowledged that **Pension Wise**, the government's free financial guidance service, is "capacity constrained", but confirmed that he is looking to free up resources for the initiative.

28 February Industry organisations called for "brave and bold" moves, as the joint **HM Treasury/Financial Conduct Authority** discussion paper on plans to narrow the advice gap came to a close.

29 February Pensions Minister, Paul Maynard, told the PLSA Investment Conference that 2024 will be "even busier" for both politicians and the pensions industry, confirming that the government is looking to both launch, and respond, to a number of key consultations this year. However, the minister clarified that while there is an "awful lot going on", a key message to the industry is "don't panic, work with us and never be afraid to tell us when you think we're right and when you think we're wrong".

News focus

Productive finance push continues as Chancellor delivers 2024 Spring Budget

Chancellor, Jeremy Hunt, has provided further updates on a number of pension reforms as part of his Spring Budget, including the next steps for the Mansion House reforms

Chancellor, Jeremy Hunt, has provided further updates on a number of pension reforms and initiatives as part of his 2024 Spring Budget, including the next steps for the Mansion House reforms and the push to productive finance.

During his Budget, the Chancellor stressed the need to ensure that UK pension schemes are investing in the UK economy, confirming that the government "will build on the Edinburgh and Mansion House reforms to unlock more pension fund capital".

He stated: "We'll give new powers to The Pensions Regulator (TPR) and the Financial Conduct Authority (FCA) to ensure better value from DC schemes by judging performance on overall returns, not cost.

"We'll make sure there are vehicles to make it easier for pension funds to invest in UK growth opportunities, so I'm also publishing the names of the winners of the Long-term Investment for Technology and Science competition.

"But I remain concerned that other markets, such as Australia, generate better returns for pension savers with more effective investment strategies and more investment in high-quality domestic growth stocks.

"I will introduce new requirements for DC and local government pension funds to disclose publicly their level of international and UK equity investments and then consider what further action should be taken if we are not on a positive trajectory towards international best practice."

Indeed, just four days before the Budget, the government announced that it is looking to require DC schemes to disclose their level of investment in the UK and to prevent underperforming schemes from taking on new business.

Under the plans, schemes will need to disclose how much they invest in the UK compared to businesses overseas, as well as their costs and net investment returns.

The Budget papers confirmed that equivalent requirements will also be introduced for Local Government Pension Scheme (LGPS) funds in England & Wales as "early as April 2024".

In line with this, the government is set to introduce revised annual reporting guidance to require LGPS funds to provide a summary of asset allocation, including UK equity investment, as well as provide greater clarity on progress of pooling, through a standardised data return, taking effect from April 2024.

Schemes will also be required to publicly compare their performance, costs and other metrics against at least two schemes managing £10bn or more in assets, although this level is expected to increase "significantly" over time.

This will be supported by the upcoming value for money (VFM) pensions framework that the Department for Work and Pensions (DWP) is working on with TPR and the FCA, which will highlight where schemes

are focusing on short-term cost savings at the expense of long-term investment outcomes, and where scale could be limiting value to savers.

"Where schemes are persistently offering poor outcomes for savers, the FCA and TPR will have the full range of regulatory powers available, and the government expects them to use the powers; these include closing a scheme to new employer entrants and, where necessary, winding up a scheme," the Budget papers stated.

However, industry experts have warned that while well-intentioned, these plans could risk having unintended consequences or being limited in their effect, and could result in a "very risk averse" attitude in the pensions industry.

Relaxing DB surplus rules

Work to encourage greater investment in the UK economy has also continued in the DB space, as the DWP launched a consultation on plans designed to help make DB surplus extraction easier, alongside plans for a public sector consolidator operated by the Pension Protection Fund (PPF), just two weeks before the budget.

The consultation seeks views on how money held in DB schemes can be best unlocked in the interest of savers and for investment in the wider economy.

As part of these efforts, the government said it remains committed to introducing measures to make surplus extraction easier for trustees, with a range of potential safeguards being considered to ensure these additional flexibilities for trustees do not threaten member security.

Despite improved funding levels and plans for a permanent DB superfund regime, the DWP said that opportunities could remain restricted for DB schemes less attractive to commercial providers.

"The government has confirmed that it remains committed to exploring a lifetime provider model for DC pension schemes"

As a result, it confirmed it will look to establish a public sector consolidator by 2026 aimed at schemes unattractive to commercial endgame providers.

The PPF has already shared its initial views on how a public sector consolidator could be structured in response to the consultation, acknowledging that delivering all of the government's objectives is "not straightforward".

In particular, the PPF suggested that the government may need to accept a greater impact on the commercial market than its objectives currently allow for, arguing that the more steps taken to achieve the scale needed to run a substantive allocation to UK productive finance assets, the greater the potential impact on the market.

However, the PPF argued that, given the scale of the DB market, there could be space for this while still allowing for a healthy commercial market.

A shift for pot for life

The Chancellor's Budget also confirmed that the government will continue to "explore" plans for a lifetime provider pension model, despite industry concerns surrounding the proposals.

"At the earliest opportunity, subject to supportive market conditions and value for money, we'll continue to explore how savers could be allowed to take their pension pots with them when they change job," Hunt stated.

The Budget papers reiterated this: "The government has confirmed that it remains committed to exploring a lifetime provider model for DC pension schemes in the long-term. The government will undertake continued analysis and engagement to ensure that this would improve outcomes for pension savers, and build on the foundations of reforms already underway, including the VFM."

Under the initial proposals, savers would be given the option to ask a new employer to pay pension contributions into their existing pot, with similar approaches already taken by countries such as Australia.

However, industry experts noted, the Chancellor's "careful wording" in the Budget statement, suggesting that the policy could be evolving to become more in line with a 'pot follows member' model.

Written by Sophie Smith

The Chancellor also:

- Confirmed plans to regulate environmental, social and governance ratings providers;
- Reiterated the government's commitment to the state pension triple lock;
- Announced plans to legislate in the Spring Finance Bill 2024 to ensure that the commissioners of HMRC can accommodate the detailed provisions necessary for the treatment of funds transferred from a collective DC scheme in the process of winding up;
- Said the government will work with the Local Government Pension Scheme to consider the role it could play in unlocking investment in new children's homes.

TPR consults on DB statement of strategy proposals

The Pensions Regulator is consulting on its plans to help pension scheme trustees meet new requirements for submitting a statement of strategy, with the full DB Funding Code expected to follow 'this summer'

The Pensions Regulator (TPR) has launched a consultation on proposals to help trustees of DB pension schemes meet new requirements for submitting a statement of strategy.

TPR previously announced plans to consult on the statement of strategy at the PLSA Investment Conference, confirming that the final DB Funding Code is set to follow "this summer", before the new DB funding regulations come into force from 22 September.

The new DB regulations, which were published in January, introduce new requirements for trustees of DB schemes to set a long-term funding and investment strategy for their scheme.

As part of this, DB trustees will also be required to complete a statement of strategy alongside their actuarial valuation, which sets out this long-term funding strategy and their approach to managing associated risks.

The new statement of strategy is made up of two parts; part 1, which records the funding and investment strategy, and part 2, which records various supplementary matters.

TPR said that this should be a useful tool to help trustees in their long-term planning and risk management, and to facilitate engagement between trustees, employers and TPR.

In response to recent industry feedback, however, TPR created statement of strategy templates to minimise the administrative burden.

This includes separate templates to reflect that schemes will have to provide slightly different information depending on whether they have reached the 'relevant date', or whether they are taking a fast track or bespoke approach.

TPR also confirmed that it will request less information from smaller schemes, acknowledging that the potential burden, and costs of compliance, will often be significantly larger for smaller schemes when considered as a percentage of scheme liabilities or assets.

TPR interim director of regulatory policy, analysis and advice, Lou Davey, said: "Receiving statements of strategy will give us additional data to better understand journeys that schemes are on as they mature, improving our regulatory oversight. Our proposals are designed to make it as easy as possible for trustees to comply with new legislation, and ultimately to show how they are acting in the best interest of savers. We want a broad range of views to ensure our proposals are understood and accepted by trustees and advisers.

"In particular we want to know if people think we are being clear on what data we're asking trustees to provide, whether this data is readily available, or what challenges there could be in sourcing it."

TPR's fast track parameters, as well as an updated impact assessment, are also set to be published at the same time as the final DB Code.

"And then later on in the summer we will consult on the covenant governance that will support that, so there is a whole suite of things coming up over the year, all intended to be in force ready for that 22 September date when the regulations become effective," Davey said.

Industry experts have welcomed the latest consultation, with Barnett Waddingham principal and senior consulting actuary, Mark Tinsley, highlighting it as a "key piece of the new funding code puzzle".

The changes made for smaller schemes have been particularly praised, although some concerns about the level of compliance burden remain.

Society of Pension Professionals (SPP) president, Steve Hitchiner, for instance, said that while the easements for smaller schemes are welcome, the SPP remained concerned that many schemes will need to provide lots of new information compared to current valuations, including in relation to covenant, which "could prove burdensome for some".

These concerns were shared by Isio partner, Mike Smedley, who said that the proposed statement of strategy appears to include "significant duplication" with existing rules.

"It's ironic that with most schemes in great financial shape, the regulatory burden continues to rise – distracting trustees from their job of doing the right thing for members," he stated.

Written by Sophie Smith and Jack Gray

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TPR makes organisational changes amid 'strategic shift'

The Pensions Regulator announced that it is making organisational changes as part of a 'strategic shift' in how it oversees the occupational pensions market

The Pensions Regulator (TPR) has announced that it is making organisational changes as part of a 'strategic shift' in how it oversees the occupational pensions market.

TPR said the evolving pensions landscape towards fewer, larger schemes presented different risks and opportunities for savers and the economy, and it was looking to take steps to provide good outcomes for pension holders while "strengthening its regulatory grip" amid a new regulatory environment.

The strategic shift means that TPR will engage differently with the market and involves the creation of three new regulatory functions: Regulatory compliance; market oversight; and strategy, policy and analysis, from April.

The regulatory compliance function will aim to protect pension holders' interests through the effective and efficient delivery of regulatory compliance services, which will target schemes and employers.

Market oversight will involve strategic engagement with schemes and those who influence saver outcomes to help enhance the workplace pensions market, with a "strong focus" on delivering value for money and trusteeship.

Finally, its strategic, policy and analysis regulatory function will seek to use insights from TPR's regulatory approach and other sources to evolve the regulatory framework and support market innovation that is in savers' best interests.

These functions, which will result in TPR recruiting for three new executive director roles, will be "supported and enabled" by essential functions: Operations; digital; data and technology; and people.

Furthermore, from April, most functions in TPR's frontline regulation directorate will move to the new regulatory compliance directorate, alongside the regulator's auto-enrolment team.

TPR's supervision team and its communications function will move to the new market oversight directorate.

"We are moving from a fragmented pensions landscape of thousands of small schemes to an environment of fewer, larger schemes," commented TPR chair, Sarah Smart. "That means we need to change our regulatory approach to protect savers in the future. The market should expect us to engage with it differently from now on. Our new structure means we will be swifter to address compliance failures and market-wide risks while being more dynamic in our industry engagement and bringing innovation to the fore."

Whilst TPR has opted for all change, however, the Department for Work and Pensions (DWP) has confirmed that it will not look to restructure the general levy for UK pension schemes, instead opting to retain the current general levy structure and increase rates by 6.5 per cent for all schemes.

In its consultation response, the DWP announced that it would proceed with 'option two', after the majority of respondents chose as the preferred way forward. It should also bring the cumulative deficit back into a 'compliant level' by 2031.

Option one would have continued with the current levy rates and structure, while option three, which was initially the DWP's preferred option, would increase rates by 4 per cent a year with a premium added to DC schemes with memberships under 10,000.

Only four respondents preferred option one and just three chose option three, with 278 respondents preferring option two.

The DWP noted that many of those choosing option two commented that option one would not have been viable as it would negatively impact the general levy deficit, while concerns about the affordability of option three for smaller schemes were raised.

These issues were previously raised by industry figures after the consultation was initially published.

Written by Jack Gray

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Labour to undertake pensions and retirement savings review if elected

The pensions industry expressed its relief and appreciation, after Labour's *Plan for Financial Services* revealed that aspects of proposed pension policy will likely be retained if the Labour Party wins the next General Election

Labour has announced that it would undertake an in-government pensions and retirement savings review if the party is elected at the next General Election.

In its *Plan for Financial Services* paper, Labour said that it would review the current state of the pensions and retirement savings landscape to assess whether the current framework would deliver sustainable retirement incomes.

This would involve working with the industry to ensure that pension savers are getting the best possible returns, and to identify and address the barriers to schemes investing more into UK productive assets, including "cultural and regulation-induced risk aversion".

According to the paper, the review would look at all types of pensions and retirement savings plans, corporate sponsors, asset managers, and venture capital and private equity, and outline proposals that would aim to bring about an approach that would benefit both UK plc and retirees.

Labour would also seek to enable greater consolidation across all pension schemes, which it said would enable schemes to have the access, expertise, and risk profile to increase investment in long-term illiquid assets.

For DC pensions, Labour said it would give The Pensions Regulator (TPR) new powers to bring about consolidation where schemes fail to offer sufficient value to members, and ask TPR to provide guidance around fund and strategy suitability, and its expectation of a default cohort investment approach.

Meanwhile, for the Local Government Pension Scheme, a Labour government would evaluate different models for pooling, including increasing in-house fund management capacity at the pool level, seeking to deliver better returns for members and increase investment in productive assets.

"The de-equitisation of the UK capital markets has been partly driven by a decline in institutional investment in UK equities over the past two decades," the paper noted, continuing: "In 2000, UK pension funds and insurers held 39 per cent of shares listed on the London Stock Exchange; in 2020 they held just 4 per cent. These changes have multiple causes, including accounting standards, regulation, tax treatment, and an emphasis on cost rather than value.

"The closure of DB schemes to new members has shifted their risk profile to focus on guaranteed long-term cashflow rather than growth investments. But the result is that investment in UK companies has suffered, and UK pension savers are missing out on higher long-term returns from growth assets.

"Labour is undertaking further work to assess additional policy required to increase investment by institutional and individual investors in UK capital markets, and welcomes the opportunity to continue to engage with industry in shaping policy ideas."

Providing an update on the proposals in February, Labour also said that it would work with the Financial Conduct Authority (FCA) to "identify outdated and prescriptive rules" that have been made redundant, if elected.

Speaking at the Association of British Insurers (ABI) Annual Conference in London, Shadow Economic Secretary to the Treasury, Tulip Siddiq MP, said this would give firms more freedom to innovate and to grow.

"Labour will set up a new regulatory innovation office to improve accountability and promote innovation in regulation across sectors. The office will promote transparency on regulatory performance. This will include measuring financial services regulators' performance against a secondary objective on growth and competitiveness," she said.

"We will work with industry to ensure that savers are getting the best possible returns and address the barriers to preventing investments in more UK productive assets, including a culturally induced aversion to risk."

Written by Jack Gray and Natalie Tuck

Taskforce on Social Factors publishes final guidance

Social considerations took centre stage amid the launch of a new guide from the Taskforce on Social Factors, new industry case studies, and comments from The Pensions Regulator

The Department for Work and Pensions' (DWP) Taskforce on Social Factors launched a guide to help pension trustees better understand and assess social factors in their investment decisions and stewardship.

Recognising that schemes will have different circumstances, resource levels and time horizons, the guide aims to provide a starting point for trustees to better understand and assess social factors, with the help of their advisers and in-house teams, providing trustees with the tools to identify and monitor social risks and opportunities.

The guide sets out the importance of embedding social factors within schemes' investment decisions and stewardship policies in four areas: Social factors and pension funds, addressing social factors, materiality assessment frameworks, and social factor data.

In addition to the guide itself, the taskforce shared a set of nearly 40 recommendations for the pensions industry, government, and regulators.

As part of this, the group urged pension trustees to ensure their asset managers consider social factors and integrate them into their investment strategy and stewardship, providing example request for proposal (RFP) questions and mandate terms.

It said that managers should be able to demonstrate that they have influenced social outcomes through transparent reporting on engagement, voting and investment outcomes, including any social investment metrics.

It also encouraged the DWP to consider formally setting out expectations on addressing social factors, and encouraged the Financial Conduct Authority to consider setting out reporting expectations, alongside those required for environmental factors.

Commenting on the guide, Pensions Minister, Paul Maynard, stated: "The UK is already a world-leader in tackling climate risk, so it is right that we take a similar proactive approach towards the social factors of environmental, social, and corporate governance investing and embedding these within pension schemes' investment decisions and stewardship policies."

The Pensions and Lifetime Savings Association (PLSA) also published a series of case studies to highlight best practice investment approaches that not only maximise returns but also make a positive impact on social factors, in order to offer tangible examples and guidance for its members.

"In an ideal world, 'E,' 'S,' and 'G' factors would be considered holistically. However, recent years have seen most of the focus on environmental issues," PLSA head of DB, LGPS and investment, Tiffany Tsang, stated. "The public's growing interest in diversity, inclusion, modern slavery, and human rights has continued to heighten scrutiny on pension schemes' investment practices."

In addition to this, TPR recently urged pension scheme trustees to "take stock" and think about further developing their approach to managing wider environmental, social and governance (ESG) risks and opportunities.

In a blog post, TPR climate and sustainability lead, Mark Hill, noted that ESG disclosure reporting requirements have expanded, suggesting that this is a trend that looks set to continue as practices around wider sustainability factors, such as social issues, develop.

Whether trustees are able to consider broader considerations as part of their fiduciary duty, including social, nature and climate factors, has also received renewed attention over the past month, particularly following the Financial Markets Law Committee's (FMLC) recent report on pension scheme trustees' evolving fiduciary duties.

The Work and Pensions Committee also held a recent session to discuss this issue, during which it heard mixed views as to whether legislative changes are needed, although panellists agreed that there are concerns around the way fiduciary duty is currently being interpreted by trustees.

Written by Sophie Smith

AE thresholds remain steady

The government announced that all automatic enrolment thresholds will be maintained at their 2023/24 levels in 2024/25, amid growing industry frustration over slow progress on plans to remove the lower earnings limit

The Department for Work and Pensions (DWP) has confirmed that all automatic enrolment (AE) thresholds will be maintained at their 2023/24 levels in 2024/25, reiterating its intent to still consult on plans to remove the lower earnings limit "at the earliest opportunity".

The earnings trigger is one of the three key factors that ultimately govern who is enrolled into a workplace pension scheme through automatic enrolment.

In setting the trigger, the DWP stressed the need to balance affordability for employers and individuals, and the policy objective of giving those most able to save the opportunity to accrue a meaningful level of pension savings.

In light of these considerations, the DWP confirmed that the £10,000 earnings threshold "remains the correct level" and will be maintained for 2024/25.

In addition to this, the DWP confirmed that the qualifying earnings band lower earnings limit (LEL) will remain at the 2023/24 level of £6,240, while the upper earnings limit will remain at £50,270.

This decision is expected to ensure that pension savings will be broadly maintained, and slightly increased, compared to 2023/2024.

Under the proposed thresholds, private sector participation is expected to stand at 15.8 million in total and total annual contributions at £76bn.

Further changes are on the horizon, however, as the DWP took the update as an opportunity to underline its commitment to plans to remove the LEL, as recommended by the 2017 AE review.

The Private Member's Bill seeking two extensions to AE, including abolishing the LEL and reducing the age for being automatically enrolled, received Royal Assent last year, with industry experts hopeful that a consultation could be seen before the end of 2023.

But while the government previously committed to consulting on the implementation of the new measures "as soon as humanly possible", the consultation has yet to be launched.

However, the DWP's update said the "government remains committed to this, subject to discussions with employers and other stakeholders on the right implementation approach and finding ways to make these changes affordable".

"We will pay close attention to the impact and costs in order to develop an optimal approach on implementation which balances the needs of savers, employers, and taxpayers," the DWP stated. "This will include giving employers and savers the time to plan for future changes to help minimise any risk of deterring individuals from continuing to save or undermining employer engagement."

And when asked about this issue in a recent interview with *Pensions Age*, the Pensions Minister, Paul Maynard, said that this is "utterly still a priority".

Speaking at the PLSA Investment Conference, however, Maynard suggested that the pensions industry could be doing more to encourage savers to contribute higher amounts, stating: "You as an industry can encourage people to contribute more where they can afford to do so, because I think that does help."

When asked by *Pensions Age* whether minimum contributions increases is something that the government expects the industry to lead on, Maynard clarified that "it's a team effort", emphasising however, that it "doesn't just have to depend on the government upping the minimum contributions".

"The UK pension system will always have to be joined up, the government can't do everything and the industry can do lots and indeed wants to do lots without the government getting involved necessarily," he stated.

However, there is evidence of the growing industry frustration surrounding the lack of progress on AE reforms.

A number of industry organisations expressed their "disappointment" and "frustration" after plans to consult on AE reform were missing from the Chancellor's Spring Budget, while some newer initiatives, such as a lifetime provider model, were included.

Written by Sophie Smith

West Midlands Pension Fund addresses member delays

The West Midlands Pension Fund confirmed that it is engaging with The Pensions Regulator, after members raised concerns over the "significant delays" faced since the fund transitioned to a new administration system

The West Midlands Pension Fund (WMPF) has confirmed that it is engaging with The Pensions Regulator (TPR) following reports that its members were experiencing "significant delays" as a result of the fund's transition to a new administration system.

The WMPF previously confirmed that it had seen a drop in service delivery performance following the transition to a new administration system in July last year, with members transitioning to retirement impacted by delays and reduced customer servicing times.

However, the fund said in February that it had been working with its software supplier to increase resource and further develop the system efficiencies and processing times, with a three-fold increase in the processing of retirement benefits seen as a result.

Despite this, the Work and Pensions Committee (WPC) has now reached out to the regulator to ask when TPR first became aware of the problems WMPF was experiencing with its new pensions administration system, and who made them aware. It also asked for an outline of the problems TPR has seen and the extent of detriment to scheme members, TPR's response to date, and whether the regulator is expecting the fund to provide compensation to those affected.

Commenting in response, WMPF executive director of pensions, Rachel Brothwood, confirmed that the fund was "openly and proactively engaged" with TPR following the change in its pensions administration system last year, noting the subsequent impact on the delivery of services.

"Through an active programme of stakeholder engagement, we are committed to keeping both our customers and wider stakeholders up to date with progress and the recovery of service standards," she continued.

"Member information and support continues to be published and accessible via our website and through emails to our members and employers."

Written by Sophie Smith

NEWS IN BRIEF

The People's Pension moved £15bn of its assets under management into climate-aware investment strategies, in what it says was the largest single move of its kind by a UK master trust.

Australia's biggest pension fund, **AustralianSuper**, announced plans to invest a further £8bn in the UK, bringing its total investment in the UK to over £18bn by the end of the decade.

PensionBee announced plans to expand its operations into the US DC pensions market after it entered an exclusive, non-binding term sheet with a US-based global financial institution.

Smart Pension partnered with Islamic digital investment platform **Wahed** to launch the Halal Workplace Pension.

Three DB pension schemes decided to consolidate into **TPT Retirement Solution's** DB Complete Master Trust.

Global pension assets rose by 11 per cent on aggregate to $55.7bn in 2023, according to the **Thinking Ahead Institute's** *Global Pension Assets Study*.

PwC launched a new digital data tool, designed to give trustees the ability to evaluate how their fiduciary managers and outsourced chief investment officers are performing.

Backing for the **UK Stewardship Code** continued to grow, with a total of 273 organisations now signed up, including 188 asset managers, 66 asset owners and 19 service providers.

The **Pension Protection Fund** selected Aviva to provide a DC solution for its hybrid members.

Capita Pension Solutions launched a full-service solution for DB pension schemes, designed specifically to support smaller schemes.

Appointments, moves and mandates

Scottish Widows has appointed three new members to the Master Trust Strategist Committee, Graeme Bold, Sharon Bellingham and Emma Watkins.
Bold is workplace savings director at the firm and became the committee chair on 1 February 2024, replacing Jackie Leiper, who was a founding member of the committee in 2018. Bold is also a fellow of the Institute of Actuaries and a member of Scottish Widows' Independent Governance Committee. Bellingham brings 30 years of DC pension experience and is the company's master trust and IGC lead. She is also a PLSA master trust committee member and chairs the ABI master trust working group. Watkins joins with 25 years experience in the industry and is Scottish Widows managing director of retirement and longstanding. She also sits on the boards for PASA and the Centre for Health and the Public Interest.

Kevin Jones

Pension for Purpose has appointed Kevin Jones as non-executive director.
Jones is director of risk and general counsel at Brunel Pension Partnership, where he is responsible for the legal aspects of transitioning over £30bn of client assets into the firm's management. In addition to his 30 years of experience working as a corporate lawyer, he brings his knowledge in risk management, legal frameworks, and impact investments. Before joining Brunel, Kevin was a partner with Browne Jacobson. "Kevin's appointment represents a significant addition to our board, introducing fresh perspectives and robust legal expertise," Pension for Purpose chief executive, Charlotte O'Leary, said.

Matt Riley

Zedra has promoted Matt Riley and Matt Race-Pridding to senior client manager.
Riley joined the company in 2008 and has 25 years' experience in pensions and investments. He previously held roles at Mercer, Equiniti Hazell Carr and Prudential. Race-Pridding joined the company in 2015 and has 17 years of experience in pensions and investments. Prior to joining Zedra, he held positions at Mercer and Capita Hartshead. Both appointments took effect at the beginning of 2024. Zedra Governance managing director, Kim Nash, said: "I congratulate both for achieving this significant milestone in their careers."

Girish Menezes

Isio has appointed three new partners, Claire Whittaker, Girish Menezes and James Keclik.
Whittaker and Keclik are part of Isio's actuarial and consulting team, while Menezes has over 25 years of expertise in business strategy, proposition development, sales, and operational delivery. Isio chief executive, Andrew Coles, said: "Since becoming independent in 2020, we have appointed 23 new partners, demonstrating our commitment to investment for our growth and creating progression and opportunities for our people. Claire, Girish and James all have excellent track records of helping Isio clients."

Electricity North West has appointed WTW's UK DC master trust, LifeSight, as the provider for its 2,750 UK DC pension scheme members.
The appointment saw £140m of assets under management transferred to LifeSight. Following a comprehensive competitive tender, LifeSight went live for all active members in October 2023, with all assets and remaining members transitioning into LifeSight's funds by the end of 2023. As part of a member onboarding programme in summer 2023, the LifeSight team delivered multiple roadshows and visited the company's main sites. The company also arranged for the dedicated LifeSight app to be automatically downloaded from app stores onto every eligible employee's company mobile phone.

Electricity North West group pensions manager, Colin Ross, said: "As part of the move from our occupational DC pension scheme to the LifeSight master trust, we embarked on a thorough consultation process, engaging with our employees, existing trustees, trade unions and recognised employee forums to make sure members' needs were fully reflected in any changes. Another important consideration that impressed us when choosing LifeSight was the excellent value and innovation offered by their investments and their ability to drive down investment costs using scale, passing those savings directly back to members." LifeSight UK head, Jelena Croad, added: "Electricity North West has put engagement and value at the forefront of its move to a DC master trust. The roadshow programme was a great part of the onboarding process. We look forward to continuing to work closely with Electricity North West and its members to provide them with confidence and security in their retirement savings."

Hilary Salt

First Actuarial founding partner, Hilary Salt, has announced her retirement.
Salt was named actuary of the year in 2012 and is a well-known personality in the UK pension industry. Her career began in 1981 at Refuge Assurance in Manchester, where she started her training as an actuary. Following two years at Willis Towers Watson, she spent a decade setting up and running her own pensions training and advice consultancy. In 2002, she was appointed partner at Hazell Carr and, in 2004, she became one of the nine founders of First Actuarial. Salt has played an instrumental role in several national initiatives, notably with The Pensions Regulator's funding industry working group, and the introduction of two new NHS pension schemes. Salt stated that her only regret is that she would have liked to see the Royal Mail CDC scheme up and running before her retirement as she believes CDC is her "most important legacy". "First Actuarial's Derek Benstead and I teamed up with the Communication Workers Union, and Royal Mail and its advisers to devise a fundamentally new type of pension for the UK," she explained.

Commenting on her retirement, Salt said: "I do feel that the time is right for me. The team here has developed to a level where they can carry on without me. That gives me the freedom to tackle a very different challenge. Throughout my pensions career, I've worked hard to improve the lives of ordinary working people. I intend to continue to do that in the wider world by playing an active role in the forthcoming General Election."

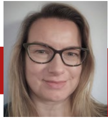
Mike Ambery

Standard Life has appointed Mike Ambery as retirement savings director.
Ambery joins from Hymans Robertson, where he was a partner and DC consultant. Prior to this, he spent four years as a consultant in the tax and pensions team at KPMG and worked at the Co-operative Insurance Society. He brings 20 years of industry experience ranging from pension scheme designs and benefits management to pension dashboard preparedness. He is a fellow of the Pensions Management Institute. "I'm pleased to be part of such a dynamic business, and to be able to help shape its voice and policy as it supports consumers achieve their best possible retirement outcomes," Ambery stated.

TPT Retirement Solutions has named Adam Tudor as head of DC distribution.
Tudor will play a pivotal role in the launch of TPT Retirement Solutions' new DC proposition. In his previous role, which he held for five years, he was head of business development at Smart Pension. Prior to that, he was a business development manager at Now Pensions and HSBC. Reporting to TPT Retirement Solutions commercial director, Nicholas Clapp, he will be responsible for the development of TPT Retirement Solutions' DC sales strategy. Commenting on the appointment, Clapp said: "We are pleased to welcome Adam to our DC distribution team. His experience across workplace pensions and with a range of stakeholders, including IFAs, will be key in widening TPT's reach and in attracting new DC schemes to our business."

The Pensions Administration Standards Association (PASA) has promoted Lucy Collett to operations director.
Collett had been board executive at the association for eight years. Prior to this, her industry roles included DC oversight manager and administration manager. PASA chair, Kim Gubler, explained: "PASA has grown in size and influence since its inception in 2011. Lucy's new role is key as we continue to grow as an organisation. There are many moving pieces and it's imperative PASA's voice and message is consistent, clear, and strong both internally and externally. Through her management and coordination of our multidisciplinary committees and working groups, we will be able to better deliver on our central objective of improving people's retirement outcomes through raising administration standards across the pensions industry."

Canada Life has announced the appointment of Shreyas Sridhar as business development director of bulk purchase annuities.
He joins from Legal and General, where he was head of reinsurance and international development as part of their pension risk transfer business. "This is an exciting time to join a global company with an enviable heritage and a clearly stated ambition to drive significant growth in the bulk annuities space, while being given the opportunity to make my mark very quickly in a new role," Sridhar stated. Adding to this, Canada Life managing director, Tim Coulson, said: "Shreyas brings a wealth of experience to this newly created role at Canada Life, and is a great addition to the team. Shreyas will help us deliver on our ambition to become a market-leading provider of pension de-risking solutions."



VIEW FROM TPR: Education and action needed to beat scams

I've led TPR's enforcement proceedings for five years, but I'm still struck by the devastation pension scams cause. That's why I was pleased when we forced two jailed fraudsters we prosecuted to hand over almost all of their remaining assets.

This will put money back into the schemes and bring the claims on the Fraud Compensation Fund nearer to completion. Seeking justice for savers and taking schemes out of the hands of scammers remains a top priority for us.

We lead the Pension Scams Action Group (PSAG), a multi-agency taskforce bringing together government, industry and law enforcement. It is at the forefront of efforts to stop scammers.

Now PSAG has dedicated resources in place, we are enhancing the group's intelligence-sharing capability and working more closely with a wider law enforcement network to tackle and disrupt scams effectively and decisively.

We are one of the stakeholders working with the Home Office on its campaign, Stop! Think Fraud. It sees experts unite under one voice to provide consistent, clear and robust anti-fraud advice.

Education is incredibly important, and we want industry to be inspired to do more to protect savers. This includes reporting suspected scams to Action Fraud and helping savers spot the signs.

Trustees who have not yet done so should join the 600 schemes signed up to our Pledge to Combat Pension Scams.

TPR head of enforcement, Maria Evgenidou-Wright

View from the PLSA: DB Funding Code amendments

The DWP has introduced amendments to the DB Funding Code, signalling a shift towards enhanced flexibility, particularly for open DB schemes.

The revisions support appropriate risk-taking, aligning it with the strength of the employer covenant, and widen the scope for scheme-specific flexibility. A collaborative effort with TPR ensures the integration of draft code flexibilities into the final regulations, offering much-needed clarity for trustees and sponsors.

The code provides mature schemes with greater flexibility, enabling them to diversify investments across a broad spectrum without constraints. Addressing industry concerns, the DWP ensures that open DB schemes are not compelled to unnecessarily de-risk investments. Importantly, the clarified stance on sustainable growth aligns with considerations for sponsoring employers, laying foundations for future investments.

The deliberate delay in the implementation timeline allows the industry more preparation time, with compliance potentially not required until 2027 for some schemes. Looking ahead, TPR's reconsideration of fast track parameters and the expected final revised DB Funding Code in parliament during the summer, set to take effect in the autumn, signify steps towards a more adaptable and efficient regulatory framework. These developments underscore a commitment to fostering flexibility, efficiency, and sustainability in the ever-evolving landscape of DB schemes.

PLSA head of DB, LGPS and investment, Tiffany Tsang

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: How can we help Joe Public?

As pensions professionals, we spend lots of time sending information to members providing details of a financial product that they know often very little about. We expect them to understand this information, and make important, sometimes life-changing, decisions based on it.

However, we are horrified when we see examples of mis-selling, pension scams, or complaints that people have made decisions where they weren't aware of the consequences and have suffered financially as a result.

If we educate people from an early age about financial products, including how pensions work, we may equip people better to make decisions and avoid the cruel exploitation of unscrupulous criminals.

I understand that the school curriculum is already full, and teachers don't really have the time to take on new subjects, but financial education could be life-changing in helping people make decisions in adult life.

We at the PMI are delighted that the Parliamentary Education Committee has asked for input on this topic, and we have provided feedback. I hope this could be the start of something positive.

The idea of introducing mandatory financial education into schools is crucial. It doesn't have to be an exam-based study, which won't be appropriate for some children.

As financial markets and products become more complicated, but also more easily available online, we have a duty to educate everyone on how to make decisions in their best interest.

PMI president, Robert Wakefield

An assessment of historic pension scheme amendments: Newell Trustees v Newell Rubbermaid

Matthew Swynnerton and Megan Sumpster explore the recent Newell ruling regarding pension scheme amendments

The recent Newell ruling primarily concerns the validity of the conversion of member benefits from defined benefit (DB) to defined contribution (DC); it also involves a claim of age discrimination. The decision is highly relevant for both trustees and employers considering amending benefits and covers the construction of interim deeds, the operation of *Re-Courage* type amendment power restrictions, and age discrimination.

Background

In 1992, the members of the Newell Rubbermaid UK Pension Scheme (plan), which only provided DB benefits at the time, were divided into three groups by reference to their age:

(1) those aged under 40 (**under 40s**);
(2) those aged between 40 and 44 (**40-44s**); and
(3) those aged 45 and over (**over 45s**).

The under 40s were automatically transferred to a new DC section of the plan with their accrued DB benefits converted into a cash amount credited to their DC accounts. The 40-44s had the option of staying in the DB section or transferring over to the DC section. The over 45s remained in the DB section. The amendments were made by the combination of a 1992 Deed and booklets, pending a definitive amending deed in 1993.

The court considered two key questions:

(1) whether the transfer and conversion of the under 40s' and 40-44s' benefits to a DC section was valid in terms of the (i) proper execution of the necessary documents and (ii) as a matter of law (**transfer and conversion issues**); and

(2) whether the under 40s suffered and are suffering unlawful age discrimination as a result of their automatic transfer out of the DB section into the DC section (**age discrimination issues**).

Transfer and conversion issues

The court ruled that the 1992 Deed was effective to set up the new DC section, despite an argument from the representative beneficiary that there was insufficient proof that it was properly executed. The judge noted the age of the evidence in question and stressed that it did not need to be perfect for the amendment to be deemed valid.

In deciding whether the 1992 Deed was valid as a matter of law, the court first considered the plan's amendment power, which provided that no alteration could be made *"such as would prejudice or impair the benefits accrued in respect of membership up to that time"* (the **proviso**). The Court drew upon the well-established principle in *Re Courage* and stated, *"it is now well established at first instance that provisos that protect accrued benefits prevent the breaking of the final pensionable salary link"*. Therefore, it was held that the proviso did not permit the final pensionable salary link to be broken for members transferring to the DC section.

The court further decided that a DB underpin should be imposed and that affected members should be entitled to have their DB accrued benefits properly valued at the time of the conversion to account for the final pensionable salary link. It was also held that the underpin should be calculated retrospectively to ensure any shortfall is included in the transfer sum and accumulated with the investment returns it would have earned had it been invested in the DC section's default strategy, along with interest.

Age discrimination issues

Age discrimination only became unlawful in 2006 under the *Employment Equality (Age) Regulations* and, as such, there was no relevant age discrimination legislation in force at the time of the 1992 transfer. The Court therefore ruled that there could not have been any age discrimination, noting that the claim was *"fatally flawed at the first stage"*. There was also said to be nothing in the current plan rules that contravened the non-discrimination rule and, therefore, the trustee would not be in breach of the non-discrimination rule by administering the plan in accordance with its existing rules.

Conclusions

This case represents a clear victory for the employer. Interestingly, the court observed that the employer's motivation when making the transfer, which was in part to improve the plan's balance sheet, was irrelevant when deciding whether the amendments were carried out *"lawfully, fairly and properly"*.

Written by DLA Piper partner, Matthew Swynnerton and knowledge lawyer, Megan Sumpster

In association with

View from the AMNT: Pension extraction – the new wild west

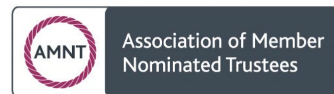
The government has promoted and enabled the extraction of oil and gas from new sites, both on and off shore, despite their commitment to net-zero emissions. The argument in favour is that this is a pragmatic stance, allowing natural transition to a green economy while protecting energy supplies from overseas disruption. Opponents have dubbed it the 'new wild west of energy extraction'.

In pensions, the 'extraction' of surpluses from DB schemes has also been promoted by the government, with acts like the Treasury cutting the charge on returning pension surpluses to employers to 25 per cent. Other so called 'flexibilities' are in the pipeline following the Autumn 2023 statement.

Like the serendipitous discoveries of oil and gas, the government views surpluses as fortuitous windfalls available for economic usage as outlined in the Mansion House speech. However, what is missing from these pronouncements is the voice of the people directly affected; the pension fund members.

Scheme rules define the trustees' and employers' powers in such circumstances but prioritising needs is usually at their discretion. Despite the blandishments of government, trustees should, and I am sure will, ensure that surpluses are used to enhance members benefits, including righting previous inequalities; such as clawback. To misquote a famous speech: "Pension funds of the members, by the members, should be used for the best interests of the members."

AMNT member, Stephen Fallowell



VIEW FROM THE ABI: The increase in annuity purchases

Following a turbulent economic period with high inflation and increasing interest rates, it's unsurprising that people have turned to purchasing an annuity to safeguard their retirement income at a higher rate than in the recent past.

Our data shows a record year for the retirement product, with almost 72,200 annuities bought at combined value of £5.2 billion – the highest value since 2014.

2023 also saw 64 per cent of people buying an annuity from the open market. This has been driven by higher rates and renewed interest from financial advisers, with sales by IFAs more than doubling from 7,982 in 2022 to 18,719 in 2023.

However, while our data shows that annuities have continued to gain popularity, the number of customers who bought an annuity without regulated financial advice was high at 71 per cent.

The FCA's *Financial Lives 2022* survey revealed that customers are struggling to make crucial financial decisions, but we know that many can't afford to pay for advice, and others won't for a variety of reasons. That is why we are supportive of the government and FCA's continued work to close the advice gap as part of their Advice/Guidance Boundary Review. If regulatory changes enable the industry to introduce new advice and guidance propositions, we will hopefully see more consumers seeking the help they need with pension decisions at retirement.

ABI head of long-term savings, Rob Yuille

VIEW FROM THE PPI: It's time to focus on retirement income equality for all!

The PPI recently released our latest underpensioned series report (sponsored by Now Pensions) which discussed definitions of the gender pensions gap.

The report reveals that women in their late 50s have less than two thirds the pension savings of men.

It's great that we are talking about the gender pensions gap, and that the government and industry are working on ways of facilitating women to have better chances of achieving retirement income parity. However, we need to recognise that income inequality in retirement reflects not just gender, but ethnicity, disability and economic class. For example, in 2018, Black, Asian and Minority Ethnic people had 71 per cent of the retirement income of the population average, with some ethnic groups receiving far less.

Unless we work to understand and tackle retirement inequality for people with all different characteristics, we are likely to see people from particular groups, continuing to experience lower than average retirement living standards. Recent PPI work showed that there is currently insufficient data on the financial lives of people from ethnic minority backgrounds to make evidenced based policy targeting inequalities. A strategic and joined-up approach to tackling the gender pensions gap must also focus on gaps for other groups, and on producing sufficient data and evidence to understand and tackle these gaps, if all future pensioners are to be given sufficient opportunities to achieve decent retirement living standards.

PPI head of policy research, Daniela Silcock

Equipping your trustee board to deal with changing circumstances

To look after member benefits, pension trustee boards need to stay on top of changing circumstances and be ready to address unexpected challenges. Vidett's Chris Halewood identifies some changes faced by two hypothetical trustee boards and suggests how to deal with them

1. A trustee becomes incapacitated
Boards rely on their trustees to function properly. If a trustee becomes incapacitated unexpectedly, difficulties can arise. This is especially true for schemes with small boards. Imagine, a board with one employer appointed trustee (EAT) and one member nominated trustee (MNT), an approach that is not uncommon for small scheme trustee boards. This is fine if both trustees can perform their role.

However, scheme rules often contain wording like: "A body corporate may act as sole trustee but otherwise the minimum number of trustees is two."

Here, a change in circumstance could create issues. If either trustee becomes incapacitated in any way, such as through illness or injury, the board becomes unable to act under the scheme's rules. This would be problematic if there's time-sensitive business the trustees need to complete, like a triennial valuation or if investment or discretionary death benefit decisions need to be made.

Even if a scheme's rules allow a trustee board to act when one trustee is incapacitated, the remaining trustee(s) may not have the skills to do so due to an over-reliance on the incapacitated trustee. Known as key-person risk, this can happen when an individual trustee handles most of the related business and doesn't pass their expertise onto the wider board. To avoid situations where trustee boards feel unable to act, they need to have contingency plans for when circumstances change.

So, returning to our example, how can our trustee board move forward?

Most rules allow for the appointment of a professional corporate trustee (PCT). Here, a good PCT would bring crucial knowledge and experience, enabling the trustee board and its work to continue. A PCT brings the added benefit that, should the individual(s) representing that firm be incapacitated, the company as an entity can seamlessly replace them.

With MNTs becoming more difficult to find (especially for small schemes) and EATs often trying to juggle the increased demands of trusteeship alongside senior management responsibilities within their 'day-job' that can raise conflicting priorities, appointing a PCT could provide some much-needed consistency and continuity should the worst happen.

2. Changing trustee board size clashes with scheme rules
An incapacitated trustee can cause issues with a scheme's rules. But so can changes to a trustee board's structure. For example, our second trustee board is downsizing from three EATs and two MNTs to two EATs and one MNT. However, the scheme's rules mandate trustee board meetings must be attended by: "A minimum of two trustees, at least one of whom shall be a trustee appointed under the MNT arrangements."

With this change and only one MNT now on the trustee board, a problem arises. If the MNT is unavailable for any reason, trustee meetings can't take place and actions can't be taken.

In this scenario, our trustee board may want to amend the scheme rules to better suit the new trustee board and stop this issue from arising. If the original intention of having an MNT present was to help reassure members their interests were properly represented at trustee meetings, the appointment of a PCT may be an appropriate solution given their independence from the sponsoring employer. This would allow the 'MNT present' requirement to be amended to 'MNT or PCT present'.

Whilst these two scenarios are hypothetical, they contain lessons for all trustee boards. It's important to remember circumstances can change unexpectedly and for trustees to consider if their board is well-equipped to deal with changes. If they aren't, decisions can be taken that turn out to be ineffective, causing complication and cost later on.

Written by Vidett client director, Chris Halewood

In association with Vidett trustee.governance.experts

VIEW FROM *Pensions Age*: Starting my pension journey

When I dreamt of being a writer whilst growing up, I never envisioned myself as a pension journalist. I'm less than a month into my pensions journey and have already attended an awards night, virtually attended a conference, and helped cover the Budget. This whirlwind of a first month was not what I expected when I imagined this industry.

Many decades away from worrying about my retirement and having only just turned 22, I never gave pensions a thought, preferring to live in the here and now. However, after almost a month of learning about pensions, I have seen how important it is to start seriously considering saving for the future. Each new subject I tackle in an article leads me further and further down the rabbit hole of pensions and trying to comprehend how to apply all this new knowledge to my own life.

I have always been a fan of learning and tried to absorb as much information as I can about everything. I believe this thirst for knowledge has allowed me to deep dive into the industry and immerse myself in all things pensions (even if I am still scribbling copious notes when I come across a term I don't understand).

This month has been a totally new experience as I have never worked in financial journalism before. Learning to comprehend topics like inflation, pensions dashboards and investments has been a real learning curve and although, initially daunting, has been thoroughly rewarding.

I am excited to see where my journey at *Pensions Age* is going to go and what I will learn along the way.

Written by Paige Perrin

VIEW FROM PASA: New beginnings

December is the month for giving and receiving gifts before over-indulging in a sea of rich food, alcohol and chocolates. January is for new beginnings where resolutions are made and at least some are stuck to!

The more abstemious of you may have successfully completed (apparently the driest) dry January – well done if you did! Being an eternal optimist, I hope some of you have made longer-terms goals. I might be pushing my luck a little. But perhaps the pensions industry had been using that month of reflection, change and health-kicks to engage with trustees, pension scheme managers and sponsors on the key issue of data – our old friend and the lifeblood of pension schemes and the master enabler of project work.

With resolutions set, thoughts at this time of year often turn towards budgeting for scheme years, which often begin in April. Let's all be brave this year and chuck a line or two into your budget for a undertaking data review, compiling a data management plan or a working through a data cleansing exercise.

There should just about be room alongside any lingering GMP project costs (up to and including allowance for equalising historic transfer values!), any work required to amend administration practice in relation to removal of the LTA and ensuring the ability to deal with find request and produce value data for the long-awaited dashboards programme.

PASA board director, Chris Tagg

VIEW FROM THE ACA: DB surpluses and the public sector consolidator

We will be consulting members' views widely on the DWP's important consultation on DB surplus extraction and a public sector consolidator.

On surplus extraction, we believe the right questions are being asked, for example around possible overrides to scheme rules where they are currently a barrier to efficient outcomes. However, under any approach, we will want to see that there is the flexibility available to sponsors and trustees to make decisions that best suit their scheme specific situations and protect savers. A key consideration must be that members' benefits remain suitably protected whilst clarifying for all schemes the pathways that are available to allow for surplus extraction where this is appropriate.

On a future public sector consolidator, there is a key need to ensure that the outcome does not risk undermining already well-functioning commercial market solutions that might offer better outcomes. The proposal in offering opportunities to a wide range of schemes appears far broader than initially expected and will require particularly close examination. For example, there is a need to ensure measures do not introduce, to members' detriment, a 'get-out clause' to avoid implementing the appropriate long-term strategies and journey plans that are now expected in well-run schemes that are well able to achieve buyout over a reasonable timeframe.

Proposals that result in simplifying benefits, whilst well intentioned, would also necessarily create winners and losers among scheme members and these trade-offs will need to be scrutinised.

ACA chair, Steven Taylor

A week in the life of: Aptia UK and European president, Malcolm Reynolds

Following the recent formation of Aptia, evolving out of Mercer into its own global specialist pensions administration and employee benefits business, I joined as the firm's UK and European president. In many ways, given one could describe Aptia as the world's largest start-up, my 'week in the life of' is changing quite quickly! My role also includes a fair amount of travel, as I split my time predominantly between London and my home in Lichfield, while I also visit our offices around the UK, Portugal and India as often as I can.

Monday

This is a day in the London office for me and it starts early as I get the 5.40am train from Birmingham to arrive in the office before 7.30am. We start the day with a UK leadership meeting at 8am to go through the events of the previous week and to understand what is required for the week ahead. I then meet with our banking partners as we continue to work together to simplify various client processes following the transition from Mercer to Aptia.

Given we are very much in growth stage, I then carry out several interviews for new leadership positions, before completing the day with a thorough update on a complicated client project. Given the early start and late finish, I decide to stay over in London. It feels a bit of a treat, with no dogs to worry about and early to bed to catch up on my much-needed beauty sleep.

Tuesday

The day starts with a review of a Request for Information (RFI) for a potential new client, one of four that have recently been sent to us as we have just opened for new business opportunities. Given I'm still in London, it is apparent that RFIs seem like the local buses in that they all seem to arrive at once! Each one needs to be analysed thoroughly, as I need to determine whether they are all attractive to the business, whether we should prioritise one over the other, or if we should go for all four. I worry and daydream about what would happen if we won them all!

A few hours are then spent focusing on the business restructure, stress-testing internal and external processes to ensure that we remain completely focused on our clients and are giving the best member experiences possible. I aim for the 7.05pm train back to Birmingham but, as often happens, the dreaded train issues mean a late night home and a quick bite to eat before bed.

Wednesday

Thankfully, the option to work from home today means a small lie-in, but I kick off my day with the weekly review of service performance and a deep dive on our largest 60 clients. I will typically look at our critical cases, long-standing cases and more complex issues, analysing whether there are any and what the causes may have been of any delays, whether there are any issues with pension increases, whether accounting is running to schedule, is payroll working to plan, are projects working to time etc. Thankfully, we're in a strong position, which means a bit of time back in my diary. I then have a video conference meeting with a professional independent trustee group that is keen to learn more about Aptia and our plans for investments. At the end of the day, given I'm at home, I'm fortunate enough to be able to say goodnight to my donkeys and ducks and give them a few treats.

Thursday

Back to London on the 5.40am train for an 8am face-to-face meeting with one of our largest clients. What follows is a meeting with The Pensions Regulator as we discuss its initiative in building administration relationships. No breaks between meetings today as I meet our second line of defence team (who, I have to say, really impress me with their knowledge and diligence) and then another client meeting reviewing their de-risking and guaranteed minimum pension equalisation (GMPe) project progress. Another interview and a quick review on how the monthly financial numbers are shaping up, then I eventually get the 8pm train home, looking forward to a less early start with Friday being a work-from-home day.

Friday

Friday, as always, starts with the weekly one-to-ones with my direct reports as well as a quick review of our cultural change plans with HR. I take time to meet a leader of one of Aptia's competitors for lunch who lives not too far away from me. While it is a competitor, we work in an industry that is of fundamental importance to people, so sharing insight and information can only really benefit the customer – and that's a good thing. It also helps that the individual in question is a long-standing friend so, either way, a nice lunch is always welcome!

Back to my home office and a few final calls before I finally finish at 4pm. I make a point of finishing at that time each Friday to meet my dear friends at my local pub for a drink or two (or three). As a rule, I don't work on a Saturday as that's my family time and time with my horses, sheep, donkeys, ducks and chickens.

Is your administrator dashboards-ready?

To be ready in time for the pensions dashboards connection deadline, there is a lot schemes must do to meet their obligations. XPS client services director, James Peel, discusses XPS's delivery plan for schemes. This includes how they are collaborating with their Integrated Service Provider (ISP), ITM, on the outputs members will receive, and future dashboards administration – with contributions from ITM chief innovation officer, Maurice Titley

As the pensions dashboards deadline gets closer, trustees and their administration providers must make critical decisions to ensure successful connection. To help achieve this, industry guidance has identified five core topics, which closely align with the work that we've done with ITM. Together, we have created this case study to explore our progress to date and highlight what schemes should expect from their administration provider.

Governance

There's a lot of work involved for schemes to get connection-ready for dashboards. And although trustees can have competing priorities with other ongoing projects such as preparation for buy-in or buyout, preparing for dashboards connection now will be advantageous as we get closer to the statutory deadline of October 2026.

We have collaborated with ITM on a delivery plan that's aligned with guidance from The Pensions Regulator (TPR) and the Pensions Administration Standards Association (PASA). Our approach aims to help schemes get their data in order and be prepared for all aspects of dashboards.

PASA's guidance has helped shape our schemes' timelines, and we highly recommend that trustees use this valuable resource. Although the final statutory deadline for connection is October 2026, schemes should target their specific deadline, which will be set out in DWP's connection guidance and timetable.

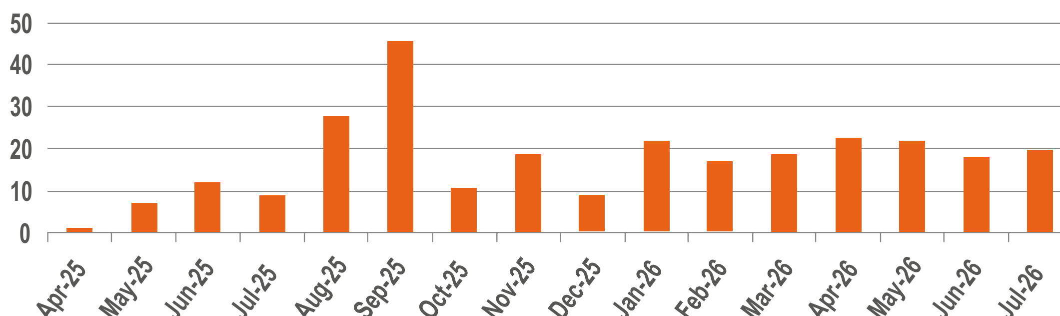
The graph below shows the spread of our estimated staged connection deadlines for over 250 of our schemes within scope for dashboards. It demonstrates the short timeframes administration providers will have to help their trustees achieve compliance, and the need for early engagement.

It could take schemes 12 to 18 months to get connection-ready. So, to connect in line with DWP regulations and guidance, trustees must commit to assessing and cleansing scheme data, and starting preparation work at least 12 months ahead of their staging timeline connection date.

We've separated our clients' dashboards journey into three stages: Review, prepare and connect. This journey requires schemes to begin reviewing dashboards-related actions up to 18 months in advance, and ensure these actions are completed 12 to three months before their connection deadline.

Matching

Every time a saver searches for pensions using a pensions dashboard, they'll trigger a Find Request. If their pensions are found, they will see their pensions data and have a positive experience.



However, finding those pensions is reliant on matching infrastructure, specialised technology, well-researched policies and extensive data assessments.

To achieve this, ITM analysed our member data. This data was compared with the Pensions Dashboards Programme (PDP)'s defined data elements used for matching. To complete this assessment, ITM compared our data against external sources, using advanced algorithms to highlight discrepancies between data elements like forename, surname and date of birth.

We then devised an initial Matching Approach. We considered each assessed data field, to create a set of tests that would establish a pension being found, called a 'Successful Match', and a set of tests to provide a 'Possible Match' response, where a Successful Match isn't achieved. The aims were to maximise Successful Matches and to provide well-targeted Possible Match responses.

ITM then carried out a Matching Effectiveness Assessment (MEA) using their ISP Pension Fusion's matching tool. The tool predicts user inputs and uses the personal data assessment results to test how the initial Matching Approach would perform across our schemes. The MEA estimates the percentage of members per scheme who would be unable to achieve a Successful Match.

We are now working with each scheme to review where personal details data can be improved prior to their dashboards connection. In conjunction with ITM's results, we will identify where a scheme's matching approach would need to be refined as a result of the MEA.

Pension values

Once a member matches to a scheme record held for them, they can view or request information about their pension entitlement. As well as membership and employer data, this information covers accrued pots, annualised pension amounts, and details of estimated retirement pots and incomes.

When value data isn't available via dashboards, schemes will have short timescales to return this information. To avoid the risks of missing these deadlines, and additional work for administration providers, we're working to ensure that schemes' value data will be available to dashboards.

DC values can be drawn from the data provided on annual SMPI statements and uploaded to Pension Fusion. To provide DB values, annual benefit statement amounts could be used for active members of schemes.

Deferred pension updates will likely need to be calculated in bulk on an annual basis for DB deferred members. To ensure this is possible, we are helping clients understand the accuracy of their source data and asking trustees to ensure benefit specifications have been reviewed and signed off. XPS and ITM are working to ensure appropriate tools are in place for calculating deferred pension updates where existing automation does not meet the requirements.

Values for AVC benefits will also need to be available on dashboards in line with main scheme data. We're liaising with AVC providers to consider reconciliation processes and how this data can be made available.

Technology

Every pension provider requires connection technology to interact with pensions dashboards and comply with TPR's and PDP's connection guidance.

XPS selected ITM's ISP, Pension Fusion, as our connection solution. Pension Fusion was the first PDP Alpha Partner to test dashboards infrastructure in 2022 and is now a PDP Early Participant. It can also link easily to any pensions administration platform. With the ever-evolving nature of dashboard requirements, XPS believed that the value of an ISP having tested the relevant aspects of the PDP ecosystem's infrastructure was the right solution, against developing our own technology.

ITM's installation of Pension Fusion and configuration of our data flows and formats was seamless and we are now proceeding to implement our schemes on Pension Fusion.

This involves testing matching approaches against real data using Pension Fusion's 'mock dashboard'. This will ensure configuration aspects are applied and related processes are functioning correctly ahead of connection. This period of stable live running will give trustees the confidence that their scheme is ready to connect to dashboards.

Administration

Once connected, there will be further work to ensure continued compliance with the regulations:

- We will continue to work with trustees to ensure that the matching policy they have set remains appropriate.
- Queries around member data held in dashboards will be handled by our administration teams, and Possible Matches will be dealt with by our dedicated contact centre.
- Management Information (MI) will be included in governance reporting.
- We will ensure value data remains up to date and accurate.

Conclusion

XPS plans align closely with guidance from PASA and TPR, and we will continuously monitor the regulations for any updates. Working with ITM we will ensure that Pension Fusion adapts to new requirements, so we can provide the best possible experience for members when they use dashboards.

Written by XPS client services director, James Peel, and ITM chief innovation officer, Maurice Titley

In association with
XPS Administration
itm Solution delivered...

Diary: March 2024 and beyond

Pensions Age Spring Conference
18 April 2024
Hilton London 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 at one of the most dynamic times in UK pensions history. The event will look at the Chancellor's dramatic recent revelations, rising cost-of-living and regulatory pressures, and how DB schemes can best plan for the months and years ahead, wherever they are on their de-risking journey.
pensionsage.com/springconference

PLSA Local Authority Conference
11-13 June 2024
De Vere Cotswold Waterpark
The PLSA's must-attend event for anyone involved in the Local Government Pension Scheme (LGPS), covering practical challenges and future opportunities in the ever-evolving landscape of local authority pensions. The conference offers a dynamic mix of plenary and breakout sessions and roundtables for specialist groups, as well as networking opportunities.
plsa.co.uk/events/conferences

Pensions Age Northern Conference
26 June 2024
Park Plaza Leeds
The Pensions Age team is delighted to be returning to Leeds for our annual Pensions Age Northern Conference this June. Aimed at pension managers, trustees, FDs, CIOs, advisers, and all those working in the pensions sector, this one-day event offers delegates the opportunity to learn and network alongside their peers, and hear from industry experts. The event will be chaired by *European Pensions* editor, Natalie Tuck.
pensionsage.com/northernconference

European Pensions Awards
4 July 2024
London Marriott Hotel
Now in their 17th year, the European Pensions Awards were originally launched to give recognition to the investment firms, consultancies and pension providers across Europe that have set the professional standards in order to best serve European pension funds over the past year, and continues to do so. The awards are free to enter and open to any pension fund or firm that serves European pension funds. The deadline for entries is 22 March 2024.
europeanpensions.net/awards/

Visit www.pensionsage.com for more diary listings

Don't forget...

TPR's General Code of Practice

27 March 2024

The Pensions Regulator's (TPR) General Code of Practice, which introduces regulations on effective systems of governance and own risk assessments, is expected to come into force.

thepensionsregulator.gov.uk/en/document-library

VIEW FROM THE SPP: Trapped surpluses and a race for buyouts – is refinancing the sting in the tail?

Higher interest rates have significantly improved the funding positions of many DB schemes, prompting a surge in buyout activity.

However, on the corporate side, they have increased the cost of debt and are squeezing consumer spending, making the risk of 'financial compression' very real.

For leveraged sponsors in particular, the challenges faced in refinancing at much higher rates could – at least temporarily – spoil the 'so-close-to-buyout' party for their DB schemes.

In challenging cases, refinancing may not be achievable at current debt levels, resulting in restructuring or even insolvency. Either could prove fatal to a scheme's journey.

Forewarned is forearmed – so what should trustees do?

- take steps to review the sponsor's balance sheet to assess the timing and scale of the next refinancing
- where potential risks are identified, engage with the sponsor for more information. Who are the lenders (what's their appetite for a new deal)? What alternatives are there? What is the risk of a covenant breach?
- undertake contingency planning where challenges seem likely. What levers are available to pull? Can a clear plan of action be agreed? Are contingent assets a possibility?

The takeaway? Don't let higher funding levels make you covenant complacent. Take action now to understand the risk of sponsor refinancing – the 'sting in the tail' of higher interest rates.

SPP covenants committee chair, Luke Hartley

Golden moments

Aviva Investors senior client solutions director, Heather Brown, chats to *Pensions Age* about why meeting members is so important and fostering golden retriever, Brian

What's your employment history (including jobs outside of pensions)?
I am currently a senior director in the UK institutional team at Aviva Investors, building and developing relationships with UK pension scheme clients. Until recently, I was also a member-nominated trustee of our Aviva Staff Pension Scheme – a large hybrid DB and DC scheme. My career in pensions started nearly 30 years ago, having walked the streets of London with my CV in hand, and secured my first role as a pensions admin clerk at Lane Clark & Peacock (LCP). It was fantastic to work for a growing company which brings great opportunities, and after a role in IT, I joined the investment team as stakeholder pensions were launched. I then worked my way up to be the first female investment partner before leaving for a career in asset management at Pictet. Pensions were far from my thoughts when I had my first summer job in the ice-cream kiosk at Colchester Zoo!

What's your favourite memory of working in the pensions sector?
My favourite memories of working in pensions have to be site visits – seeing the businesses that the members work in and being invited in to see that. A particularly memorable visit was to a car manufacturer, seeing how the different car components and specialist skills of generations of families come together. We talk about member outcomes – meeting members and understanding their businesses is a great reminder of that.

If you did not work in pensions, what sector do you think you would be in instead?
I would have loved to have a role in the sports sector – a sports physio travelling with a sports team to the Olympics!

What was your dream job as a child?
Police officer or solicitor. Work experience at a local legal firm with a trip to the magistrates' court didn't make me think a legal career was for me, so I did an economics degree at university instead.

What do you like to do in your spare time?
We are a foster family for trainee guide dogs – Brian *[see pic]* the golden retriever is our current recruit. I am in training for the London Marathon on 21 April raising money for guide dogs.

If you had to choose one favourite book, which would you recommend people read?
Too many books to choose from. Hardest question of all! A good crime novel…

And what film/boxset should people see?
Box set – *Schitts Creek* (the humour got me through the Covid times) and *Succession* for the dialogue, costumes and music.

Is there any particular music/band that you enjoy?
I have a teenage daughter and she has got me on the 'Tay Tay Express' so I have to say Taylor Swift.

Who would be your dream dinner party guests?
Nelson Mandela, Billy Connolly, Sheryl Sandberg, David Attenborough.

Is there an inspirational quote/saying you particularly like?
"Hard work may not always result in success, but it will never result in regret," *Moneyball.*

Written by Natalie Tuck

AON

Matthew Arends, Head of Retirement Policy, Aon UK

Maria Johannessen, Head of Investment, Aon UK

Laura Blows, Editor, Pensions Age

DB risks

Laura Blows discusses DB risks with Aon UK head of retirement policy, Matthew Arends, and Aon UK head of investment, Maria Johannessen, in *Pensions Age*'s latest video interview

The past couple of years – since Aon's last *Global Pension Risk Survey* – have seen a huge amount of change happen to the sector and the pace of change increase. Therefore, I suppose Aon's latest *Global Pension Risk Survey* finding regulatory change high up the list of concerns by respondents wasn't so surprising?

Matthew Arends: As you say we've all experienced a huge amount of change in our industry over the past two years, so to some extent it was no surprise to see that coming through in our survey results.

To give you one example, we've replied to over 100 pensions consultations in the past two years alone. That gives you a sense of the amount of change.

But what did surprise us from this set of results from the *Global Pension Risk Survey* is just how strong the depth of feeling was about regulatory risk. It ranked right up there with some of the more traditional things, like investment return, interest rate risk and longevity risk. Our respondents were really concerned about the pace and volume of regulatory change. So that was new.

It is not just the pace of regulatory change, but also the new investment landscape that we are experiencing now.

Maria Johannessen: Yes, we are in a very different environment. We've had the Covid pandemic, falling equity markets, widening credit spreads; and then we had rates starting to creep up, because of rising inflation, plus we had the gilt-turbulent time of late 2022 – this had a profound impact, not just for DB pension funds, but for all types of investors. The really big question for 2024 is, will this be a problematic year, continuing what we saw in 2023, or are we going to have a soft or semi-soft landing? A lot of investors may want rates to come back down a little bit because they have a strong link

with risky assets such as equities, and it shouldn't really be like that. It is difficult for other types of investors, because the positive correlation removes diversification in portfolios and that is also leading us into thinking a lot more about alternative assets.

How are these two changes, in a broad sense, coming together to affect the long-term targets of DB schemes?

Arends: We've seen over the past 10 years or more the increase in the proportion of respondents saying that their long-term target is to buy out the pension scheme. That's no surprise really, because, as Maria has said, rising interest rates and good growth asset returns mean that funding levels have improved over this period. So, more schemes thinking about buyout is not a surprise. Our latest survey showed that 55 per cent of respondents are now saying that that is their target.

But let's not lose sight of the 30 per cent who said they were aiming for a low-risk target, and the remainder, primarily open schemes, who had some other form of target.

Since we collected our results we've had the Mansion House reforms, which, as regards to DB schemes, were focused on the question of 'running on' as opposed to buying out. So, we have seen some early signs of schemes getting increasingly interested in run-on as a potential target instead of buying out.

And how may these changes in long-term targets affect DB schemes' current portfolio structures?

Johannessen: Pre-Liz Truss we had pension schemes all more or less following the same track at different paces. Now, with both the economic environment changing, first with the turbulent LDI times and then with all the regulatory change – and more on the horizon – the metaphorical herd is spread all over the steppe.

So, from a portfolio perspective it matters very much if you are a sponsor or trustee of a scheme that still needs return, because either it has decided to run on or because it's just not that well-funded. Or you could be a scheme that has liquid holdings, or perhaps a corporate agenda, that means that the scheme is well funded but in a holding period so you want to keep that funding level high – these schemes might need return just to stand still. And then there are schemes that are actively looking at a potential transaction. So, it is very hard to be specific and say these are the portfolio changes since the last survey.

But, we have of course seen pressure around illiquid holding portfolios. We've also helped clients find really strong ways of getting out of them if they need to from a transaction perspective. We have also helped clients understand the value of an illiquid portfolio that perhaps they should hold onto. We think the markets have given opportunity around asset-backed securities and insurance-linked securities as well. But the strategy setting that's going on right now is almost one-to-one – and strategic asset allocation is king in the markets that we are in.

Let's look at the practicalities of so much change. How would you recommend schemes prioritise what actions they should take, and how they balance out the time and costs of implementing change, while keeping the best interests of the member as their main focus?

Johannessen: It can be very difficult as there is so much regulatory change to catch up on, from a markets perspective we are in for potentially rather a rollercoaster, and maybe schemes have data projects going on as well. It is critical for the sponsors, trustees and key stakeholders to get together and decide what really are their top priorities, as it cannot be everything. In a world where you are time-poor, you have just got to focus on the critical path.

Implementation of investment strategy is very time consuming for trustees who are still doing it themselves. But there are many tools and services that can help and of course that is something we can help with – for example with Outsourced Chief Investment Officer (OCIO) services.

Arends: It really is a question for every scheme to balance the urgent things with the important things. One way to start with that is to benchmark yourself against the survey results, which we are very happy to help anyone with who is interested in that. You can hear more about all of the subjects that we have covered in the survey at our pension conferences that are running from late February to late March, travelling all around the UK.

You mentioned that many more changes have occurred since you undertook this latest survey, such as the Mansion House reforms and the General Code. How do you think they may change attitudes to risk by the time of the next survey in 2025?

Arends: Due to the Mansion House reforms, we might see a little bit of a change of mindset. We come from a place where regulation has been very much towards reducing the amount of risk, and arguably the General Code is asking us to document that risk reduction, but Mansion House is perhaps challenging that mindset and saying there may be good reasons to run that risk in a controlled and managed way, into the future. So, I think that might be one area where we see some change the next time we re-run the *Global Pension Risk Survey.*

To watch this video interview in full, please visit pensionsage.com

In association with AON

Creating a rule of thumb

Sophie Smith sits down with Pensions and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, to discuss the latest update to the Retirement Living Standards, and the difference a cheese grater can make

The latest update to the Pensions and Lifetime Savings Association's (PLSA) Retirement Living Standards (RLS) saw significant increases across all levels, especially moderate.

In the latest update, the cost of a minimum RLS increased 12.7 per cent for a single person, rising from £12,800 to £14,400, and 12.3 per cent for a couple, increasing from £19,900 to £22,400.

But understanding the drivers behind this increase is key, as PLSA head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, notes that these changes include both a price change to reflect recent inflationary increases, as well as changes to the components in the basket of goods that the standards are based on.

"So that is a key reason in why we have seen such significant changes this year," she explains. "Obviously prices have changed a lot, we have all seen the specifics on fuel, motoring, energy costs, which have been extortionate, with a more than 100 per cent increase in the time that we've been doing the RLS, which you would obviously expect to see coming through."

But Harrington-Clark points out that savers' expectations have also changed "a lot" of the past year, which has particularly impacted the moderate and comfortable savers.

Indeed, the moderate RLS recorded the highest increase in percentage terms, as costs increased from £23,300 to £31,300 for a single person and from £34,000 to £43,100 for a couple.

The impact of the cost-of-living crisis on this group was clear, as Harrington-Clark points out that the shift in expectations was not actually driven by an increase in retirees' costs, but in how much they support their wider family.

"One of the discussion groups found that those at the moderate level wanted to be able to help their family members financially with a budget of £1,000, as well as an additional £100 per month to take family members out for a meal. So the real reason behind the changes in moderate are retirees essentially helping people in their family eat," she says, emphasising that whilst it may sound melodramatic, many simply can't afford to eat out anymore.

Childcare costs are also an increasingly important factor, as Harrington-Clark notes that the discussion group raised the need to pay for grandchildren's after school clubs, as well as additional costs, such as food and activities, that pensioners may face when providing childcare for their grandchildren.

"So there is a cost impact that is shifting across generations," she says, clarifying however, that this is not a universal shift.

"Comfortable hasn't gone up as much proportionally because those in the comfortable bracket have managed their expectations down and dampened the effect of some price increases," she explains, noting that the updated standards now include a three-year-old small car for comfortable – a change from the more expensive mid-sized 4x4 options previously included.

This has also led to a narrowing in the gap between working life expectations and retirement expectations, as Harrington-Clark notes: "People are no longer thinking that they're going to have very extravagant lifestyles, but they're also no longer thinking they're going to have a very budget-based lifestyle, so the gap is reducing. This is really interesting but it's unclear whether that might

change and the gap might widen again over time."

And this is where the importance of personal choice and preference can be seen, as Harrington-Clark reveals that cheese graters were actually a key point of discussion for focus group members this year, as many comfortable savers had opted to shy away from expensive branded options, and settle for a non-branded or supermarket option.

"That is effectively just personal preference," she says, "and clearly people prioritise different things – we can see that in working lives, so it's not exactly rocket science to expect it in retirement too – but I think that can be complicated to communicate because people see the headline number and think, I need that in order to live."

The issue of personal circumstances is perhaps most notable in relation to housing costs, as whilst council tax and costs associated with a property are included in the RLS, costs for the "actual brick and mortar" are not.

But whilst the RLS have received criticism for omitting renting and/or mortgage costs, Harrington-Clark argues that this is "justified" currently, although it will be kept under review.

"At the moment, the main reason for this is because more people are still, unbelievably, retiring owning their house than aren't," she explains. "When that 50 per cent switches the other way, we'll do something different, but until that point, more people are represented by the idea of owning their house."

In the meantime, she points out that there is also a table to show some of the estimated rental costs, and the regional differences in this, which can be used by providers in their modelling to help savers get a more realistic idea of the income they'll need in retirement.

This table itself gives some insight into the challenge the PLSA would face in incorporating housing costs in the RLS though, as Harrington-Clark stresses that there are "huge, huge" regional variations in the cost of renting.

"This is one of the hurdles that we haven't quite figured out," she says.

And whilst regional differences could be factored in in future, Harrington-Clark warns that "we could risk diluting the value of the RLS if we ended up with 80,000 variations".

However, she admits that this can create a communications challenge, acknowledging that while providers may be able to integrate the standards into their modellers to help create a bespoke experience for savers, it can be more difficult in the personal finance world.

"We hadn't necessarily anticipated that they would be so popular with personal finance, which has been great, but I think we do see some difficulties around that bespoking piece," she says, continuing: "Providers, they're able to do full calculators and modellers, but those that see the RLS as a sort of target are finding it a bit more difficult to communicate.

"And they are not targets, they are just standards and people will make choices that are different to their composition, so they are only good as a rule of thumb, they're not an exact science.

"I think we need a balance between adoption just for adoption's sake, and also making sure that people understand they can bespoke them."

And although the standards have a key role to play, more support is needed at-retirement, as Harrington-Clark says "we really need something more instructional for savers in retirement".

"I would like the policy landscape to make it easier for schemes and providers to do something for those retiring, rather than nothing, and currently the balance is the opposite way," she says. "I think a lot of the current advice/guidance review proposals could help to extend the guidance and support, but we're also pushing for trustees to be able to do things that are clearly not advice, they're just helping people make reasonable choices at retirement."

This could be something like targeted support, although Harrington-Clark points out that the joint HM Treasury/FCA review is very much targeted at regulated firms, which is "interesting given the wider discussion on decumulation with the Department for Work and Pensions and The Pensions Regulator, who are likely to place an obligation on schemes to do something that looks very similar to targeted support, or maybe even advice".

"So there needs to be a bit closer work between the two as to what their expectations actually are and how they dovetail together", she says, adding that "it could actually be a little bit more than *[targeted support]* as trustees are only operating in savers' best interests."

Written by Sophie Smith

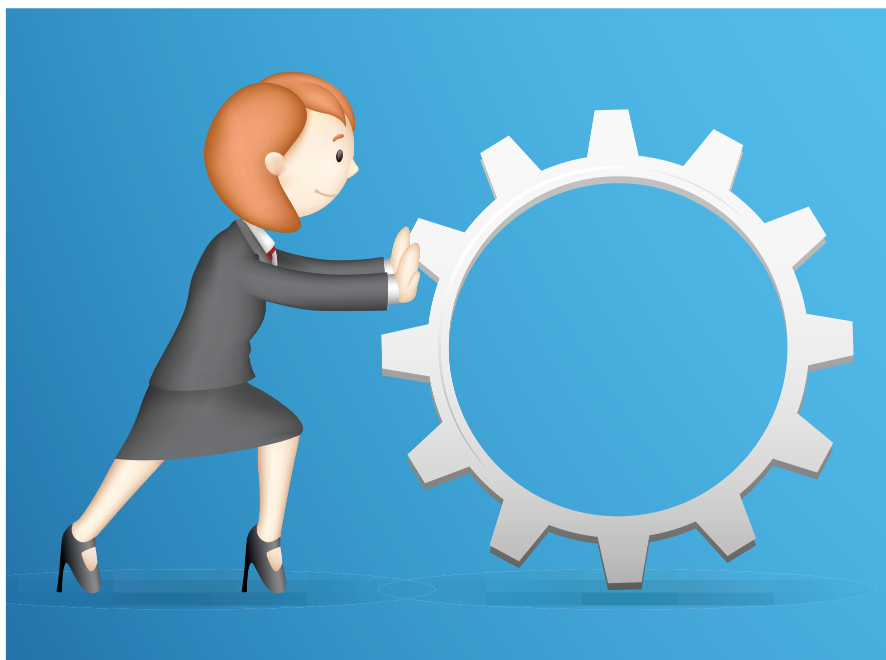
Shifting relationships

Laura Blows explores how the increasing use of professional trustees is changing board dynamics with advisers, and how the boundary between additional trustees services and advisory services is starting to blur

Summary
- Professional trustees on pension boards are able to challenge the scheme's advisers.
- A professional trustee on a board can clarify adviser information to lay trustees and bolster confidence for lay trustees to quiz advisers themselves.
- Some professional trustee firms may also offer additional services to the board, such as secretariat work, that may have been traditionally provided by the advisers.
- Professional trustee firms providing additional services to their schemes may cause tension with the advisers, but open and honest dialogue can minimise this risk.
- A clear delineation between trustee and advice services can also reduce any conflict-of-interest risk.

Professional trustees have, in recent years, had somewhat of a 'glow up'. No longer considered as just a 'post-career' role, people with increasingly varied experience and skillsets are looking to professional trusteeship as an attractive career option in its own right.

Scheme sponsors are also finding professional trusteeship good looking, as research from Hymans Robertson, released in January, found that 68 per cent of DB scheme sponsors expect to increase their use of professional trustees in the future. This follows the strong growth in professional trustee appointments that LCP's research in September 2023 noted, with half of UK pension schemes now having a professional trustee on the board.



Working with advisers

As professional trustees are turning heads, it's therefore unsurprising that having a hot new thing entering the scene would shake up established dynamics on trustee boards. This can particularly be the case with the scheme's relationship with its advisers.

After all, the biggest reason for the use of professional trustees was due to sponsors looking for better management of advisers and costs, as stated by 47 per cent of respondents in Hymans Robertson's research.

"More schemes are interested in one-stop-shops by trustees, especially if this is in a sole corporate trustee arrangement," LCP partner and head of strategic relationships, Nathalie Sims, says. "A number of professional trustee firms are hiring across levels of seniority to be able to offer a broader set of services at lower costs to traditional advisers/arrangements."

Having a knowledgeable, professional trustee in a particular topic can be a huge benefit when applied effectively, she adds.

"For example, suppose a consultant is less knowledgeable in the longevity de-risking space but is appointed to run a project. In that case, the professional trustee with the knowledge of the subject matter can either raise the issues directly if they feel the advice isn't given in the best interest of members or select

a different consultant for the advice. LCP has often stepped into roles where professional trustees have identified a poor service – and that is often picked up by professional trustees who have a better understanding of advice provided through their various appointments," Sims explains.

Charles Stanley Fiduciary Management senior portfolio manager, Bob Campion, notes that the bigger professional trustee firms are bolstering their expertise by hiring people such as ex-investment consultants and ex-buyout experts, but "this is to challenge advisers, not replace them", the Society of Pension Professional (SPP) DB committee member, Judith Fish, states.

This can provide the benefit of the advisers and professional trustees talking on a more peer-to-peer basis, Association of Professional Pension Trustees (APPT) council member, Vassos Vassou, says, where they can "discuss very technical topics and make, hopefully, positive, strong, good decisions for a pension scheme on the back of that discussion".

"That probably is one area where the dynamic is changing a little bit," he adds, "where the advisers historically haven't had to manage that element of challenge in quite the same way."

The impact on lay trustees

A professional trustee can also cause the lay trustee/adviser relationship to change, particularly as the professional trustee may become a 'third party' in the middle of the two – working with the lay trustees on the board, while also having that 'peer-to-peer' relationship with the board's advisers.

"The increased acceptance of the need for professional trustees who have knowledge and experience of the broader pensions industry has already changed the relationship with lay trustees," Zedra client director, Melanie Cusack, says.

"However, a good professional trustee will stand alongside their fellow trustees in decision making and not in front of them, reflecting that they are jointly and severally responsible for the decisions taken with a view to ensuring effective decision making. If the professional trustee takes on *[an adviser type]* role as well, it runs the risk of shifting the dial on that cohesiveness."

Capital Cranfield managing director, Harus Rai, states that he has "never had a scenario where a lay trustee has said to me, 'I don't want the information from the adviser; can I get it from you'?"

Instead, they may ask him for clarification of what the adviser has said and use him, as a professional trustee, as a sounding board, he explains.

"A clear delineation between who is giving and who is taking the advice is essential"

While there has always been a role for the professional trustee to provide context to the advice through their broader experience, Fish notes that "the presence of the professional trustee can raise confidence levels of lay counterparts and encourage more proactive engagement and discussion. This is not the same as dependence".

However, "for some schemes, there has been a shift in the relationship between lay trustees, professional trustees and advisers due to increased regulation, for example, resulting in more reliance on external expertise often brought through the skills of a professional trustee", Sims states.

"When it comes to the relationship between lay trustees and advisers, it is particularly concerning when professional trustees are keeping advisers at arm's length, as delivering advice with little context is more challenging for consultants.

"Consultants need to ensure that their advice is received and understood by both professional and lay trustees. Professional trustees can be very influential in driving particular decisions but it is important for the member nominated trustee voice to be heard," she adds.

Who provides the additional services?

Lay trustees may also see less of their advisers due to using them for fewer services.

For instance, Campion highlights a decrease in the use of third-party evaluators, where the professional trustee is overseeing the fiduciary manager themselves.

"We're increasingly seeing the professional trustee firms running their own tender process and not using an oversight firm for ongoing monitoring," Campion explains. However, "I think it's different with bigger schemes, as they would have access to more resources, so would typically have a wider set of advisers".

Also, according to Vassou,"with the recent growth in the professional trustee sector, there are more professional trustee firms perhaps using their own scheme secretaries, rather than paying for third-party firms to do it".

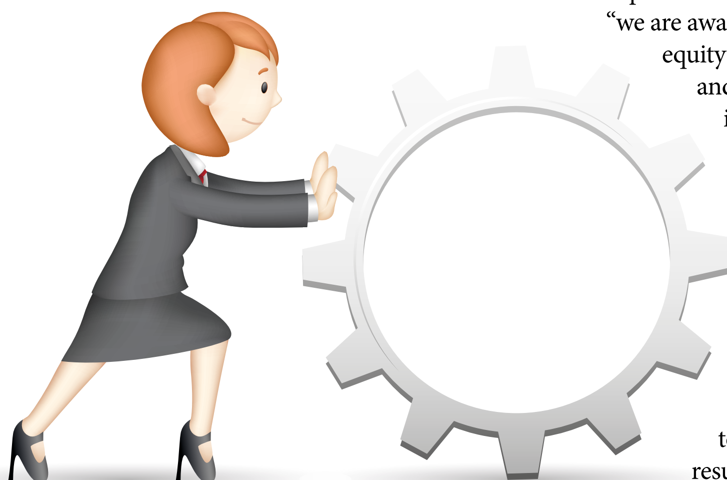
"Traditionally, ancillary services such as secretarial were being performed by employee benefit consultancies. However, we have seen a rise in the number of RFPs where sponsors have asked the professional trustee firm to also provide this service to create perceived synergies," Rai says.

Over the years, LCP has seen an increase in professional trustee firms hiring people with a range of different skills and backgrounds, Sims says, "enabling some of the firms to provide a one-stop-shop service with additional services such as covenant, legal, investment, longevity de-risking, actuarial, secretariat advice and technology".

According to Fish, there are governance and non-advice aspects of the adviser/consultants role that professional trustee firms can also offer to the trustee boards they work with.

"Sometimes, there can be efficiencies where a professional trustee firm also carries out other duties. For example, where the professional trustee firm is also the scheme secretary, this can improve efficiencies around meetings," she adds.

"However, trustees cannot advise themselves and so will always require a scheme actuary, lawyer, auditor and investment adviser to provide advice."



There has also been rising interest from private equity firms in the professional trustee market, with them considering what additional services the firms could provide. Rai says that "we are aware that private equity is coming in and is interested in professional trustee firms. We have seen many of our competitors expand the types of ancillary services that they provide to a scheme as a result".

Risk of tension?

While only regulated firms can offer formal advice, Hymans Robertson head of corporate DB endgame strategy, Leonard Bowman, notes that "the question has been raised in the industry whether this 'experienced' trustee role could stray into an advisory role, rather than a trustee role".

"Whilst this is a risk, in our experience professional trustees are very aware of this risk and are careful to not stray into the advice space," he says.

When providing additional services outside of trusteeship, the key is to keep an open and honest dialogue between the consultants and the professional trustees to ensure there is clarity on who is providing the advice and where the risks lie, Sims says. "In the absence of

that, I can imagine it can cause tension."

However, as "it is and always will be the case" that trustees must use regulated advisers, there shouldn't be any particular tension or any particular concerns from the advisory community in respect of advice that's needed for pension schemes, Vassou says.

And while an adviser firm may mutter under their breath about a reduction in use of some of their services, "professional trustee firms will always need third-party administrators, actuaries and advisers so there will still always be a strong working relationship between these firms", Campion says.

While the majority of professional trustee firms have expanded their services, with all but one offering secretariat services, and a number providing wider services, some consciously offer 'pure' trusteeship only to ensure there is as little tension as possible with advisers, Sims says.

Managing conflicts of interest

Conflicts of interest can arise when professional trustees blur the line between advice and trusteeship, which can lead to poorer governance and/or increased risk if advice by consultants isn't taken into consideration, Sims warns. "One way of overcoming this is through clear communication with advisers on roles and responsibilities," she suggests.

Cusack agrees that a clear delineation between who is giving and who is taking the advice is essential. For instance, Zedra provides trustee services and secretarial services to trustee boards through distinct teams but "we are aware that not all independent trustee firms keep this delineation", she says.

For firms that also offer regulated advice, as well as professional trustee services, this delineation is even more important. Campion acknowledges that it can be "a bit awkward is when you've got professional trustee from the same firm as some of their regulated service providers but for most of them, they've either avoided that or got rid of that problem".

For instance, earlier this year professional trustee firm, Independent Governance Group (IGG) announced the acquisition of IC Select, which specialises in helping trustee boards select and monitor investment consultants and fiduciary managers. However, IGG confirmed that the IC Select will be retained as a separate brand.

Meanwhile, last year saw 20-20 Trustees, which was acquired by Broadstone in 2017, merge with fellow professional trustee firm PSAG to form the new professional trustee company, Vidett. This separation from administration services provider Broadstone also removed that potential conflict of interest.

Also, the APPT's code for professional trustees covers off conflicts of interest, making it clear that the professional trustee cannot provide advice and cannot provide advisory services from its group or company.

However, there is little enforcement of the code currently, Sims warns.

Aon partner, Susan Hoare, also highlights that the remuneration policy required under the General Code "is an ideal place to address any conflicts of interest that exist as a result of professional trustees carrying out additional services".

"So far, there is little additional regulation of professional trustees, let alone sole trustees, despite their positions. It seems only a matter of time before this changes," she adds.

Looking ahead

While self-regulation is currently the case for the professional trustee sector, "this will continue to be an area that the government and TPR monitor closely and could well introduce new requirements in the future as the industry develops", Bowman says.

Meanwhile, Rai would like to see conflict of interest registers in place for every pension scheme, which "needs to be taken as seriously as a risk register, and have a conflicts policy in place to both identify conflicts and outline steps to either eliminate or mitigate these".

Whether further regulation occurs remains to be seen, but professional trusteeship looks set to continue growing in both the DB and DC world, further reshaping relationships within them.

For DC schemes, "the compliance requirements, together with consolidation, suggests more professional trustees at the table of large schemes, but few advisers overall due to fewer DC schemes", Cusack suggests.

Meanwhile, within DB, the diminishing number of lay trustees has contributed to the rise of professional corporate sole trusteeships, she adds, with LCP's September research finding that 20 per cent of pension schemes with a professional trustee had a sole trustee arrangement in place.

However the professional trustee/adviser relationship evolves, "I think it's going to be a strong relationship and positive relationship for all concerned", Vassou says. "What we as professional trustees are looking for from the consultancy industry is for them to embrace that as there is so much good that we can do together."

Written by Laura Blows

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You choose the endgame, we'll build the bridge: *Buyout, run-on or both? Whatever your scheme's preferred destination, we'll help you construct the way forward* **p42**

Evaluating the need for alternative DB endgames: *Chloe Whelan explores the full range of endgame options for DB schemes* **p44**

DB endgames focus:

Choosing the right path

LGIM head of pooled solutions, distribution, Lisa Purdy, and head of endgame solutions, Mathew Webb

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Buyout, run-on or both? Whatever your scheme's preferred destination, we'll help you construct the way forward

A seismic shift in focus for well-funded schemes

The DB pensions landscape is changing. Over the course of the past couple of years, significant moves higher in interest rates have led to dramatically improved scheme funding levels, with the PPF estimating that on a full-buyout basis, the net funding position of DB schemes improved from 79.2 per cent in March 2022 to 111.9 per cent in March 2023, with 67 per cent of schemes being fully funded as at September 2023, according to The Pensions Regulator.

These shifting tectonic plates of markets and funding positions have resulted in a similarly seismic shift in DB scheme strategy, with endgame solutions now front and centre of scheme agendas.

At the same time, regulatory change moves forward apace. The Department for Work and Pensions (DWP) has confirmed the legislative framework for the new funding code for DB schemes, set to apply to all scheme valuations after 22 September 2024. Meanwhile, the government has also launched a consultation on the options for defined benefit schemes, providing details of measures to make surplus extraction easier, resulting in increased focus on options to run on schemes to generate a surplus.

Yet despite this notable improvement in funding positions and the regulatory

progress, the way forward for schemes is still far from obvious, with a number of options now available to trustees.

Three potential ways forward

We are seeing three preferred endgame choices emerging from conversations with our DB clients:

• **Buyout** – First, there are schemes wishing to 'lock in' the strong funding positions they currently have, with the focus on progressing towards buyout as soon as possible. For these schemes, we believe constructing portfolios that help prepare them for this endgame is crucial

• **Run-on** – At the opposite end of the spectrum, a number of trustees are clear that they want to 'run on' their scheme in perpetuity. In other words, they wish to remain invested and focused on paying pensions and running on the scheme until the final member benefit is paid in full. Schemes in this group may also be looking to harness greater value for members from a potential scheme surplus

• **Both** – There is also third and significant group of well-funded schemes that are keen to run on for now (and also potentially target a surplus), while keeping buyout in mind over on a longer-term horizon. For example, they may have illiquid assets or data issues to sort out before they can go to buyout. These schemes are perhaps understandably seeking to have the 'best of both' endgame destinations

Bridging the gap to your endgame

Whether your scheme is focused on buyout, run-on or both, Legal & General is here to help you construct the way forward by sharing our investment and insurance expertise in DB endgame solutions.

As part of a growing collection of content specifically tailored to the needs of DB schemes, our 2024 suite of DB material will feature flagship articles on each of these three key endgame options in turn:

1.Buyout preparation – How can schemes best prepare for and target buyout in the short and medium term? Discover how LGIM's investment expertise and LGRI's Pension Risk Transfer business work in partnership to build a complete bridge for DB schemes to an endgame of buyout

2.Run on – What schemes looking to run on in perpetuity may wish to focus on, including an integrated solution to pay pensions, manage risks and generate surpluses. This includes investing with a cashflow-driven investment approach in long-term contractual assets such as credit and potentially illiquid assets, to target a surplus by capturing long-term credit premium, seeking investment returns on surplus assets and accounting for better-than-expected realised longevity experience

3.Run-on with the option of buyout – How can schemes invest with a primary objective to run on (pay pensions, manage risks and generate surplus), while retaining a secondary objective to capture attractive buyout pricing as and when potential opportunities arise. A key element of this approach is to be 'execution-ready' to mitigate buyout funding level volatility that arises from the difference between the scheme's investment strategy and an insurer's pricing portfolio, while seeking to capture the most opportune time to transact

As the DB pensions landscape shifts, the focus for endgame solutions across both investments and insurance is evolving with it, bringing flexibility and choice to the fore. The choice between buyout and run-on no longer needs to be binary. With the right strategy, we believe schemes can keep their options open and tailor their endgame to best suit their bespoke circumstances.

As ever, and whatever your scheme's preferred endgame, please don't hesitate to contact us if you have any questions or would like to hear more about how Legal & General can help you build the bridge to your chosen destination.

Written by LGIM head of pooled solutions, distribution, Lisa Purdy, and head of endgame solutions, Mathew Webb

In association with

Key Risk Warnings

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Summary
• The DB pensions landscape is evolving as many schemes reach maturity.
• The government has flagged impending regulatory change, with a focus on alternative endgame options, including commercial consolidation, public sector consolidation and capital-backed journey plans (CBJPs).
• This may also include greater support for schemes to run on and generate surpluses.

Evaluating the need for alternative DB endgames

Chloe Whelan explores the full range of endgame options for DB schemes

The defined benefit pensions landscape is experiencing a seismic shift. The vast majority of schemes are closed to new members and an increasing number are also closing to future accrual. High interest rates have led to drastically improved scheme funding levels. According to The Pensions Regulator's latest industry report, more than two-thirds of schemes are fully funded.[1]

As a result, more eyes than ever before are focused on the endgame – including those of regulators.

The UK government has flagged its intention to funnel more pension investment into UK companies, putting pressure on schemes to consider alternatives to an insured buyout, including several exciting innovations. Similarly, Labour has said if it's successful at the next election, changes will be warranted to tackle "cultural and regulation-induced risk aversion"[2] in the pensions landscape.

With regulatory changes almost certainly on the horizon, trustees and sponsors ought to evaluate the full spectrum of endgame options. As alternatives appear, it is imperative that opportunities are not missed to deliver the best possible outcome for members.

The evolution of DB endgame options

For at least a decade, buyout has long been considered the ultimate DB pension endgame strategy.

"We believe that buyout is the most reliable way to secure members' benefits, in that insurers have to be backed by capital," explains LGIM head of pooled solutions, Lisa Purdy.

"For that reason, it has always been viewed in the marketplace as the gold standard for pension schemes."

The UK pension risk transfer (PRT) market has boomed in recent years. LGIM estimated £50 billion of UK pension liabilities were secured with insurers in 2023 alone, making for a record-breaking year.[3]

Buyout offers significant advantages, including a high level of benefit security for members. However, it also comes with limitations and challenges. Entry costs can be prohibitive, especially for schemes with assets of less than £50 million, and permanent decisions must be made about the treatment of discretionary benefits.

Additionally, the PRT market has become increasingly crowded as more schemes reach maturity. Just nine insurers are active in the UK bulk annuity market, aiming to serve more than 5,000 schemes. Insurers are unable to quote on all transactions and prioritise those that are most likely to be successful. LGIM estimated, in 2021, it was unable to quote on one-third of PRT requests.[4]

"It's a competitive fight to get the attention of insurers, who are looking to spend their time strategically," says Barnett Waddingham partner, Richard Gibson.

"Buyout has long been held as the gold standard in terms of security, but it is relatively expensive as a result. Not every scheme can afford it. At the other end of the spectrum, very large, well-funded and well-diversified schemes may find the benefits of buyout less relevant. These very large schemes can afford to *[access those benefits]* themselves."

Diversification of endgame strategies

Against this backdrop, demand is growing for alternative endgame strategies.

Commericial consolidation

In commercial consolidation, a premium is paid to a consolidator, which becomes responsible for providing future benefits

to members. This option offers sponsors and trustees a full risk transfer, generally at a lower price than a bulk annuity purchase.

Consolidators exist within the DB pensions regulatory framework, which carries lower reserving requirements and allows for more flexibility in investment strategy compared to insurance. As a result, while consolidation is more affordable, its protections for members are weaker.

"The difference between the consolidator and buyout models is around the security provided," explains J.P. Morgan Asset Management head of international institutional strategy and analytics, Gareth Haslip.

"A consolidator model sits somewhere between an insurance company's and a DB scheme's level of security. They'll hold some capital but not to the same level of an insurance company."

There is only one commercial consolidator currently operating in the UK market, Clara Pensions, which closed its first transaction in November last year.

Gibson, whose Barnett Waddingham team advised Sears Retail Pension Scheme in that transaction, says Clara was "well placed" to deal with schemes that can't afford to buyout within the next five years but are still quite well funded, with more than £50 million in assets.

"We have other clients that we're actively working with, with Clara, so more precedents may be set for that option," Gibson says.

Public sector consolidation

On 23 February, the Department for Work and Pensions announced its intention to set up a public sector consolidator to make consolidation more accessible to smaller schemes.

The public sector consolidator will be administered by the Pension Protection Fund and is projected to be up and running by 2026. The government expects it will be more affordable compared to commercial consolidators, giving smaller schemes access to economies of scale and their associated benefits, including reduced expenses, greater security and a more flexible asset pool.

Capital-backed journey plans

A third alternative endgame option has emerged for schemes that can't immediately fund a buyout: Capital-backed journey plans (CBJP). Under a CBJP, a third-party loans funds to a DB scheme, allowing the scheme to invest in higher risk assets and thus improve its funding position. Once fully funded, the scheme is then in a better position to access buyout.

The case for running on

Although the endgame market is increasingly dynamic, some schemes may not wish to capitalise on any of these options and instead run on in perpetuity. Running on allows schemes to take advantage of surpluses, which can be used to enhance member benefits or fund an associated defined contribution scheme.

Running on may also allow schemes to 'wait and see' how the endgame market and associated regulatory environment continues to evolve – and whether the insurance market will expand to take on more volume.

"There is an element of capacity in the buyout market," says Purdy.

"Pension schemes need to get their data ready, they may have illiquids in their portfolio, so there are a number of factors to consider.

"It's really important, in our view, for pension schemes to consider that they may pursue buyout in the future, and in the meantime they may get their data ready, get their benefits ready, target a surplus and make use of it. Buyouts are definitely still on the table, but it doesn't have to be today."

Insight Investment head of solution design, Jos Vermeulen, says, in his opinion, the case for running on has "never been stronger".

"Pension schemes are better funded and largely de-risked and, on top of that, the government is looking to make changes that will make run-on more attractive," he says.

"I expect there to be more positive tales about the advantages of run-on, so pension funds become more comfortable with doing exactly that."

Preparing for your chosen endgame

No matter the endgame, it's imperative that trustees and sponsors prioritise the secure delivery of members' benefits. Be prepared to evaluate and, if necessary, implement options that enhance this security.

As Aon head of UK retirement policy, Matthew Arends, notes: "The key here is ensuring the alignment of views among sponsors, trustees and members. That is truly fundamental."

Gibson compares the current DB landscape to that of nuclear decommissioning: "The nuclear decommissioning industry didn't start when the first nuclear powerplants were built; it started 20 years later when they were being taken down. We're facing a similar scenario here. There is a lot of work to do."

Written by Chloe Whelan, a freelance journalist

In association with

[1] https://www.thepensionsregulator.gov.uk/en/document-library/research-and-analysis/occupational-defined-benefit-landscape-in-the-uk-2023#:~:text=of%20this%20publication.-,Key%20findings,from%2070%25%20to%2072%25.

[2] https://labour.org.uk/wp-content/uploads/2024/01/Financing-Growth.pdf

[3] https://group.legalandgeneral.com/en/newsroom/press-releases/record-breaking-global-prt-market-activity-seen-in-2023-totalling-over-85-billion-in-uk-and-us

[4] https://www.legalandgeneral.com/institutional/pension-risk-transfer/knowledge-centre/articles/a-badge/

Summary
- Financial literacy is below average in the UK and there needs to be greater action to address the shortfall.
- The pensions industry is playing a role but other parts of society such as schools, the government and parents also need to be actively involved.
- Financial literacy classes in primary and secondary school would lay a strong foundation to build upon.

Educational responsibility

In the latest edition of *Pensions Age*'s financial literacy special focus, Lynn Strongin Dodds explores what role the industry has in improving financial literacy and how it can help enhance people's pension knowledge

Pensions may not be the most riveting dinner conversation, but ignorance should not be bliss in this case. Individuals need to be well informed to make the right decisions about their retirement. Although the industry is more than willing to be a leading force, the consensus is it should be a collaborative effort between different segments of society.

"When there is an issue, clearly all stakeholders involved should have some input into finding the solution," says Rathbone investment director, Jane Sydenham. "In the case of financial literacy, the pensions industry must play its part, but this would be best achieved when co-ordinated with the other agents of change in the space. This does not mean sitting and waiting to be asked to participate, in fact the industry should lead, both to assist those it provides for and because, self-evidently it is in its commercial interests to do so."

A widening divide

There is no doubt that the learning curve will be steep. A recent report by the Institute for Fiscal Studies (IFS) showed that almost one-fifth of private sector employees are not making any pension savings in a given year. For the self-employed, who do not have the benefit of auto-enrolment, the figure is far lower – fewer than one in five.

In addition, savings are low, with 61 per cent of those private sector workers contributing less than 8 per cent of their income, which may not be enough to give them a decent chance of a comfortable retirement. Although the cost-of-living crisis has been a contributing factor, a lack of education is also a key reason.

There is also a widening divide between the financially savvy and those who have little knowledge or understanding to make a reasonable assessment of their financial situation and plan for their future accordingly. In fact, a recent and separate study by the Pensions and Lifetime Savings Association (PLSA) reveals that 73 per cent of British people fall below the financially literate benchmark.

Closing the gap will not be easy but as PLSA head of defined contributions, master trusts and lifetime savings, Alyshia Harrington-Clark, notes, "this is just not a pensions problem but a wider issue in financial services in terms of communications and jargon. You need to make it relevant to people and continue to build on a foundation. I think the industry has a role to play, but it needs a combination of people to make financial literacy and numeracy more comprehendible".

Financial education and social mobility charity RedStart Educate CEO, Sarah Mark, agrees, adding that parents, schools, and the government must take action together. Financial literacy is not just about facts and figures but also cultural factors. Many people have not grown up with a financial services vernacular and could find the language

intimidating. "There needs to be a greater understanding of the drivers behind the behaviour," she says. "The focus should be on education and engagement but also building trust and confidence."

Legal & General Investment Management member proposition director, Olasumbo Biobaku-Mason, points to its recent ethnicity pension gap research, which highlights some of the differences in the UK. It shows there is a higher lack of understanding of pensions amongst people from ethnic minority groups (18 per cent) versus people from white British backgrounds (7 per cent). In addition, people from ethnic minority backgrounds are more likely to turn to less traditional sources like social media for advice.

Understanding duty

As a result, there is no one-size-fits-all solution, but, whatever format is adopted, information should be presented in an easy-to-understand manner, taking account of member needs such as accessibility and diversity, according to LCP head of wellbeing, Heidi Allan. "It is crucial that scheme members understand what is happening with their money throughout the accumulation and decumulation phases of their pension life, and the choices they have at various stages of that journey," she adds.

Allan believes that, in the occupational and personal space, the pension companies involved "have a duty both on a moral and professional basis to their customers to ensure that what they are paying for is understood," she says, adding the government can take up the reins with state pensions and ensure that individuals comprehend what provision is made and available options.

However, it is a fine balance between education and too much information. As BNY Mellon Investment Management head of retirement, Richard Parkin, points out: "For me, the focus must be on delivering clear and forceful messages at the right time. There is no benefit of telling a new joiner how they access their benefits at retirement but neither does it make sense to wait until someone is trying to cash in their pension before explaining to them that this may not be the best idea."

Parkin is hopeful that the Financial Conduct Authority's Advice/Guidance Boundary Review will provide a platform that will encourage, or perhaps even require, pension providers to give members more direct messages about what courses of action are likely to be in their interest or, just as importantly, what actions might be harmful. "In particular, the targeted support approach that identifies what 'people like you' would do seems like it could be capable of delivering quite nuanced direction to individuals without having to go through a detailed advice process," he adds.

"It can be argued that most impact can be had by educating the young in the importance of pensions"

In the meantime, there are several initiatives in the private and public space leveraging digital tools to guide people more effectively. For example, the Money and Pensions Service (Maps) recently rolled out its new digital 'Mid-Life MOT' to help older workers plan around work, wellbeing, and money – plus a retirement planning hub that will incorporate the much-heralded pensions dashboard when it is eventually launched.

First mooted in 2015, the dashboard aims to provide a holistic view of all the pension pots in one place. It's estimated that the average worker will have roughly 11 over the course of their career, and the dashboard was seen as a solution. However, it has faced several delays due to the complexities of collecting data from disparate sources and connecting a wide range of different IT systems to its digital architecture. The latest deadline is set for October 2026.

Starting early

While these projects are applauded, there is a widespread rallying call for financial literacy to be compulsory and part of the national curriculum. Currently the subject is relayed in an ad hoc manner through Personal, Social, Health and Economic (PSHE) education, or academically in subjects such as maths, business, and economics. Late last year, a cross-party committee of MPs launched an inquiry into boosting financial education throughout primary, secondary and further education. They are exploring reasons why the subject is often overlooked and how well schools and teachers are supported to deliver it.

"This is something that needs to be addressed at an early age – financial literacy is a life skill and is something that should be taught in schools," says Biobaku-Mason. "If these foundational skills are taught early in life, when people enter the workforce, it will be much easier for people to grasp the concepts we are trying to convey. But that doesn't take away from the need for us to keep the language and numbers we use in our communications as simple as possible."

Sydenham echoes these sentiments. "It is well understood and accepted that pension provision is best started at a young age due to the power of compounding returns," she says. "It can be argued that most impact can be had by educating the young in the importance of pensions. The industry can work with organisations promoting financial literacy to the younger population, lobby government for inclusion of financial literacy in the education timetable and work with employers to provide assistance in better explaining pensions to their employees, especially at the start of their working life."

Written by Lynn Strongin Dodds, a freelance journalist

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Bulk annuities: A sustainability loophole?

Church of England Pensions Board deputy chief responsible investment officer, Stephen Barrie, explains how pension funds can help ensure their ethical and sustainability standards are not lost post buyout

For something that's not well known outside the world of pensions, bulk annuities are surprisingly big business.

Around £50 billion was transferred from pension funds to insurers in 2023, and more than £80 billion is expected in 2024, as trustees with well-funded pension schemes decide they can afford to transfer assets to insurers, de-risk their own balance sheets, and lock in benefits for their members.

Of course, pension trustees take great care to select the best available insurer, and some will take sustainability into account during the process. But the nature of these transactions – which involve at their core a transfer of money and responsibility – means there can be a disconnect between the sustainability approach that pension funds take, and the one insurers take when they invest what were previously pension assets.

Expectations around sustainability among members have been building and building in recent years, and this raises the stakes if there is a disconnect between pension providers and insurers.

Those expectations have been fuelled by better quality reporting (the UK Stewardship Code, mandatory TCFD reports) and public campaigns aimed at mobilising member voices to drive change (e.g., ShareAction, Make My Money Matter, Tumelo). People like to know their pension assets are invested well, and do good in the world. For us at the Church of England Pensions Board, we know our members care about this. And it's central to the way we report on our investments.

Against the backdrop of increased scrutiny from members, bulk annuities risk coming across as a 'sustainability loophole' – compromising or rendering carefully crafted commitments null and void, potentially undoing years of good practice. Insurers, pension schemes, and their advisers need to take this concern seriously.

To be a little provocative, when you hand over responsibility for your pension members – and the money that goes with it – you want to make sure that money is not suddenly invested in assets that throw your ethical and sustainability standards to the wind. And that means you need to make sure you get it right *before* handing over the reins.

To date, the standard approach has been to assess ESG credentials as part of a bulk annuity transaction and for trustees to take this into account in the final decision. And of course, for some pension funds this will be more important than for others.

Choosing the right insurer is an important point of leverage, for sure. But is it enough? Because once the papers are signed, that's it – you're no longer responsible, and no longer involved. What happens under the bonnet once the deal is done?

We know that our members care deeply about the world they retire into, and how their pension payments are funded. And we do, too. That's why, together with a number of other pension schemes, we have been working with insurers to go beyond this transactional approach to sustainability – and to create a strong framework that formalises commitments.

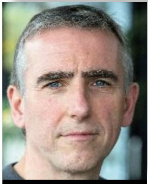
Together with our partners at Railpen and A4S, with 20 founding signatories on all sides of the bulk annuity market, the Bulk Annuity Sustainability Charter*, launched this January, represents progress in engagement between pension funds, insurers, and advisers. We have aligned behind principles that frame best practice, will improve transparency, and demonstrate willingness to address gaps between the commitments trustees make about assets in their care (e.g. net zero, biodiversity, or human rights commitments), and assets that end up being managed by others in order to pay our members' pensions.

The charter is now live, and pension schemes, insurers and advisers that would like to participate in this initiative should get in touch.

Stephen Barrie is deputy chief responsible investment officer at the Church of England Pensions Board, and a member of the project team for the Sustainability Principles Charter

*www.accountingforsustainability.org/sustainability-principles-charter.html

Five 'A' advantages why commercial pensions dashboards have strong cross-party support



Richard Smith

With a General Election coming this year, commercial pensions dashboards are getting strong cross-party political support. Independent pensions dashboards consultant, Richard Smith, explains the many reasons why

Some people still talk about ***'the'*** pensions dashboard. My 2023 research tour showed that's wrong.

Sure, the government is making a dashboard available through its MoneyHelper brand at the Money & Pensions Service (Maps). And it's right that there should be a pensions dashboard universally available.

But my independent research visit to the NorskPensjon team in Oslo in June 2023 demonstrated more clearly than ever that it's commercial dashboards where the vast majority of the action is going to be.

There are (at least) five clear advantages of commercial pensions dashboards, all spookily beginning with the letter A. Shadow Ministers now recognise these benefits too, as the Hansard quotes below reveal.

Advantage 1: ACCESS

The most obvious advantage is that commercial dashboards make the government's secure central data retrieval service (from the Pensions Dashboards Programme (PDP)) available in many different places: Which was exactly Norway's experience.

The central NorskPensjon data retrieval service was originally established with just its own consumer front-end portal. Then NorskPensjon was also made available on the government's state pension online service, enabling Norwegians to see their workplace and private pensions alongside their state pension.

But the real uptick in usage came when the NorskPensjon pension data retrieval service was made available to commercial apps, like banking and pension apps. Figure 1 shows how app

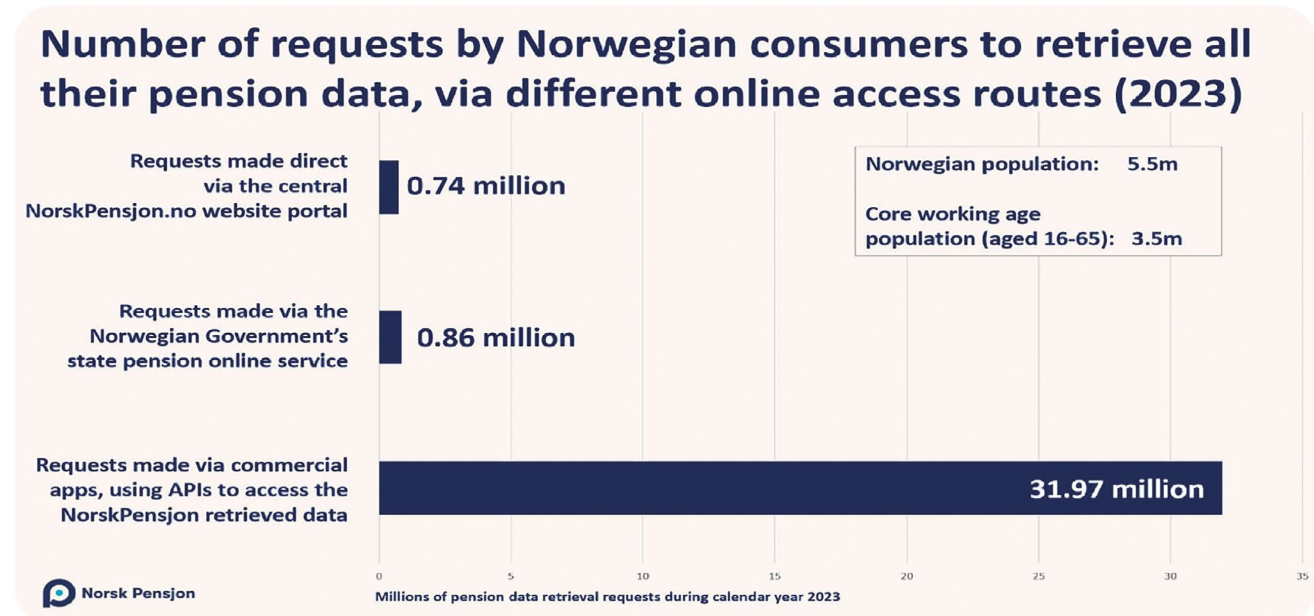


Figure 1: NorskPensjon central data retrieval service 2023 usage statistics

usage now dominates.

The Labour Party really understands this point. Shadow Economic Secretary to the Treasury Tulip Siddiq said in parliament recently: *"International evidence shows that to reach their potential to help millions of people, dashboards must be incorporated into services that people already use."*

It's why Standard Life says they will put a commercial dashboard in their existing app. Expect many more announcements of commercial dashboards to follow from pension providers, master trusts, and banks.

Advantage 2: AUDIT

The legislative name for a commercial dashboard is a Qualifying Pensions Dashboard Service (QPDS). There are lots of regulatory requirements on firms who want to provide a QPDS.

For example, the Department for Work and Pensions (DWP) Dashboards Regulation 13 requires every QPDS provider to appoint, and pay for, an independent expert auditor, who is suitably qualified or experienced, to audit their QPDS technology. As well as independence, these statutory audits of QPDSs have both depth and longevity:

- **Depth:** The auditor must send official reports to Maps confirming that the QPDS they have audited complies with the full suite of PDP design, data, technical, operational and reporting standards. The audit firm will need to deploy multi-disciplinary specialist teams to provide this independent view.
- **Longevity:** The auditor must carry out both a 'pre-connection' audit, before the QPDS is connected to the PDP Central Digital Architecture (CDA), and then Annual audits every year afterwards.

So, when a consumer uses a commercial dashboard, they can be confident it has been officially and independently audited for compliance by a specialist firm within the past 12 months. QPDS providers

will no doubt wish to promote this audit assurance to their users to build confidence in a given firm's QPDS.

Advantage 3: AUTHORISATION

QPDS firms are going to be authorised and supervised by the Financial Conduct Authority (FCA).

HM Treasury legislation which makes 'operating a pensions dashboard service' a new FCA-regulated activity is making its way through parliament right now. Once in force, it opens the way for the FCA to publish final detailed Authorisation and Conduct of Business (COB) Rules for QPDS firms. FCA will then start accepting applications from firms to become authorised as an FCA-regulated QPDS provider.

Labour is keen for this process to play out soon. In parliament, Labour's Tulip Siddiq asked the government Treasury Minister, Bim Afolami: *"When will the FCA publish its final rules [for QPDS providers]?"*

Advantage 4: ASSETS

Commercial QPDS provider Moneyhub has tested QPDS designs with a range of real consumers. Having seen the estimated total income they might get in retirement (across all their different pensions, including state pension), a common question many consumers asked was: *"Will that be enough to live on, and how does it compare to what I spend today?"*

This is easily answered. If the QPDS they're using is also open banking-enabled it's incredibly easy for the user to also connect directly to their current account(s) for a rapid analysis and display of how much they spend today summarised across a range of different common expenditure categories.

Test participants also asked: *"What else will I have to live on?"* This is where Open Finance comes in. From their app, users can also directly connect things like ISAs and other investments, and even the value of their home. So a QPDS's 4th advantage is the ability to see all Assets, including pensions, together in one place.

Again Labour likes this. Labour's Tulip Siddiq said: *"Some dashboards will present other financial data alongside pensions. That is one of the main benefits to consumers: to see all their finances in one place."*

Advantage 5: ACTION

My European research tour found that, having viewed their pensions, many consumers don't want to take action immediately, especially the younger savers. They're happy just to look at their total pension position on a dashboard a few times a year, gradually increasing in trust and confidence.

But when consumers want to get more involved, the final great advantage of QPDSs is that the user will already be on an app where they can take next steps, such as modelling different retirement ages, considering whether to change their contributions, or exploring bringing some of their pensions together, and so on.

What's next?

HMT's legislation making QPDSs a new regulated activity is due comes into force in early March, making way for FCA to publish final QPDS Rules, and then start accepting QPDS applications.

Whatever the outcome of the upcoming General Election, expect these developments to continue at pace, and expect to hear much more about commercial pensions dashboards as we progress through 2024.

Written by Independent pensions dashboards consultant, Richard Smith

Smooth sailing

Following the completion of a full scheme buy-in for the Birmingham Chamber of Commerce, Quantum Advisory and Trustee Corporation share their tips on how to ensure a smooth running process

Quantum Advisory partner, Joanne Eynon; and senior consultant and actuary, Adam Cottrell
Trustee Corporation independent trustee, Vivien Cockerill

Quantum Advisory recently completed a £9 million full scheme buy-in for Birmingham Chamber of Commerce. What was Quantum's role and who else was involved?
Joanne Eynon: Quantum is the fund's administrator, investment adviser and scheme actuary. We also acted as lead transaction adviser for the buy-in.

Quantum project managed the buy-in exercise from start to finish, working closely with the Chamber and the trustee as the project progressed. This included providing regular affordability assessments to the trustee so they could monitor the impact of market movements on the funding position and the likelihood of requiring additional funding from the Chamber/trustee escrow account. We also prepared the fund to approach the market by assessing its data and benefits, correcting elements of these where necessary, and represented the trustee in the discussions with the insurers.

The insurer selected by the trustee for the buy-in policy was Just, a significant player in this segment of the market. Just engaged with us closely in the months leading up to the quotation, they stuck by their promises and were easy to deal with throughout.

The legal adviser for the buyout project was Gateley and it played an important role in the success of the buy-in. It clearly has a wealth of experience in this area and was pragmatic in its approach throughout, suggesting sensible and realistic proposals to maximise the chance of the transaction being completed in good time.

What in a nutshell has been achieved?
Vivien Cockerill: A significant enhancement to the security of members' benefits, as well as helping the Chamber manage the risk that the pension scheme potentially represented to its business. Back in 2007, when the pension scheme was closed, the Chamber granted the trustee a legal charge over its headquarters building and it was the sale of that property in 2020, with an associated large deficit reduction contribution into the pension scheme as well as establishment of an escrow account, which led to this positive outcome.

Could you explain more about the process from start to finish?
Adam Cottrell: Ever since the fund closed to accrual more than 15 years ago, the trustee has formally targeted buyout. Given the relative size of the fund and the not-for-profit nature of the sponsor's business model, it has been seen as the optimal way of securing the pensions of its members for some time.

To begin with, this buyout target was aspirational but, with a mixture of successful (and forward thinking) funding and investment decisions made by the trustee over the years, the sponsor's vital support at key moments in the fund's journey and a helping hand from the sharp rise in gilt yields in 2022, the fund found itself within touching distance of its theoretical buyout pricing hurdle.

At this stage, Quantum's specialist risk transfer team was asked to help take the fund from its fully funded ongoing state to the point where it could transact an all benefits full scheme buy-in. A crucial first step was reviewing the investment strategy to ensure the assets were aligned with buy-in pricing, stabilising the funding level to ensure the fund was able to afford to transact at the appropriate time. We were able to project manage the exercise and broker the transaction at speed at a time when the market was saturated.

We have strong relationships with

the insurers participating in the bulk purchase annuity market and meet with them regularly. We know their appetites, their peaks and troughs in activity levels, performance and price points, and use this to our advantage when choosing a suitable partner for our clients. For deals of this size, trustees may need to choose an insurer on an exclusive basis before obtaining pricing details and we spent a long time debating the relative merits of all the insurers interested in this deal with both the trustee and the Chamber before deciding to progress with Just. Three key players at the small end of the market were considered in depth. We focused on availability of resource, recent pricing experience, service levels both pre and post transaction and, ultimately, the trustee agreed that Just was best placed to transact with us on this occasion – a decision that paid off as we completed the deal smoothly, and at a favourable price.

We broke ground with the bulk of buy-in preparatory work at the start of 2023 and the trustee transacted with Just in October 2023, leaving the fund with a small surplus to meet expenses and no requirement for further contributions from the sponsor.

Were there any challenges along the way and, if so, how were they dealt with?

Cockerill: As can typically be the case for smaller schemes, simply making the most of the available resources, especially internal ones, was a challenge. Fortunately, the trustee corporation team is well used to dealing with such challenges and, in this case, was helped by the efficient project management provided by Quantum.

Cottrell: The main challenge I would say was to smoothly complete a small scheme transaction in a short space of time at a point of unprecedented activity in the market. We made a call that the most likely way to achieve a full scheme buy-in quickly was to choose an insurer early and to negotiate price and terms with them directly. We kept the Just team updated on how the project was developing so they could bear this scheme in mind when deciding how to allocate their resource over the year. Just was happy to engage with us regularly, and this frequent communication, coupled with our combined successes on previous deals, meant we had built trust between us which made a big difference.

What's your advice for schemes embarking on a similar journey?

Cockerill: Embarking on a buy-in/ buyout project is like decorating – it's all in the preparation. So, well in advance, make sure the trustee and sponsor are on the same page in terms of their ultimate long-term objectives for the scheme. They should sit down at an early stage to make sure they understand and agree each other's priorities and constraints. Here, for the trustee, the key issue was to provide security to members' benefits and, for the Chamber, it was managing the risk that the pension scheme represented to its business.

Agree trigger points when options can be considered. In this case, the first trigger was the sale of the Chamber building which enabled the scheme funding to be improved significantly and the investment strategy to be de-risked. The next trigger was when funding reached the point where a long-term way forward could be looked at with certainty and a joint working group of the trustee and the Chamber was set up. This meant that future decisions could be made at the right time, quickly and efficiently.

Make sure experienced advisers and providers are involved. In this case, Quantum was already in place, and it was helpful that Just emerged as the front runner as the trustee knew that both Quantum and Gateley had recently done transactions with them.

Eynon: What really helped with this transaction was both the trustee and the Chamber had known that buyout was their ultimate target for quite some time, so it was not a surprise to them, or the members, when an opportunity to complete the buy-in arose. A sub-group was formed consisting of key individuals from the Chamber, trustee and advisers, and they met regularly throughout the project. This group was given a level of autonomy to make routine decisions in real time, whilst the full Chamber and trustee boards retained control over the big decisions. This arrangement worked really well. The ability to make well-informed critical decisions in a timely manner was a key part of the success here.

Also, choose all your advisers carefully. Ensure administrators, actuaries, investment advisers and others have capacity to work on your scheme according to your specific timeline. Choose advisers with a strong track record of brokering similar sized deals quickly and successfully and crucially choose advisers that are likely to continue to give you senior resource even when the market gets busy. It takes years of experience, market knowledge and close relationships with the right insurers to broker these deals successfully.

Written by Francesca Fabrizi

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Summary
- Chancellor Jeremy Hunt's Mansion House Speech in July pushed the pensions industry's potential role in UK growth to the fore.
- Signatories of the Mansion House Compact committed to minimum UK stock investment before 2030.
- But lacklustre performance by UK equities in comparison with other global markets have necessarily made the UK market a small part of DC pension portfolios.
- DB schemes moving towards their endgame are unlikely to shift towards equities for different – de-risking – reasons.
- The industry is supportive of a move to invest in UK economic growth – PLSA has made this its priority for 2024 – but finding the most advantaeous ways in is essential.
- Meeting the needs of members remains the number one goal for schemes.

Best of British?

Sandra Haurant explores how UK pension funds are being encouraged to invest in ways that would boost UK economic growth

The Chancellor Jeremy Hunt's Mansion House speech, in July 2023, placed serious emphasis on the role pension funds could – and, Hunt argued, should – play in the growth of the UK's economy. "The UK has the largest pension market in Europe, worth over £2.5 trillion," said Hunt. "It plays a critical role in providing safe retirement income as part of the social contract between generations."

But the UK found itself in a "perverse situation," Hunt said. "UK institutional investors are not investing as much in UK high-growth companies as their international counterparts." Something, the Chancellor suggested, had to give.

As a starting point, he announced that some of the country's largest pension schemes – the likes of Aviva, Scottish Widows, M&G and more – had signed up to the Mansion House Compact. The compact, Hunt said: "Commits these defined contribution (DC) funds, which represent around two-thirds of the UK's entire workplace market, to the objective of allocating at least 5 per cent of their default funds to unlisted equities by 2030."

It's complicated

So how are things going, more than six months further down the line? The *Financial Times (FT)* reported in October that pension funds were pushing back against the government's aim to divert more than £50 billion of their money invested in UK projects and business.

Indeed, the *FT* reported that Nest – a Mansion House Compact signatory – was reluctant to move into early-stage, high-potential but equally high-risk companies. Nest chief investment officer, Elizabeth Fernando, speaking at the Pensions and Lifetime Savings Association (PLSA), said that proven business models were the way forward. "Our job is not to support levelling up. It is to build retirement funds," Fernando said.

It's a sentiment on which Legal and General Investment Management (LGIM) head of DC investments, Jesal Mistry, elaborates: "Investing in the UK can provide a multitude of opportunities for growth and UK pension schemes are well placed to take advantage of these. In addition, linking the member's investment portfolio to the UK, particularly investments that have a positive impact on society, can be a hugely powerful engagement tool which has a mutual benefit to the individuals in their everyday lives," he says.

But, Mistry adds (and it's a big 'but'): "Pension funds must not lose sight of our primary responsibility – to act in the interests of members – and investment in the UK could be seen as concentrating on a relatively small part of the global economy, missing out on growth and opportunities elsewhere. Over the past five years, the UK stockmarket has delivered a return of between 6 per cent

and 7 per cent per annum, whereas a global market cap portfolio would have delivered nearly double that."

Mistry explains that this, combined with DB schemes' necessary focus on the endgame, is behind the move away from UK stock market investments. Indeed, pension fund investment in UK shares was at a record low of 1.6 per cent in 2022, according to the Office for National Statistics (ONS).

Cardano senior investment strategist, Ina Rinas, agrees that there are solid reasons for these choices. "The UK stock market capitalisation as a percentage of global stock market capitalisation is small, at roughly 3 per cent, down from over 10 per cent in the early 2000s," says Rinas.

"UK equities have been an underperformer for over a decade, failing to keep up with the US, which is heavy in high-growth technology names. US companies have therefore grown their earnings at a faster pace and US equities have strongly outperformed many other regions. As a result, they now represent a greater share of global stock market indices, while non-US allocations have decreased."

These figures relate to large caps, which, says Rinas: "Are not representative of the domestic UK economy as they derive a large share of their revenues abroad. This means that they are more sensitive to movements in the exchange rate, which is why UK large cap stocks are often seen as a play on the currency rather than the domestic UK economy and its underlying earnings potential."

Nonetheless, the stateside slant creates other challenges. "The US accounts for about 63 per cent of a global market cap equity portfolio, of which about a quarter to a third is invested in the top 10 companies," says Mistry. "Thinking about it from a risk perspective, this feels like too many eggs in one basket, and while they continue to deliver strong returns, very few would argue for a different approach. But we don't have to look too far back to see that large companies can fall or worse, fail – such as the impact on tech in 2022, BP, Lehmann Brothers, Enron, etc."

Pressure to increase domestic investment seems set to grow, as the government recently announced plans to require DC schemes to publicly disclose their level of investment in UK businesses by 2027.

Finding other ways

On the DB side, plans to introduce a permanent superfund regulatory regime, "to provide sponsoring employers and trustees with a new scaled-up way of managing DB liabilities," were pushed to centre stage in July 2023, while more recent developments have seen the government hone in options to relax DB surplus extraction rules.

Looking back at the announcements, Cardano CEO, Kerrin Rosenberg, says: "A public and state pension superfund could become a significant contributor to UK economic growth, while also freeing up funds from national insurance contributions to support state spending commitments in other socially important areas."

"Policymakers' appetite to stimulate the UK economy and encourage investment in UK productive assets, in particular, is laudable," Rosenberg says. "However, with the majority of DB schemes closed and de-risking, we see more obvious solutions available to make it a reality, that don't involve ripping up the regulatory rulebook."

Rosenberg highlights "successful examples" abroad, citing the Canadian, Nordic and Dutch pension schemes as some of those that show the potential for superfund-style schemes to power economic investment.

"Pension fund investment in UK shares was at a record low of 1.6 per cent in 2022"

"Creating a public or state pension fund with similar investment strategies as global peers, including Canada Pension Plan, Sweden's AP funds and the Netherlands' ABP and PFZW, could be an option," Rosenberg says. "There would be no need to significantly change the existing regulatory and legal framework."

What's more, Rosenberg says: "The UK's LGPS provides an established domestic model to build on; and it would be much easier for the government to mandate a minimum exposure to UK productive assets for a state or public pension fund rather than corporate funds."

Indeed, Hunt's latest Budget confirmed that LGPS funds will be expected to publicly disclose their level of investment in UK businesses as "early as April 2024", around three years earlier than the broader DC market.

Nonetheless, there is room for a shift in internal investment structure for DB schemes as they move closer to maturity, suggests LGIM infrastructure strategist, Marija Simpraga. And this is where investment in the UK's foundations could come to the fore.

"Debt investments in investment-grade infrastructure assets can provide a resilient source of income and diversification," says Simpraga. "The appetite from DB schemes, but also banks, insurers and other capital providers for these high-quality assets has exceeded available supply for several years. This has led to return compression and often means large infrastructure assets are financed via bank loans rather through institutional debt capital markets."

And, warns Simpraga: "This in turn means that pension investors often have to look beyond the UK infrastructure market for appropriate risk-adjusted returns that match their requirements."

All eyes on the prize

"For pensions to play a critical part in the growth of the UK economy, I believe we need to not only focus on the UK stock market, but also look beyond this to providing pension schemes, particularly DC schemes, with access to investment opportunities that they can't access elsewhere which resonate better with the end member," Mistry argues. "This is where I believe the private markets – including allocations to infrastructure – can play a critical part in driving better DC outcomes as well as benefiting communities and society in the UK."

Whichever new pathways open up, and whatever shape any new regulatory framework takes, the pensions industry remains broadly supportive of the idea that investing in the UK's growth is a positive move. Indeed, the PLSA announced in January that its top strategic priority for 2024 would be the role that pension schemes can play in supporting the UK economy. But, Mistry says: "It is critical that investment decisions are made with the best interests of members in mind, driving better member outcomes."

Written by Sandra Haurant, a freelance journalist

Fiduciary duty meets climate risk

Following the Financial Markets Law Committee's (FMLC) report on trustees' sustainable investment responsibilities, *Pensions Age* asks: Are trustees prepared for their evolving fiduciary duties in relation to ESG?

The FMLC report provides further helpful and timely clarification that the consideration of the financial risks of climate change by trustees in their investment decision is not inconsistent with their fiduciary duties. However, those saying that this marks a sea-change in the law probably haven't been paying attention for the past 10 years. What probably is evolving is how broadly we might think of the issues applying.

Here the FMLC report does move things on a little. Two areas that stand out are stewardship and collaborative action. The FMLC notes that when it comes to addressing climate-related risks, stewardship is, in effect, a logical progression of the ongoing exercise of the investment power by the pension fund trustees. The report also recognises that acting by themselves, trustees of pension schemes may not be able to address climate change-related risks by making narrow investment decisions that look solely at the risk/return of a particular fund or security. Investment decisions need, according to the report, to be reached not in isolation but within the context of the broader portfolio of the pension fund. Trustees are also permitted to consider steps that might be taken in collaboration and coordination with other pension funds.

It feels like there is a lot more to be done and the FMLC may have fired a starting gun for a deeper consideration of how asset owners might address the systemic risks of climate change.

Sackers partner, Stuart O'Brien

This report feels like a soft hand on the shoulder, guiding, not pushing, trustees in their investment thinking. There are no new regulations here, no one arm-twisting trustees about how they must, or must not, invest scheme assets. In an era where trustees backs are bent under the weight of new regulations, for once, this feels like a lightening of the load.

The report removes barriers to trustees who may previously have felt boxed in, fearful that a 'sustainable' investment approach would fall into the 'non-financial' camp. The report hints that the 'non-financial' wording in the legislation has been unhelpful in some cases as it has been misinterpreted. Indeed, the main message in this report is that sustainable factors nearly always have financial implications, and so should, of course, be taken into account when making investment decisions.

Cartwright senior investment consultant, Adam Gregory

Trustees already exercise their fiduciary duty and have been adapting to changes in its interpretation for a long time. The concept of fiduciary duty has evolved from decades of case law, supplemented by legislation and guidance provided by The Pensions Regulator (TPR). When it comes to the investment element of fiduciary duty TPR guidance succinctly sums it up as 'to choose investments that are in the best financial interests of the scheme members'.

Trustees are expected to be aware of sustainability risks, but they are not expected to be experts in what is a very complex set of issues; they can and do rely on advice. In accepting that future returns are going to be impacted by sustainability factors like climate change, these risks are already being consider by trustees, alongside all the other investment risks involved. How sustainability risks are managed though will vary based on the circumstances of each pension scheme.

Zedra client director, Anne Sander

We welcome the FMLC's report. It shines a light on one of the most hotly debated topics facing many boards and encourages a broader discussion on how pension schemes can help to engender positive change. For a long time now sustainability, and in particular climate change, have been secondary to other risk and return considerations.

The FMLC has concluded that, for trustees to exercise their fiduciary responsibilities, the decision is not a binary one; climate risk is a financial risk. LGIM's recent experience tells us that many trustees have already reached a similar conclusion, opting for lower carbon or temperature aligned solutions and exploring member views across a range of issues. Schemes are now beginning to understand their impact on the wider world and how they can support the transition to a lower carbon economy.

While we continue to be asked whether doing so will mean a lower investment return in the short term: The answer is quite possibly. Crucially, the FMLC report allows that decision to be set against a much longer-term context; one which has ramifications for us all.

Legal & General Investment Management (LGIM) head of institutional clients, Mark Johnson

What is clear, and what the FMLC's report underlines, is that these issues need active engagement. Trustees should use advisers appropriately, encouraging them to work together and with investment managers. Advice should not just be 'rubber stamped'. The report also highlights the dangers of dismissing stewardship activities without proper consideration. Clearly, schemes have different levels of resources to meet these challenges. Trustees need to keep in mind that the same duties apply for a scheme close to buyout. Similarly, even where invested through pooled funds or passive mandates, ESG considerations are relevant to allocation and monitoring obligations. While most trustees will be prepared for the evolving nature of how they exercise their duties, the FMLC report is a timely reminder that they must be given the attention they deserve.

Squire Patton Boggs senior associate, Felix Weston

We welcome the FMLC's report on trustees' sustainable investment responsibilities and their recognition that non-financial factors should be considered within trustees' decision making. Climate change in particular is a systemic risk that cannot be diversified away, regardless of the funds on offer. This complicates trustees' responsibilities and decisions. Trustees face complex decisions, from selecting asset managers to monitoring voting, engagement and ESG progress. They must adapt their decision-making to factor in the evolving impact of climate risk for members with different investment horizons.

Aegon UK head of responsible investing, Hilkka Komulainen

This timely report reframes trustees' fiduciary duties around climate change and sustainability. Most importantly, the scope of sustainability considerations has been clarified, with an emphasis placed on more holistic approaches to how fiduciary duties should be implemented. By reducing ambiguity here, the FMLC has outlined a clear direction for trustee boards to have a wide-ranging debate on how they can incorporate ESG principles into their decision-making processes. Trustees are still being given a broad remit to act as they deem appropriate, so, while it's not a radical change; the FMLC is clearly signposting the future direction of travel for occupation pension schemes, including master trusts. The next steps should involve cross-industry representatives looking at practical ways to implement how the recommendations are considered.

Scottish Widows master trust lead, Sharon Bellingham

The FMLC paper represents an advancement in understanding fiduciary duty's responsibilities in relation to sustainability issues. Recognising sustainability as a financial and systemic risk emphasises the ongoing importance of this discourse. Whilst perhaps not the silver bullet, we believe the paper has the potential to stimulate committed trustees to delve-deeper into sustainability issues and engage those who may have been hesitant to participate previously. It represents progress, but we believe the pensions industry can push this further.

Isio deputy head of sustainable investment consulting, Mark Irish

Pensions history

The pensions battleground

Thirty years ago, pension disputes rarely figured as concerns of employers and trustees, let alone made news headlines. Times have changed. A recent story, colourfully titled: *Boots chemists at war over callous pension changes* caught the eye – while elsewhere trustees of USS have reportedly rebuffed members' pressure to disinvest from Israeli-connected investments.

Both cases raise interesting legal issues about rights/expectations in one case and trustees' investment duties in the other, but they only illustrate how much things have changed. In 1987, a case concerning surplus in the Courage Group's pension schemes was heard, arguably marking the beginning of a trend towards greater legal scrutiny of pension rights and obligations and the restrictive interpretation of trust deeds and rules. Some lawyers argued that too much weight was being placed on non-binding parts of the judgment, but the direction of travel was clear. Legal risk would begin to creep onto risk registers.

The trend was fuelled by uncertainties in domestic and EU derived pensions legislation. The 1990s alone witnessed statutory codification of parts of trust law and new statutory duties, a new pensions regulator and the equality battles fought out following *GRE v Barber.* It was becoming easier to pursue complaints. The Pensions Ombudsman came into being in 1991 and the Association of Pension Lawyers a decade earlier. Dispute specialists emerged. Understanding of pensions issues increased among trade unions and others.

No wonder pension disputes make the headlines.

Pensions Archive Trust director, Jane Marshall

www.pensionsarchivetrust.org.uk/our collections

The bright side

***Pensions Age* takes a closer look at some of the recent good news stories in the pensions industry...**

The Rothesay Foundation has donated more than £315,000 to the Clarion Futures warm spaces programme. The donation aims to help secure and improve the quality of life for older people in need in the UK, with the additional funding set to allow Clarion Futures to double the number of warm spaces supported through the second year of the programme, to a total of 50 across England. The funding will also enable warm packs to be distributed to those visiting the warm spaces. The packs include items such as an electric blanket, slow cooker, draught excluder, room thermometer and heating timer, as well as warm clothes like hats, gloves and socks.

Rothesay Foundation chair of trustees, James Dickson, said: "The Rothesay Foundation is dedicated to improving the quality of life for older people living in need in the UK, a huge challenge during a cost-of-living crisis that is leaving many struggling to afford their energy bills. Through supporting warm packs and a growing number of warm spaces, we hope to help as many older people as possible to stay warm this year, while also providing safe and welcoming spaces where they can connect with their local community."

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