Cyber security
How schemes can stay protected from the increasing wave of cyber threats

Pension risk transfers
How insurers are increasingly focusing on small schemes for bulk annuity transactions

Gender pensions gap
How career breaks continue to impact women's financial security in retirement

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March 2025

PENSIONS Age

The leading pensions magazine

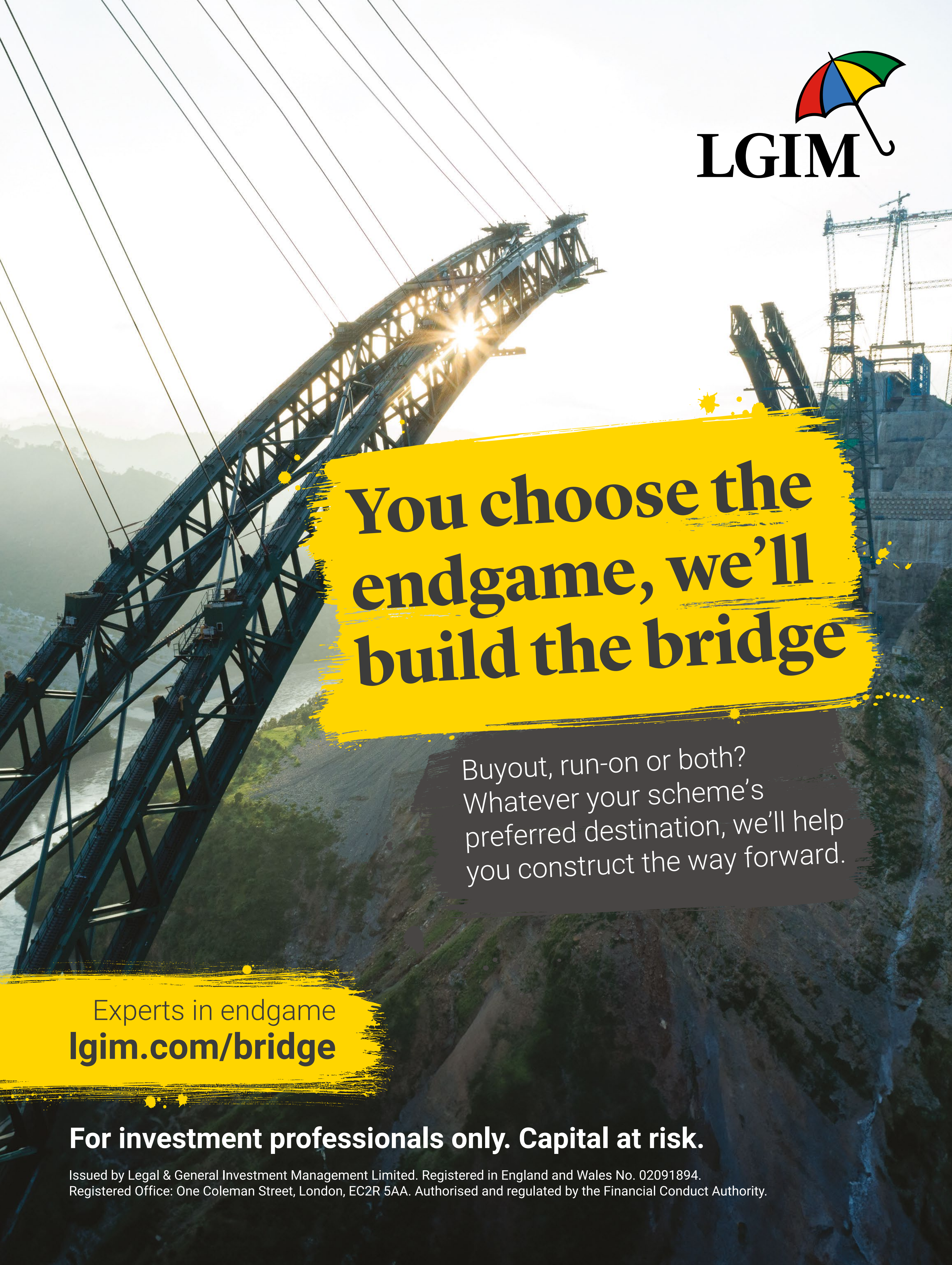
Court cases: *The impact of recent significant legal cases on the pensions industry*

Stress testing: *How are DB schemes preparing for tomorrow's market shocks?*

Supersizing the pensions sector

What are the consequences of fewer but larger schemes on the pensions industry?

Case study: Compass Group Pension Plan's complex BPA transaction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Editorial Comment

2nd Floor, 5 Maidstone Buildings Mews, London. SE1 1GN

2005 and I was a young journalist entering the world of pensions. Excited by the prospect of working on a magazine that tackled relevant and important topics such as government policy and politics, investment and technology, and to work in an industry that was making a real difference to people's later lives, imagine my disappointment when I took part in one of my first roundtables (which I had in fact organised) only to find that every man that walked into the room acknowledged and shook the hands of my male peers and not me. I was female so I guess I didn't really matter. Perhaps I was there just to serve the tea.

I'm not telling this story because I still hold a grudge (although I do still marvel at how that could actually happen), but with International Women's Day happening this month on 8 March, it's important to reflect sometimes on how far we have come as an industry when it comes to women's equality, even if it did take the best part of 20 years to get here. Today I would argue that our industry is not only respectful of women, but the ever-increasing number of highly driven, dynamic and inspiring female professionals in the sector – and in increasingly senior positions – excites me, and most certainly ensures that no female will ever get ignored again, at least at a pensions roundtable.

"Today I would argue that our industry is not only respectful of women, but the ever-increasing number of highly driven, dynamic and inspiring female professionals in the sector - and in increasingly senior positions – excites me"

That's not to say there isn't still a long way to go here, but at least we are on an upward trajectory.

But of course, women's equality and its relationship with pensions goes a lot further than just seeing more females working in the pensions sector. International Women's Day, according to its website, belongs to "all who care about women's equality; celebrate women's achievement; raise awareness about discrimination; and take action to forge gender parity," and there are few areas where this definition resonates more than when it comes to tackling the gender pensions gap.

While, granted, some progress has been made in reducing the gender pensions gap over the past 20 years with, according to Scottish Widows' *2024 Women and Retirement Report*, more women than ever now saving into a pension and qualifying for the full state pension, the report also highlights that we are still looking at a projected 30 per cent gender gap in overall retirement income between men and women. Additionally, and perhaps even more frightening given that we are moving to an ever-more DC-driven world, of those expecting a DC private pension, women are on track to have a £130,000 smaller pension pot at retirement than men on average. £130,000!

[For more on the many reasons behind some of these stark figures, and what the industry and government can be doing to tackle these shortfalls, see our feature on p58.]

Another worrying figure lies in how confident women feel when it comes to planning for retirement, as highlighted in our feature on financial abuse *[see p62]*. Research by Trafalgar House reveals that only 18.9 per cent of women feel confident that their pension will provide a comfortable retirement, compared to 34.1 per cent of men; while research by the Money and Pensions Service has found that 60 per cent of women are less likely to have a plan for their money in retirement (compared to 44 per cent of men) and are less likely to say they understand enough about pensions to be able to make effective decisions about saving for retirement (41 per cent of women compared to 57 per cent of men).

These are just a tiny handful of figures that barely scratch the surface of how much work there is to do to fully tackle gender inequality in pensions. But at least these issues are being brought to the forefront of discussions now more than ever and ways to address them are being considered.

Finally, I was fairly shocked to learn that International Women's Day has actually been around since 1911 – that's 114 years of trying to tackle gender inequality. It's impressive that it's still going strong after all this time, and I'm grateful and in awe of those trailblazing women who first set it up. Let's just hope however that one day we won't need it at all.

Now, was that milk or sugar with your tea?

Francesca Fabrizi, Editor in Chief

COVER FEATURE

Theme: Risk

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Supersizing the pensions sector

As the drive towards DC consolidation ramps up, Laura Blows examines the consequences of the trend towards generating 'larger, but fewer' pension schemes on the industry

Features and columns

News, views & regulars

Continued on page 6

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Features & columns

Continued from page 5

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NEW circulation figures

***Pensions Age* now has its new circulation figure from the Audit Bureau of Circulations (ABC); 10,499 July 2023 to June 2024. This includes both requested readers and copies sent as a member benefit (PLSA, PMI, SPP, AMNT). Pensions Age is also sent as a Tablet Edition to our 37,000+ online subscribers (Source: Publishers Statement, Jan 2024).**

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Dateline - February 2025

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

3 February The **Treasury Committee** launched an inquiry into how AI is being deployed across various sectors within financial services, including pensions, insurance, retail banking, and investment banking. The inquiry will be looking to explore how the UK financial services industry can take advantage of the opportunities in AI while mitigating any threats to financial stability and safeguarding financial consumers, particularly vulnerable consumers.

4 February Nest announced plans to become a 10 per cent shareholder in IFM Investors' holding company, Industry Super Holdings, with the aim of boosting its UK private market investments.

6 February All signatories to the **Sustainability Principles Charter** for the bulk annuity process agreed to adopt the Bulk Annuity Sustainability Survey, replacing the multiple different surveys currently used by different advisers. This, according to the group, has the potential to reduce the average number of sustainability surveys completed by insurers annually from 10 to one, and is expected to 'significantly' improve the efficiency of the process for comparing insurers' responses on sustainability.

6 February Work and Pensions Committee chair, Debbie Abrahams, wrote to the new Pensions Minister, Torsten Bell, to request further information on the government's consideration of issues surrounding the non-indexation of pre-1997 rights *[read more on page 15]*.

7 February The Pensions Regulator (TPR) outlined plans to strengthen its defences against pension scams, by stepping up the multi-agency response it leads through closer collaboration, strategic partnerships and improved intelligence *[read more on page 10]*.

10 February Total global pension assets rose to a record high of $58.5trn in 2024, driven by growth in the largest DC markets, analysis from the **Thinking Ahead Institute** revealed.

11 February The aggregate surplus of DB pension schemes rose to £239bn in January 2025, as DB scheme funding continued to strengthen, the **Pension Protection Fund's** 7800 Index revealed.

11 February A freedom of information request from Eversheds Sutherland revealed that **TPR** issued six section 72A (s72A) requests to pension schemes in 2024 requiring people to attend interviews, compared to just one s72A request between 2018 and Q1 2024.

13 February The **Financial Conduct Authority** was urged to provide further clarity on how trust-based pension schemes will be able to confidently make the most of targeted support, as its consultation on the targeted support for pensions came to a close *[read more on page 12]*.

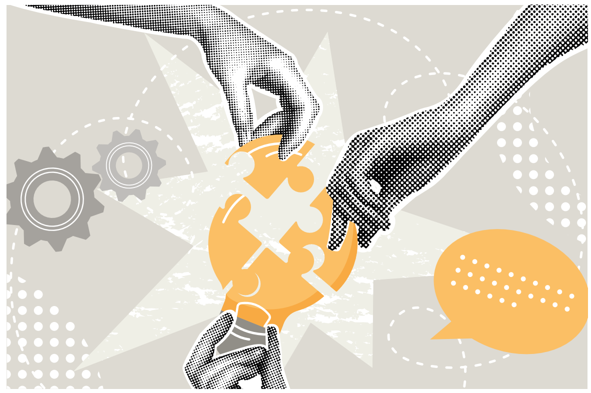
For more information on these stories, and daily breaking news from the pensions industry, visit **pensionsage.com**

13 February TPR announced that Sarah Smart has decided to step down as chair of the regulator in July 2025.

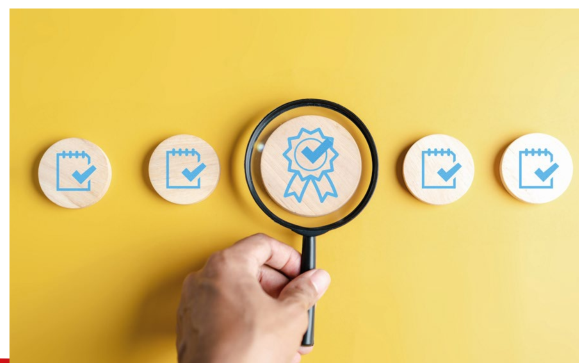
14 February The **Scottish Funding Council** confirmed that it will provide additional funding for universities to support the change to the Scottish Teachers' Pension Scheme and NHS Pension Scheme employer contribution rates for the period April 2024 to March 2025.

14 February The **Institute of Chartered Accountants in England and Wales** issued new guidance on the *Virgin Media* judgment, acknowledging that there is currently much uncertainty about how the ruling should be reflected in scheme and employer reporting *[read more on page 14].*

17 February The **government** announced that it had all recommendations made by the Accelerated Settlement Technical Group, meaning that the UK will move to a 'T+1' standard for settling securities trades from 11 October 2027. The change means that a typical securities trade, such as buying and selling shares, would be settled the day after it is agreed – instead of the current two-day standard. This is expected to help make the UK's capital markets more competitive, bringing the UK into line with key international markets such as the US and reducing costs for investors by limiting risks when making trades.



17 February TPR called on pension schemes, advisers and administrators to engage with it early to prevent problems arising later down the line *[read more on page 10].*



20 February TPR confirmed that it will be changing its approach to supervision and its regulation of the DC market to make master trusts the 'gold standard' in pension provision *[read more on page 10].*

20 February The Financial Reporting Council was urged to keep a "robust focus" on sustainability in its stewardship code definition, amid concerns that the current proposed definition could undermine many of the other positive measures highlighted in the code *[read more on page 13].*

21 February The government confirmed that the next valuation for all **Local Government Pension Scheme** funds, which will set the local employer contribution rates for the 2026-27 financial year, will take place as at 31 March 2025 *[read more on page 15].*

News focus

TPR updates approach to master trust supervision

The Pensions Regulator announced the plans as part of its broader shift to a more prudential style of regulation

The Pensions Regulator (TPR) has confirmed that it will be changing its approach to supervision and its regulation of the DC market to make master trusts the 'gold standard' in pension provision.

TPR announced that DC master trusts will be supervised differently going forward, in order to help identify market and saver risks sooner and enhance the pensions system.

The shift in approach will see schemes split into four segments of supervision: Monoline master trusts, commercial master trusts, non-commercial master trusts and collective DC schemes, and single and connected employer DC schemes.

Each segment will have tiers of engagement based on the specific risks they present to market and saver outcomes.

As part of the new regime, every scheme in the monoline and commercial segments will be allocated a dedicated multi-disciplinary team of named individuals with expertise in financial analysis, business strategy, investment and governance.

While driving high levels of compliance will still be a priority, TPR said that it is also seeking open and transparent dialogue to help schemes capitalise on new opportunities that benefit savers.

The new approach was confirmed following a successful 14-week pilot by the regulator, as part of which it worked with three large master trusts to gauge the best approach for the DC and master trust market.

According to TPR, the pilot showed that targeted, expert-to-expert meetings led to better regulatory outcomes, facilitated more open and constructive conversations and saw problems solved sooner.

TPR said that the new approach also allowed it to be clearer with schemes about its expectations, leading to more robust strategic decision-making, and its interactions gave better insights into scheme-specific and sector-wide risks and challenges.

In addition to this, it suggested that the more strategic approach could see fewer and less frequent, but more targeted, data requests to schemes to help reduce regulatory burden.

TPR director of DC and master trust supervision, Sam Grutchfield, said: "The challenge of the last decade was getting people saving. The challenge of the next is to make sure pensions deliver real value for money.

"With a more strategic approach to supervision, we can make effective, scheme-specific interactions using real-time data to spot scheme-level and wider risks sooner.

"There will be fewer, but more targeted data requests, and more focused, expert-to-expert meetings, allowing us to influence key decision-making in real time improving regulatory compliance and saver outcomes."

As part of its broader shift to a more prudential style of regulation, TPR also recently called on pension schemes, advisers and administrators to engage with it early to prevent problems arising later down the line.

TPR CEO, Nausicaa Delfas, made the call to action in a blog post, in which she stressed the need for an "open and transparent dialogue" with those who run pensions.

"We will continue to engage with industry in existing and new ways, so that we hear directly what the challenges are and how we, collectively, can overcome them," she stated.

"Ultimately, we want schemes, advisers and administrators to engage with us early to prevent problems arising later. We are not interested in just putting out fires. We want to stop things catching alight in the first place."

She warned that if industry professionals ignored this offer of collaboration, then they should not be surprised if TPR stepped in and intervened "in the most appropriate way", using its powers when needed.

"We want to hear your ideas and suggestions," Delfas stated. "But we also don't want there to be any surprises. You should be clear on the outcomes we seek for savers, our expectations and what we want you to do to meet those expectations."

TPR also recently outlined plans to strengthen its defences against pension scams, by stepping up the multi-agency response it leads through closer collaboration, strategic partnerships and improved intelligence.

In a blog post, TPR Pension Scams Action Group (PSAG) business lead, Paul Sweeney, emphasised that the regulator and its partners have made 'significant' strides in the fight against pension scams, highlighting the success of recent initiatives, such as the ScamSmart campaign, its industry pledge to combat scams, and the pension scam storyline in BBC's *Eastenders.*

However, Sweeney admitted that as scams present an "ever-evolving threat", tackling them effectively requires a focused approach to identify opportunities to proactively prevent or disrupt potential scams before they occur, with further evolution also needed in PSAG's response to scams.

In particular, Sweeney stressed the need for TPR to have a deep understanding of the scam threat landscape, outlining the regulator's recent efforts to enhance the national intelligence picture.

"To achieve this, we formed closer senior-level strategic partnerships across key PSAG members last year. This collaboration has already improved intelligence sharing, and we are now actively working to build a more comprehensive intelligence picture of pension fraud," he explained.

Written by Sophie Smith and Jack Gray

Sarah Smart announces plans to step down as TPR chair in July 2025.
Smart was first appointed to the workplace pensions regulator's board in 2016, first as senior independent director and latterly as chair of the board. Commenting on her departure from TPR, Smart said: "During my nine years on TPR's board a huge amount has changed in the pensions landscape and, recently, also in my personal circumstances. I now feel it is the right time for me to step away from TPR to concentrate on my personal situation. But I know that, with the strong leadership in place at TPR and hardworking and talented colleagues at all levels, we can help make the changes needed to ensure the next generation of savers have opportunity and empowerment in retirement."
The search for a successor will be led by the Department for Work and Pensions in accordance with the government's public appointments guidance, with an "ordered transition" over the next six months.

More work needed on targeted support, FCA told

Industry experts broadly welcomed the proposals, but have warned that further clarification is still needed

The Financial Conduct Authority (FCA) should provide further clarity on how trust-based pension schemes will be able to confidently make the most of targeted support, the Association of Consulting Actuaries (ACA) has said.

The FCA is currently consulting on proposals to introduce targeted support for pensions as part of the Advice/Guidance Boundary Review, seeking views on potential plans to allow firms to provide targeted support to consumers in different scenarios.

However, the ACA's response argued that further clarity is needed on how trust-based schemes will be able to confidently make the most of targeted support, even if this is to refer further consideration of this matter to the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR).

"There is no reason why a provider of targeted support should not obtain information about a member in a trust-based scheme and about the scheme itself," ACA DC committee chair, Tess Page, said.

"However, consideration needs to be given as to how this would work in practice, especially where there is no existing link between the trust-based scheme and the provider and bearing in mind that targeted support will require ongoing assessment of whether it is producing good outcomes.

"Consideration will need to be given to introducing a framework that provides trustees with the necessary comfort that allows them to provide targeted support, or something equivalent."

This was echoed by Sackers partner, Jacqui Reid, who noted that while these proposals are not intended to apply to trustees of occupational pension schemes directly, it is understood that the FCA is working closely with the DWP and TPR with the aim of either extending them to trustees or providing something similar in the trust space.

"However this is done, it will be imperative that trustees remain able to support their members with pensions guidance, without straying into the sphere of regulated advice," she continued.

"Parameters will need to be carefully and clearly drawn as grey areas can encourage a risk-averse approach, which, ultimately, constrains the help provided to consumers."

More broadly, the ACA emphasised that, in order to be most helpful to individuals, and to provide a meaningful step-up in what is on offer currently, targeted support must offer elements of both guidance and a personal recommendation, warning that, if the framework tilts cautiously towards more generic guidance the opportunity will be wasted.

However, the ACA acknowledged that a significant number of people will also still need to take personalised advice, suggesting that it would be helpful for targeted support to direct individuals to such advice where a need is identified.

In particular, the ACA warned that the current pensions advice allowance is not sufficient to cover people taking advice beyond the basics.

The ACA response also noted that the definition of 'better' is subjective and hard to predict at a point in time, given the long-term nature of retirement and investment decisions.

Given this, it suggested that an alternative approach would be to seek to prevent 'poor outcomes' as a route to better – for example, unsuitable/inefficient tax decisions, investments that are misaligned with an individual's term to retirement, etc.

Page said: "We welcome the consultation, and the ACA strongly supports creating a framework that will enable more people to access advice or support, at an affordable price.

"While there are inevitable risks associated with the proposals, these can be mitigated and monitored over time and should not prevent moving forward with a view to democratising access to support to individuals."

The Society of Pension Professionals also highlighted key concerns, particularly the need for greater clarity around the scope of support, access to pension information, and responsibility between providers and customers.

Written by Sophie Smith and Paige Perrin

'Vigorous' debate over FRC stewardship definition continues

Industry organisations have called for changes to the revised definition of stewardship included in the Financial Reporting Council's consultation

The Financial Reporting Council (FRC) has been urged to keep a 'robust focus' on sustainability in its stewardship code definition, with concerns that the current proposed definition could undermine many of the other positive measures in the code.

The FRC recently consulted on its proposed revisions to the UK Stewardship Code, including changes to amend the definition of stewardship and reduce industry reporting requirements.

In particular, the FRC proposed a change in the code's definition of stewardship to support more transparent conversations between actors in the investment chain about their investment beliefs and objectives, while being sufficiently broad to be applicable to signatories across the investment chain and different asset classes.

In its response, however, the UK Sustainable Investment and Finance Association (UKSIF) said it was supportive of alternative definition of 'stewardship' than the one proposed in the FRC's consultation proposals, emphasising the need to keep sustainability at the core.

Given this, its proposed definition, which is supported by the Pensions and Lifetime Savings Association (PLSA) and a number of UKSIF's members, is: "Stewardship is the responsible allocation, management and oversight of capital, having regard to dependencies and impacts on the economy, the environment and society, to create long-term sustainable value for clients and beneficiaries."

In its response, UKSIF also outlined an additional proposed option for an alternative definition, although it clarified that this is very much secondary to its core proposal.

"Broadly speaking, we worry that the current proposed definition could help undermine many of the other positive measures highlighted in the code consultation," the group stated.

In addition to this, UKSIF said that it would like to see the supporting language to the 'stewardship' definition give consideration to referencing the Financial Markets Law Committee opinion published last year, which could help clarify in the revised Code that stewardship is consistent and aligned to the fiduciary duties of investors.

Hymans Robertson investment associate consultant, Chris O'Bryen, also warned that "the definition of stewardship must not be weakened, and the code should continue to focus on meaningful activity and outcomes".

However, the Investment Association (IA), although in favour of plans to update the definition, raised concerns regarding the term 'sustainable', which is a restricted term under FCA Naming and Marketing Rules.

To avoid unintended compliance risks, the IA recommends that the FRC and Financial Conduct Authority (FCA) work together to promote regulatory alignment and publicly clarify whether a stewardship report acts as a 'financial promotion' under the rules.

In addition to this, it echoed UKSIF's broader concerns, acknowledging that some of its members do not support the removal of the benefits to the economy, the environment and society from the definition, with some concerned that this removes the connection with the positive externalities of stewardship and de-emphasises the importance of long-term systemic risks investors are exposed to.

This was echoed by WHEB Asset Management stewardship and climate analyst, Rachael Monteiro, who said that "any future definitions of stewardship must acknowledge the financial system's economic, environmental and social impacts and dependencies and explicitly address system-level risks that threaten market stability".

However, the IA clarified that, on the whole, members believe that there is enough flexibility in the definition to still pursue these aims where they align with clients' investment objectives.

IA director of stewardship, risk and tax, Andrew Ninian, said: "The revised definition of stewardship is supported by the majority of IA members, as it focuses on financial materiality and the role of stewardship in delivering long-term value for clients, while also meeting their broader investment objectives."

Written by Sophie Smith

ICAEW shares new guidance following 2024 *Virgin Media* pension ruling

The guidance was shared amid "much uncertainty" about how the ruling should be reflected in scheme and employer reporting

The Institute of Chartered Accountants in England and Wales (ICAEW) has issued new guidance on the *Virgin Media* judgment, acknowledging that there is currently much uncertainty about how the ruling should be reflected in scheme and employer reporting.

In the guide, the ICAEW outlined the key trustee, accounting and auditor considerations stemming from the ruling, which previously raised concerns about the validity of past pension scheme amendments.

In June 2023, the High Court ruled that a lack of evidence of actuarial confirmation would render relevant amendments to affected contracted-out DB pension schemes' rules invalid and void. The decision, which was also upheld by the Court of Appeal in July 2024, reinforced the requirement for an actuary to certify past benefit amendments made to contracted-out schemes and has created challenges for trustees, sponsors and auditors amid legal and regulatory uncertainties.

However, the ICAEW acknowledged that there is currently "much uncertainty" within the pensions sector about how the ruling should be reflected in scheme and employer reporting, emphasising that the July 2024 ruling has not completely settled the matter.

Given the current uncertainties, the ICAEW said auditors of scheme and sponsor entity financial statements should consider what impact the ruling has on their risk assessment and planned procedures, and the auditor's report.

In particular, the ICAEW suggested that, if trustees believe that their scheme may be unable to locate the actuarial confirmation that should have been obtained when amendments were made, they may wish to discuss the issue with their legal and actuarial advisers to help determine the next steps.

It said that it may also be appropriate to consult the scheme sponsor, clarifying that the best course of action selected will depend on the specific circumstances of each scheme.

"Trustees and sponsors should consider whether any formal advice obtained may then be passed on to their respective auditors to demonstrate the rationale for the trustees' chosen course of action," it stated.

The ICAEW acknowledged that some trustees are already adopting a "wait and see approach", emphasising however, that "this is not to say that trustees should do nothing".

"Trustees may, as a minimum, wish to be aware of what amendments have been made to their scheme and understand what each amendment does, as well as whether a written confirmation was required," it stated.

"Trustees may know whether the correct process was likely to have been followed when amending documents were being drafted. This could give an idea of the potential likelihood of the scheme incurring additional obligations, even if no formal investigation is taking place. Sponsor employers and auditors may wish to obtain such information when performing their risk assessments."

The ICAEW noted that other trustees have taken an information-gathering approach, although it admitted that obtaining additional information may be challenging. It also admitted that a full legal review by a pension lawyer might be necessary to determine whether section 37 was applicable to the rule change and, therefore, whether a confirmation was needed in the first place.

Despite this, the ICAEW said performing even a limited investigation could help trustees make more informed decisions about what to do next.

However, the ICAEW warned that a more in-depth investigation may not always be appropriate, noting that trustees have a fiduciary duty to protect the interests of their members and may therefore conclude that it is not a prudent use of scheme resources to perform a detailed assessment while so many uncertainties remain.

"Trustees may wish to consider whether a more in-depth investigation or analysis is needed or whether, based on the evidence available, they believe that appropriate processes were followed, even if the required written confirmation cannot be located, and therefore assess that the risk of an additional liability is low," it stated.

Written by Sophie Smith

LGPS valuation and contribution review confirmed

The valuation, which will also set employer contribution rates for the 2026-27 financial year, will take place as at 31 March 2025

The government has confirmed that the next valuation for all Local Government Pension Scheme (LGPS) funds, which will set employer contribution rates for the 2026-27 financial year, will take place as at 31 March 2025.

Employer contribution rates for the LGPS were last set based on the position as at 31 March 2022, and councils across England and Wales are currently paying a total of more than £6bn per annum into the LGPS for new benefits being built up.

Asked whether the government had a planned timetable for the next valuation and a review of employer and employee contribution rates, Local Government and English Devolution Minister, Jim McMahon, confirmed that this is expected in the upcoming months.

"As required by Regulation 62 (1) of the LGPS Regulations 2013, a formal valuation of all LGPS funds is carried out every three years," he stated. "The next valuation will take place as at 31 March 2025. This will set local employer contribution rates which will come into effect for the 2026-27 financial year."

And this could bring significant changes in contribution levels, as recent analysis from LCP suggested that the actual contribution rate required to provide for new benefits being built up, based on the position today, could be half the rate at 31 March 2022.

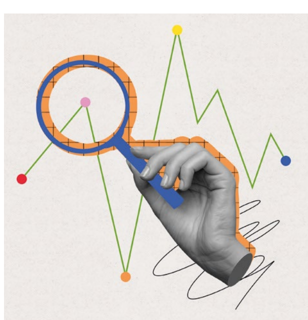
"As we approach the 2025 valuation we expect some big changes in contributions if financial markets remain similar up to the end of March," LCP partner, Tim Gilbert, stated. "Given the huge swings in funding positions we have seen recently, we think LGPS funds should build contribution flexibility mechanisms into the results to give greater scope for reflecting future changes. Given the structure of the LGPS, funds that have delivered strong investment returns should consider what they are looking to achieve. They may wish to build up a reserve to protect against future risks, or to reduce the cash cost of providing benefits."

Written by Sophie Smith

Govt faces further queries on non-indexation of pre-1997 pension rights

The Pensions Minister is expected to provide further updates on pre-1997 indexation issues "shortly"

Work and Pensions Committee (WPC) chair, Debbie Abrahams, wrote to the new Pensions Minister, Torsten Bell, to request further information on the government's consideration of issues surrounding the non-indexation of pre-1997 rights.



The WPC previously recommended that the government legislate to improve Pension Protection Fund (PPF) compensation levels, after its inquiry found that, for PPF members, the priority was indexation of pre-1997 benefits, which have had a disproportionate impact on women and older scheme members. It also argued that the same must apply, funded by the taxpayer, to Financial Assistance Scheme (FAS) members, who tend to have more of their service before 1997.

Secretary of State for Work and Pensions, Liz Kendall, previously confirmed that the Pensions Minister, Torsten Bell, would be writing to the committee with an update "shortly".

However, Abrahams has since written to Bell to request further updates, stressing the need for a quick response from the government, citing evidence from the WPC's ongoing inquiry on pensioner poverty, which highlighted the impact of cost-of-living increases on pensioners.

Written by Sophie Smith

News in brief

***Pensions Age* summarises some of the latest news in the pensions industry, including the latest product launches, climate commitments and best practice guidance...**

ESG commitments take centre stage

Recent research and updates from the pensions industry have placed a renewed focus on how pension schemes should be taking environmental, social and governance (ESG) considerations into account:

• Pension scheme trustees should not lose sight of the urgency of climate change, the Trustee Sustainability Working Group said, encouraging trustees not to use recent changes in international priorities as a reason to move climate issues off their agenda.

• Pension schemes and providers urged asset managers to evolve and strengthen their climate stewardship strategies in a new Asset Owner Statement on Climate Stewardship, highlighting the 'imperative' need for climate action.

• Pension providers were urged to do more to address climate issues, after research from Make My Money Matter found that pension providers are continuing to fail to address their role in financing the climate and nature crisis, posing a 'serious risk' to the retirement of British savers.

• Backing for the UK Stewardship Code continued to grow over the past year, as the Financial Reporting Council confirmed that there are now 297 signatories to the code, representing £52.3trn in assets under management. The list of signatories now includes 199 asset managers, 77 asset owners and 21 service providers.

[Read more about the UK Stewardship Code on page 13] .

De-risking ahead of the new year

Despite a renewed focus on run-on, several pension risk transfer transactions were announced over the past month, as demand in the bulk purchase annuity market continued:

• The 1973 Pension & Assurance Scheme of The Boys' Brigade secured a £4.5m full scheme buy-in with Just Group, covering 49 members.

• Lufthansa UK Pension Trustee Limited secured a £120m agreement with Royal London, which insures Lufthansa Group's three UK DB pension schemes in one integrated transaction.

• The Geoghegan & Company Staff Pension Scheme completed a £1.5m full scheme buy-in with Just Group, securing the benefits of all 16 scheme members.

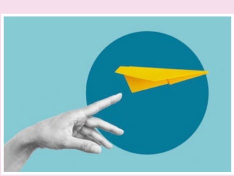
• The Deutz Retirement Benefits Plan completed a £16m buy-in with Just, securing the benefits of 181 members.

• The trustee of the Low & Bonar Group Retirement Benefits Scheme completed a £50m full buy-in, covering all remaining uninsured members.

• The Finning Pension Scheme secured a £250m buy-in with Standard Life, covering all 2,170 scheme members.

• The BAL section of the Tui Group UK Pension Trust completed a £370m buy-in with Legal & General Assurance Society, meaning that all section benefits are now fully secured.

A changing market



The past month brought more than a few acquisitions and partnerships in the pensions industry:

• Zedra partnered with Heka Global on the launch of an AI tracing service, designed to reconnect pension scheme members with lost retirement savings.

• Adapa Advisory partnered with environmental, social and governance (ESG) data and reporting solutions provider, Integrum ESG.

• Global reward and benefits platform Benefex acquired Vebnet from Standard Life, part of Phoenix Group, for an undisclosed sum.

• XPS Pensions Group announced that it agreed to acquire UK insurance consultancy business Polaris Actuaries and Consultants. The acquisition is intended to 'materially accelerate' the group's plans to become a leading player in the UK insurance consulting market and is expected to be immediately earnings accretive.

• PensionBee partnered with ClearScore as it looks to improve savers' financial wellbeing, by providing consumers with greater visibility and control over their financial futures. As part of this partnership, PensionBee's services will be integrated into ClearScore's 'Credit Health' section.

Diary: March 2025 and beyond

PLSA Investment Conference 2025

11-13 March 2025
EICC, Edinburgh

The PLSA Investment Conference returns as the PLSA's first conference of 2025. It will bring together leaders from pension funds, asset managers, investment banks, consultants, and government to focus on investment returns and economic growth. The threeday programme will include speakers such as Pensions Minister, Torsten Bell, William Hague, and Katy Balls. Sign up online at: **plsa.co.uk/events/conferences**

Pensions Age Spring Conference

24 April 2025
Hilton London Tower Bridge Hotel

The Pensions Age Spring Conference is back this year to offer pension funds and those working in the pensions sector the opportunity to learn and network alongside their peers at a time when pensions is undergoing a time of dramatic evolution. The one-day event will offer delegates up-to-date knowledge and guidance to help them run their pension schemes and meet their members' needs. Register online at: **pensionsage.com/springconference/**

Wealth & Asset Management Awards 2025

1 May 2025
The Waldorf Hilton, London

The Wealth & Asset Management Awards celebrate success and innovation in the wealth and asset management industry. Looking for success in both retail and institutional money management and investment to help clients from UK consumers to pension funds, charities and insurance companies. More information and tables bookings are at: **moneyage.co.uk/assetmanagementawards/**

European Pensions Awards 2025

3 July 2025
London Marriott Grosvenor Square

Now in its 18th year, the European Pensions Awards were launched to give recognition to investment firms, consultancies and pension providers across Europe that have set the highest professional standards to best serve European pension funds over the past year. The awards are free to enter and open to any fund or firm that serves European pension funds. More information and table bookings are at: **europeanpensions.net/awards/**

Visit www.pensionsage.com for more diary listings

Don't forget...

Pensions dashboard connection date

30 April 2025

The deadline for master trusts with 20,000 or more active and deferred members to connect to the pensions dashboard is 30 April 2025.

pensionsdashboardsprogramme.org.uk/connection/deadline

VIEW FROM THE SPP: Changes – immune to our consultation?

David Bowie's song *Changes* used the great line about being "immune to your consultations".

HMRC's consultation about inheritance tax on pensions and the Pensions Investment Review have both recently closed. These consultations, alongside DWP/industry engagement on the *Virgin Media* case, prompt reflection as to whether the pensions industry is becoming immune to the consultations, or the government is?

The industry's response to consultations shows engagement and a willingness to try to improve the legislation produced and raise, in a positive way, issues as to how government policy will work in practice.

Organisations like the SPP bring together a diverse range of professional disciplines in the pensions industry to look at a consultation from all angles and share the load in doing so. But is the SPP's approach to consultations more 'Canada' to others' 'America'?

What? Well, the SPP is like Canada, a cultural mosaic of different pension professionals (admin, covenant, legal, actuarial) working together, as an alternative to the American melting pot approach aiming at one discipline's view (equally valid), in responding in detail to consultations.

Responding to consultations does help shape pensions by having a dialogue and so, on this occasion Bowie, I do not think we, or the government, are immune to consultations.

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

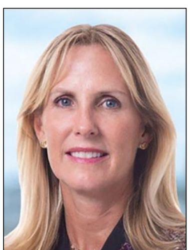
SPP council member, Janet Brown

Appointments, moves and mandates


Tony DeBiase

Zedra has appointed Tony DeBiase as chief financial officer.
With over three decades of industry experience, DeBiase joins Zedra from The Davies Group, where he held the role of group chief financial officer for 12 years. He brings board experience to the role, with a particular focus on private equity-backed organisations, and experience in acquisitions and integration. Zedra chief executive officer, Ivo Hemelraad, said DeBiase joins at a 'pivotal' time in Zedra's growth journey. Additionally, Zedra has appointed Paul Haynes and Adam Klooster as commercial directors, based in London and San Francisco respectively, to support its corporate and global expansion team.

The Citrus Pensions Plan (Citrus) has appointed Russell Investments as its implementation partner.
The appointment follows a competitive tender process led by Citrus' investment adviser, Hymans Robertson. Russell Investments will partner with Citrus, Hymans Robertson and ndapt, its sole trustee, to deliver a comprehensive investment strategy across a £300 million investment portfolio. Russell Investments will provide Citrus with tailored access to investment managers, alongside an enhanced governance and operational framework, to implement a bespoke strategy for each section. Citrus chair of trustee, Marcus Hurd, said: "The firm has a long record of providing innovative investment solutions and services, which will benefit our members and employers. We look forward to leveraging their expertise and scale to develop the master trust further."


Tracy Blackwell

Pension Insurance Corporation (PIC) has announced the retirement of CEO, Tracy Blackwell.
Blackwell informed the board of her retirement after almost 20 years at the company. The board will now formally search for a successor, considering internal and external candidates. PIC chairman, David Weymouth, said: "The board would like to thank Tracy for her leadership of the company. Tracy has had a long and distinguished career at PIC and in the wider insurance and pension industry, and we are very grateful for her significant contribution, which was most recently recognised by her award of a CBE. She will leave PIC in a strong position as it enters the next phase of its growth."

Hymans Robertson has appointed Emma Cameron as head of its investment consultancy.
Cameron is a partner at Hymans Robertson and joined the firm in 2012, having previously worked at Deloitte and Mercer. In her current role, she advises trustees of DB pensions schemes on a full array of investment issues. Alongside her client commitments, Cameron is chair of the firm's investment committee and is a member of partnership council, one of the firm's governing groups. She takes over the role from Anthony Ellis, who has led the team for the past six years. Commenting on her new position, Cameron said: "I am thrilled to have been appointed at such a busy and exciting time for the investment market. I look forward to leading our team in the next phase of our evolution, using our extensive investment expertise to solve our clients' challenges."


David Fairs


Kim Gubler

The Pensions Administration Standards Association (PASA) has appointed David Fairs as chair and Kim Gubler as president.
Founder of the governance consultancy, KGC, Gubler is also the principal examiner for Pensions Management Institute's Advanced Diploma's final qualifying module and has acted as subject specialist to The Pensions Regulator (TPR). She is an accredited independent trustee for the Smart Pension Master Trust, sits on the Pension Dashboards Programme Advisory Group, and works with the Department for Work and Pensions to deliver a solution to the small pots challenge. Meanwhile, Fairs joined LCP as a partner in April 2023 and previously served as TPR's executive director for regulatory policy, analysis, and advice. He is currently a governor of the Pensions Policy Institute (PPI) and chair of the Advisory Board for a joint PPI/Kings College research project into collective defined contribution. Fairs commented: "PASA has made significant strides in improving pension administration standards, and I'm honoured to take on the role of chair at this critical time. With increasing regulatory requirements, technological advancements, and evolving member needs, pension administration has never been more important. Gubler added: "It's been a privilege to serve as PASA chair and witness the association's growth. The role of administration is evolving rapidly, and PASA leads the way in shaping the future of the industry. As president, I will still be involved and will continue to champion PASA's mission, supporting David and the board as they drive forward new initiatives."


Francesca Garrett-Levy


Charlie Culley


Hester Potiuk


Lisa Hampton


Vanessa Jackson

The Pensions Management Institute (PMI) has promoted five individuals to senior roles.
After over a decade at the PMI, Francesca Garrett-Levy has been promoted to operations director, where she started as a qualifications administrator in 2013. Additionally, Charlie Culley, who joined the PMI in 2022 as a business development executive, has been promoted to business development manager. Hester Potiuk has also been promoted to head of events. She joined the PMI in 2022 as a marketing and events executive and was promoted to events manager in 2023. Lisa Hampton, who joined PMI in 2023 as a training developer & administrator from the Pensions and Lifetime Savings Association, has been promoted to training manager. Meanwhile, Vanessa Jackson, who joined the PMI in 2019 as a qualification manager, has been promoted to head of qualifications.

The People's Pension has appointed People's Investments Limited (PIL) as the primary investment adviser to the trustee of its master trust.
After receiving authorisation from the Financial Conduct Authority (FCA), the DC master trust will now have a dedicated, in-house team producing investment advice and overseeing assets, built and developed specifically with the trustee's and members' needs in mind. PIL will continue to benefit from the expertise of investment consultants where appropriate, using consulting firms on a project basis with a panel of potential providers. PIL chair of the board of trustees, Mark Condron, said: "It has been great to see the development of the investment team within People's Partnership, and we believe we are now at a stage where it is appropriate for the team to take on the primary advisory role to the trustee."


Barry Butler

Standard Life has appointed Barry Butler to its Independence Governance Committee (IGC).
Butler will oversee the interests of 2.7 million scheme members, and joins the IGC following Andrew Davies' transition to chair and brings extensive financial services experience, including board expertise, given his role as a MetLife director. Butler commented: "I am delighted to join the Standard Life IGC at such a crucial time for workplace pension savers. With consumer duty changing the game, pension reform on the government agenda and increasing focus on customer outcomes and value for money, I look forward to working with the committee to serve customers' best interests."

Utmost Life and Pensions has appointed Schroders to manage its nearly £400m annuity book.
The nearly £400m annuity book includes two agreements with external pension schemes completed by Utmost in Q4 2024, with those assets having transitioned to Schroders in late 2024. As part of the partnership, Utmost is expected to benefit from Schroders' insurance asset management capabilities, including insurance solutions and relevant market support through pricing and bidding, and solutions liability-driven investing and trading teams who will be responsible for derivative hedging in portfolios. Commenting on the appointment, Schroders Solutions executive chairman, James Barham, said: "Utmost has developed a strong and credible offering to address the significant demand for pension risk transfer in the UK, having established a healthy pipeline for 2025."

Aegon has appointed Amanda Wright as general counsel and company secretary.
Wright will take on the role in May 2025, joining Aegon from Chesnara plc, where she was group general counsel, company secretary, and a member of the executive leadership team. Prior to her role at Chesnara, Wright spent 15 years with Standard Life, where she held several senior leadership roles including head of legal for the platform business and latterly head of strategic relationships. Wright takes over from James MacKenzie, who held the role since 2009, and stepped down at the end of 2024 to become head of investor relations at Target Fund Managers. Wright commented on her appointment: "I am delighted to be joining Aegon and I am looking forward to working with the team to build the UK's leading digital savings and retirement platform."

VIEW FROM TPR: Dashboards are an opportunity to focus on data

Data quality is essential for the success of pensions dashboards and, with dashboards deadlines looming, every trustee should see it as a priority.

We want dashboards preparation to be a catalyst for greater attention on the pensions industry's data rather than the end of the digitalisation journey.

Schemes should undertake regular data reviews and rectification to improve data quality in preparation for dashboards.

We also recognise the importance of data in enabling innovation, transparency, and regulatory effectiveness.

High-quality data will be vital to ensure savers can find and engage with their pensions through dashboards, giving them better access to pensions information, aiding retirement planning and improving outcomes.

Beyond dashboards, we want schemes to adopt common standards for data and, where appropriate, make data more open – easier to access, use, modify, and share.

This should bring benefits including efficient administration, managing costs, better risk assessment, and supporting strategic planning.

Our upcoming data strategy aims to create an efficient and effective pension industry that meets new benchmarks for transparency and efficiency.

Schemes should seize this opportunity to improve data and adopt new technologies, including AI, which ultimately, I believe will lead to improved saver outcomes.

The Pensions Regulator
Making workplace pensions work

TPR director of data services, Lisa Allen

View from the PLSA: A strong start for the Pensions Minister

It is positive to see the Pensions Minister, Torsten Bell, espousing the importance of pensions and the key role they play in the "financial plumbing of our capitalism" in the national press recently.

When Bell took on the role of Pensions Minister, we at the PLSA were encouraged, recognising his background in economic policy and deep understanding of the pensions landscape.

From the outset, Bell has engaged with the industry, including productive meetings with the PLSA, in which we have discussed opportunities for positive reform during this parliament. He has taken positive and quick action where required: for instance, by backing legislative change to deliver a fairer settlement on the Pension Protection Fund levy. He expects the industry to consider its role in the government's growth agenda within the context of fiduciary duty, with the aim of improving outcomes and living standards.

The Minister's ongoing engagement with the industry will be essential in shaping effective and forward-thinking policies. The PLSA looks forward to working with Bell as these discussions progress. With collaboration, we can make further strides towards a pensions system that is adequate, affordable, and fair for all UK savers.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

PLSA director of policy and advocacy, Zoe Alexander

View from the PMI: Increasing pressure on trustees and administration

Having worked in pensions for over 30 years, I thought I'd seen it all. I was wrong. Never has there been a time when pressure on trustees has been so acute. Trustees are being asked to spin a lot of plates and are looking to their scheme administrators for help.

We are seeing more member engagement than ever before on day-to-day administration. In addition to this we have projects such as GMP equalisation, more schemes getting buyout ready and, of course, schemes preparing for their pensions dashboards staging date.

Pensions administrators have never been in such demand, in spite of the efficiencies gained through the sophisticated systems with which we work. The relationship between trustees and their administrators has never needed to be this close and cohesive. The days of trustees simply instructing their administrators to deliver and watching it happen are slipping away. Now, more than ever, there needs to be clear dialogue between the two parties on what work should take priority.

This may make trustees think about moving administration provider if they don't like what they are hearing. But with all providers under pressure, my advice to trustees is to speak regularly with your administrators, give them clear priorities and only look elsewhere if, in spite of active dialogue, they continually fail to deliver.

PMI

PMI president, Robert Wakefield

TPT Retirement Solutions chief client strategy officer, Andy O'Regan

Podcast: The role of CDC

In the latest *Pensions Age* podcast, Laura Blows speaks to TPT Retirement Solutions chief client strategy officer, Andy O'Regan, about the role of collective DC (CDC) within the UK pensions space

Collective DC (CDC) has long been described as a 'middle ground' between DB and DC. Therefore, TPT Retirement Solutions' 75-year-plus experience of managing £9 billion in assets, within both DB and DC, makes it ideally placed to consider how CDC will fit into the UK pensions landscape.

TPT Retirement Solutions chief client strategy officer, Andy O'Regan, explains that CDC provides members with an income in retirement, akin to DB, rather than the pot of money they would receive under a DC arrangement.

"But unlike a DB scheme, the employer doesn't guarantee that the pension paid by the scheme. So effectively, CDC schemes provide a target pension in retirement, and that target pension is adjusted annually based on the investment performance and the life expectancy experience of the scheme."

O'Regan highlights how there are both 'whole-of-life' CDC, where the employee accrues the CDC pension throughout their working lifetime, and 'decumulation-only CDC', where the member participates in a traditional DC arrangement and then purchases a CDC pension at retirement.

However, O'Regan believes the latter is still several years away, while a 'whole-of-life' CDC scheme already exists in the UK, with Royal Mail's CDC offering to its employees, which launched last year.

O'Regan predicts that having CDC enter the mainstream pensions industry will lead to better retirement outcomes for members.

This, he says, would be achieved through higher benefit amounts that CDC is expected to achieve, compared to a standard DC scheme with the same number of contributions, due to being able to keep a higher proportion in growth assets by pooling investment risk across the membership, he explains.

By providing a regular income at retirement, CDC also takes away the need for the retiree to make complex product decisions, O'Regan adds.

And what about the benefits to employers? "CDC allows employer to improve the benefits they offer their employees without an increase in contributions or payments", O'Regan states.

Currently considered to only be an option for large sponsoring companies, this year O'Regan expects the foundations to be laid for smaller-sized employers to be able to offer this through multi-employer CDC schemes.

It has been said that DC master trusts would be the best placed to provide multi-employer CDC. Yet, O'Regan highlights that "the administration and management of a CDC scheme is actually more akin to a DB arrangement than a DC one".

"So, I think knowledge of the operation of both DB and DC scheme types is really invaluable from a *[CDC]* provider's perspective. We're ideally placed *[to provide a CDC solution],* given *[TPT's]* breadth across DB and DC, to deliver a solution that combines both elements," he explains.

Instead of thinking of it as a future possibility, employers should be considering whether CDC would be appropriate for them now.

"At TPT, we've been speaking to hundreds of employers who have all expressed interest in how a CDC scheme could be delivered for their employees," O'Regan says.

"However, the process to launch a CDC arrangement would likely take a couple of years, so we think that employers should engage early, because their internal processes will also take some time, in order to change benefit structures.

"We believe that employers, members and the wider economy could all benefit from the introduction of CDC, and we do genuinely expect to see its increasing adoption in coming years, which is very exciting."

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

View from the AMNT: Pensions – an uncertain world

The uncertainty principle set out by Heisenberg is a fundamental concept in quantum mechanics. It states that there is a limit to the precision with which certain pairs of physical properties, such as position and momentum, can be simultaneously known. We are here talking about virtually indiscernible physical situations on the quantum scale. A concept way above my understanding and yet we all deal with 'uncertainty' whether in life or in the pensions world.

There are significant changes taking place within the industry, with proposals for DC mergers into megafunds, new regulations, revised codes of practice and, not least, the second stage of the government's pension review. So why are these events 'uncertain' if we know what is coming?

Because, like in physics, we are unable to know, with precision, what the final change will look like or what the final impact will have on pension funds and trustees.

Although not wishing for a 'deterministic' stand point; allowing instead for those in the industry to have their say on proposals through consultation, more 'certainty' would enable trustees to plan and concentrate on their priority; ensuring their members savings are safe and they receive full value for their investment. I believe it is a time for a period of calm reflection.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

VIEW FROM THE ABI: Powering growth through pensions

The UK government is on a mission for growth. Our report, *Powering UK Growth through Pensions,* takes stock of providers' current investment in the UK and offers recommendations to encourage more.

Data from our members reveals 65 per cent of assets (£178 billion) are invested in the UK. Also, £50 billion is channelled into UK corporate bonds, much of which finances infrastructure projects such as offshore windfarms and the Thames Tideway Tunnel. Another £50 billion is invested in UK mortgages and loans, helping individuals and businesses thrive. Just under £50 billion goes into UK government gilts, funding essential public services and long-term public investments.

The Pensions Policy Institute estimates DC pensions invest another £236 billion (23 per cent of total) in the UK, split between gilts (£118 billion), listed equity (£51 billion), corporate bonds (£36 billion), property (£21 billion) and private equity and alternatives (£10 billion).

To attract even more investment in the UK, the government should continue vital plans to deliver industrial strategy and planning reforms. The National Wealth Fund, and the 10-year infrastructure strategy progress are promising steps. The government must double down on these efforts to attract private investment.

ABI

ABI senior policy adviser for long-term savings policy, Maria Busca

VIEW FROM THE PPI: PPI's industry workshop on government consultation

2025 will be a busy year for pensions policy. We have just seen four consultations close. These cover boosting economic growth through UK pensions, reforming the LGPS, mitigating pensioner poverty, and a new regime for targeted support between the boundaries of advice and guidance.

In January, the PPI facilitated a workshop on behalf of HM Treasury to discuss the topic of unlocking the UK pensions market for growth. Over 60 industry professionals were joined by the Pensions Minister at the time, Emma Reynolds MP, along with officials from Treasury and DWP to share their views on proposed reforms. Proposals included solutions to deliver scale, accelerate consolidation and drive a focus on value for money over cost within DC schemes.

Two themes stood out through the expert insights. The first was a common challenge to the notion that solutions designed to boost economic growth will implicitly deliver better outcomes for members. Participants urged the government to look beyond measures of scale as a proxy for performance and mitigate the risks that the proposed rules could pose to innovation and smaller, high-performing schemes. The second was a universal call for a clear and timely roadmap to help schemes understand the impact of ongoing policy changes and prioritise member outcomes.

PENSIONS POLICY INSTITUTE PPI

PPI senior policy researcher, Anna Brain

New tools for PRT

Kelvin Wilson looks at AI and technology impacting the pensions risk transfer (PRT) market

Technology has always played an important role within pension risk transfer (PRT) – from software that administer and record pension benefits to complicated asset liability management (ALM) models that attempt to orchestrate scheme funding.

In this article, Heywood director of PRT, Kelvin Wilson, discusses how artificial intelligence (AI) and machine learning (ML) technology could be added to existing technology to bring efficiencies and enhance the value proposition for all stakeholders within PRT.

AI refers to imitation of human cognitive functions using computers, whilst ML is a subset in which machines produce outputs based on algorithms trained on past data. We will consider four (not exhaustive) areas of the PRT value chain: Assembling liability information (the pension scheme); Broking to get pricing (the adviser); Transaction implementation (the trustee); and Buyout risk settlement (the insurer).

Assembling liability information

Accurate assembling of information relating to pension members and their entitled benefits forms a key part of risk transfer transactions. Being 'transaction ready' for a scheme requires trustees, administrators and advisers pulling together extensive and diverse data sets, ensuring accuracy and completeness. AI can significantly improve the speed, accuracy and automated way in which such data is collected. From AI tracing techniques that use algorithms for locating pension beneficiaries to technology that read and translate historic pension benefits into summarised benefit specifications, AI technology is already helping schemes embark on their PRT journeys.

Broking and pricing

Broking advice and actuarial modelling play pivotal roles in the PRT value chain. Whether it is a longevity swap or a bulk purchase annuity (BPA), the decision to transfer risk out of the pension scheme needs to be analysed and assessed on a cost-to-risk reduction basis. The scheme, with help from their advisors, must decide on which risks to transfer, how, when and at what price.

AI's ability to expedite calculations, analyse dynamic changes in market conditions and support automated drafting of risk transfer contracts allows for capture of market opportunities and operational efficiencies. Example usage has been during newly developed streamlined BPA transaction processes for small pension schemes (those typically with assets less than £150 million). AI technology has been developed to automate translation and mapping of data from multiple small schemes into unique insurer templates.

Transaction implementation

Completing a PRT transaction should rightly be celebrated but a BPA buy-in or longevity swap is usually the pathway to pension liability settlement or run-on to self-sufficiency. It activates further, non-trivial, data analysis, calculations, processing and exchange of information.

Application of technology to necessary areas of insurance payment reconciliation, guaranteed minimum pension (GMP) equalisation/rectification, data migrations and benefit translations are now a given. Where we are seeing AI add value to these processes are in automating, standardising and personising to bring operational efficiencies, reduce costs and enhance pension members and policyholder experiences.

Liability settlement and run-on

Whether a scheme is running on, settling liabilities through insurance or transferring to a commercial superfund, good risk management of assets and liabilities will be needed at the endgame destination. Pension member and policyholder engagement, facilitated by an effective communications strategy, is also something stakeholders are actively looking to improve.

AI, through machine learning and deep learning, is able to supplement conventional actuarial models in ALM (that are based on time-tested statistical methods) with complex, non-linear dynamics, removing the need for frequent expert recalibrations in light of market changes.

AI is being deployed to enhance communication strategies through use of videos and emails that have delivery and content linked to the personal circumstances of the individual. These solutions will help schemes and PRT providers become more secure, efficient and attuned to the needs of their members and policyholders.

AI that supplements many of the technology already deployed represents a significant opportunity for the UK and global PRT market. Potential benefits range from advanced data analytics to tailored financial advice, and from operational efficiency to enhanced member communication.

Written by Heywood director of PRT, Kelvin Wilson

Soapbox: Investing in Generation Z's future

Turns out Generation Z (individuals born between 1997-2012) care a lot about where their pension investments go, so much so that 86 per cent of them would rather accept lower pension returns and work longer than put their money into industries they see as socially or environmentally harmful. Compare that to 73 per cent of Millennials and just 34 per cent of the general population, and it's clear that Generation Z are taking ethical investing to a whole new level.

The industries that Generation Z do not want their pension money invested in are very telling. Tobacco topped this list, closely followed by alcohol, defence, and ammunition. Many also expressed reluctance to invest their pension funds in fast fashion and the oil and gas sectors.

It's pretty clear that this generation is committed to not compromising on their values, even if they receive less in their pension in the long run.

However, this conflicted with another set of research released last month, in which MRM found that almost half of Generation Z have "never heard" of DC pensions.

Despite their ethical investment preferences being commendable, a lack of understanding regarding retirement options could lead to serious challenges in their long-term financial planning.

The bottom line is that the concept of retirement being once seen as a fixed stage in life is transforming Generation Z.

As, instead of retirement being a destination at the end of their career, savers see it as a flexible journey, dependent on their individual goals and financial realities.

Maybe Generation Z have this right, possibly assuming that they will not be able to retire until later than expected, given rising living costs and longer life expectancy and as a result feel as if they might as well align their ethical decisions with their choices in retirement.

However, Standard Life's recent *Retirement Voice* survey found that 9 per cent of retirees over 55 have unretired or are actively looking for work, either because of financial pressures, lack of pension savings, or a desire for social connection.

This suggests that by the time Generation Z reach retirement, they could be facing the same issues that the current retirees are facing.

However, there is a problem as many still don't have the financial literacy to make informed decisions about their future.

Interestingly, when Generation Z do seek financial advice, they aren't talking to financial advisers or their pension providers. Almost half receive their information from platforms like TikTok, Instagram, Twitter, and Reddit.

And 59 per cent follow financial influencers (and everyone who said this, said they have made a financial decision based on influencer content).

Surely, this is a wake-up call for the pension industry. There's an urgent need for pension providers to adapt to these changing attitudes. This means creating frameworks that not only cater to ethical investment preferences but also prioritise financial education for younger generations.

Generation Z aren't just thinking about their future, they are thinking about the planet's future too. But if they don't receive the right financial education, all their intentions won't mean much when it's time to retire.

The industry needs to step up and bridge the gap, making sure Generation Z can invest both with their conscience and their long-term security in mind.

The key lies in the industry considering different perspectives and ensuring that younger generations can not only align their investments with their values but also achieve financial security.

Written by Paige Perrin

A week in the life of: Cartwright Pensions Trust - Director of Pensions Administration, Julie Yates

I have worked in the pensions industry for over 35 years, the last 11 of those with Cartwright. At Cartwright, I am responsible for leading, managing and developing the pensions administration business stream and ensuring our clients, and their pension scheme members, receive a consistently excellent and efficient service. My team is based across our Farnborough and Chelmsford offices, but we follow hybrid-working patterns. Myself, I like to work from my nearest office in Farnborough at least two days a week as I love the great camaraderie in the office.

Monday

Every Monday starts with an online meeting with my managers to discuss deliverables and progress. The teams are always very supportive of each other, which is great to witness on these calls. Next, I meet with our specialist from The Pensions Regulator, and today the focus is on pensions dashboards. We are in a good position; we are connection ready and data ready.

After lunch, I spend some time drafting some pensions dashboards communications for our clients. I'm passionate about it and I want to ensure our clients are fully up to speed, not only with what we are doing, but also what's going on in the market. Pensions dashboards have such huge potential, but I would be lying if I said I didn't have some concerns – namely for members of pension schemes that don't have to connect under the required membership. This applies to some of our clients, so my communication also covers this scenario, and suggests how best we support these members.

Tuesday

It's an early start today as I need to be in the office for a client meeting – I live in between three schools, so I have to ensure I miss the 'school run' times. Our investment team hosts the meeting as one of our mutual clients wants to discuss its endgame. It's a big step for this client but we have a lot of experience dealing with such transactions and I present a case study on a similar scheme that we took to wind up. In the afternoon I receive a call from our chairman, Ian Cartwright. We have been approached to tender for two potential new clients. We discuss if we would be a good fit for their business and decide to proceed with these opportunities, which is very exciting.

Wednesday

It's 7.30am and I am on my way to our Chelmsford office to host a meeting with an independent trustee. I love talking to trustees and sharing insights and our areas of expertise. It has been a long, but very productive, day and a second meeting has been scheduled at the trustees London office so we can meet with some more of their colleagues. Well worth the trip around the dreaded M25.

Thursday

I am back in the Farnborough office today and spend much of it in meetings with other directors, discussing some exciting innovations and the launch of new service lines planned for 2025. Next, I meet the payroll team to share some good news. We recently took on a payroll-only client and I received fantastic feedback from the sponsoring employer as to how smooth the transition was – it is great to be able to give this message back to our hardworking team.

Friday

How?! I'm working from home today and open my inbox to one of the request to tender documents from the potential clients I found out about on Tuesday. Its aim is to get to wind up before it is due to stage on the pensions dashboard to avoid unnecessary costs. I feel confident we can help – we have already completed this for several schemes we took on in 2024. I attend an online meeting hosted by our head of implementation in the afternoon to discuss the three transitions that we are currently working on. This week, all the transitions are on track in line with their transition project plans. Always happy to end the week on a positive note and I'm looking forward to a long overdue lunch with friends in London on Saturday, followed by a visit to the Jazz Café in the evening.

VIEW FROM THE PPF: A positive step forward on our levy

At the PPF, we were pleased to welcome the government's recent statement that it was considering proposals to give us greater flexibility to reduce our levy.

Levy payers have long made a vital contribution to our funding. We ultimately do not want to charge levy payers any more than we need.

We've long recognised that our reliance on the levy to manage our funding would reduce over time. In recent years, as our funding position has strengthened and risks reduced, we've been working closely with government colleagues on the case for change.

In late January we finalised our plans for the 2025/26 levy. We've more than halved our levy estimate for next year to £45 million – the lowest in our history. This means that more than 99 per cent of schemes will see a reduction in their levy next year, helping reduce costs for most schemes and corporate sponsors.

We've also introduced a provision in our levy rules that would enable us to calculate a zero levy if appropriate changes are brought forward and sufficiently progressed in the course of 2025/26.

We want to thank all our stakeholders for their engagement with us on this. Looking ahead, it is a priority for us to continue to balance the needs of our levy payers and members alike. We'd also welcome fresh government consideration on PPF and FAS indexation rules. We'll keep working with government in the interests of all our stakeholders.

Pension Protection Fund

PPF chief actuary, Shalin Bhagwan

VIEW FROM PASA: To trustees, from administrators

Dear trustees,

A plea from your administrator – please engage with us in relation to your data scores.

As we enter another Scheme Return season, it's time for attention to be focused, even more than usual, on data and record keeping. It's especially important this year given TPR's change in approach to reviewing the data scores included on Scheme Returns. This was noted in PASA's Data Scoring Guidance last year and discussed in the follow up joint PASA/TPR webinar.

Where reporting dates or recorded scores haven't changed over the past few years, schemes will be approached and asked about their record-keeping activities. To keep ahead of these requirements, you should engage with your administrators to ensure a current data assessment has been completed, the output considered, and a plan put in place to improve your data.

Data is only a cost to you if it's ignored. Missing or inaccurate data leads to uncertainty and errors. We regularly remind trustees through our administration reporting and as part of other projects, it's good practice to maintain and improve data quality. We're hopeful TPR's renewed focus on an initiative which has been with us since 2010 will encourage and empower you to work with us to make the relevant investment in data, which underpins every activity within your scheme and ultimately the value we can work together to provide to members.

Yours sincerely,
Your Administrator

PASA
assess | aspire | achieve

VIEW FROM THE ACA: Extracting DB surplus

We recognise the importance of unlocking growth and productive finance in the UK to the government's agenda and to UK corporate employers.

The Chancellor's speech on 29 January described legislative change to permit surplus DB pension scheme assets to be extracted where there is agreement between employers and trustees. ACA welcomes the possibility of new surplus flexibilities and can see how this could benefit all stakeholders and the UK economy, as part of a long-term sustainable regime for DB schemes.

We expect the government's policy aims will be met by focusing on a practical solution for medium and large pension schemes and that these schemes are most likely to have the economy of scale to take up the flexibility. Unlike the DB funding regime that applies to all schemes, we suggest the surplus regime can be largely designed with medium to large schemes in mind and still support the government's aims without adding to the burden of regulation for all schemes. For the avoidance of doubt, we are not proposing that any new regime is restricted to schemes of a particular size.

To aid officials in considering the detail of the legislation needed, we have proposed seven key areas that any framework of legislation and supporting guidance should satisfy. The paper we have produced – *Unlocking DB Surplus* – published in late February, is based on our extensive technical knowledge and wide practical experience in what can be a very complex area.

ACA
ASSOCIATION OF CONSULTING ACTUARIES

ACA chair, Stewart Hastie

From *LA Law* to pension law

Zedra Inside Pensions managing director, Manjinder Basi, chats about her journey into pensions, her biggest Ikea fails, and more

What's your employment history (including jobs outside of pensions)?
Whilst studying, I had a part-time job at Littlewoods – back when it was an actual store! I will never forget the unforgiving uniform – a floral blouse and pleated skirt with a burgundy waistcoat. Delightful! I also spent some time as a paralegal dealing with personal injury and trademark infringement cases. For the latter, this meant a lot of time spent in various courts around the country with barristers, prosecuting individuals who were selling counterfeit DVDs. After that, I started my training contract with Reed Smith and qualified as a pensions lawyer. Ten years later, I entered the trustee governance field and joined Inside Pensions. Inside Pensions was acquired by Zedra in 2021, and I was promoted to director of trustee executive services in 2022. In 2024, I was appointed managing director.

What's your favourite memory of working in the pensions sector?
For me, pensions is about working together to find practical solutions to difficult problems. I am very lucky to work with some fantastic clients and together we have navigated the challenging pensions landscape. Being part of the decision-making process and seeing decisions play out positively is extremely rewarding and fulfilling.

If you did not work in pensions, what sector do you think you would be in instead?
I think it would be journalism. I am very inquisitive by nature, something that serves me well in pensions too, and I like to get to the bottom of a story. I very nearly qualified as a media lawyer actually, but chose pensions. I know!

What was your dream job as a child?
At age 11 in a school assembly we were asked what we wanted to be when we grew up. I vividly remember putting up my hand and saying, 'a lawyer'. This stuck with me throughout my teens and, perhaps latterly, I was more influenced by the glamorous take on the legal profession in *LA Law* and *Ally McBeal*!

What do you like to do in your spare time?
I love spending any spare time I get with family and friends, doing fun things like going to the cinema, theatre, restaurants, brunches and my absolute favourite – afternoon tea!

Do you have any hidden skills or talents?
Absolutely, my hidden talent is I can make even the simplest of Ikea instructions fail. A talent that has, in fact, grown over the years. I'm really not handy at all, I quickly lose patience and just want to see the final product.

Is there a particular sport/team that you follow?
I don't really follow sport, but come from a family of avid Liverpool FC supporters (secretly I support Wolves, which is my hometown).

If you had to choose one favourite book, which would you recommend people read?
The Handmaid's Tale – a shocking but compelling read.

Is there any particular music/band that you enjoy?
I love 80's and 90's music and I also really enjoy current pop such as Raye and Sabrina Carpenter. Growing up, I listened to a lot of rock music (my dad's influence), such as Queen, ZZ Top, Black Sabbath and Led Zeppelin. I went to a Queen concert a couple of years ago, which completely lived up to expectations.

What film/boxset should people see?
I really enjoyed *Black Doves*, which I binge watched. On a lighter note, *Bridgerton* as it's easy viewing and I enjoy period dramas.

Who would be your dream dinner party guests?
Freddie Mercury, because he is an absolute icon who faced many challenges in his journey to becoming a rockstar. Cleopatra, a remarkable leader and a force to be reckoned with. William Shakespeare, a literary genius, I would quiz him about his creative process. I studied English Literature and became slightly obsessed with *Hamlet*. Professor Brian Cox, I am fascinated by time and space and believe we cannot be the only conscious life form out there.

Is there an inspirational quote/saying you particularly like?
My favourite quote is by Maya Angelou: "My mission in life is not to merely survive, but to thrive, and to do so with some passion, compassion, some humour and some style."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the people's pension

Unlocking the value of private markets

Private markets offer strong returns – but the industry needs to make them work for savers, not just fund managers

Private markets present opportunities for pension schemes seeking diversification and long-term returns. However, while the potential benefits are often talked about, the challenge has always been cost. Without the right scale or approach, high external management fees can cancel out most or all the benefit of the underlying assets.

The People's Pension announced its intention to invest up to £4 billion in private markets by 2030, making it one of the first UK master trusts to take this step at scale. But we're approaching it with a clear priority: ensuring members benefit from these investments.

With £32 billion in assets, The People's Pension now has the scale to access private markets efficiently. These are complex, long-term investments that require expertise. We want to make available the full suite of access options including direct ownership, co-investment and pooled funds. That's why we are expanding our investment team, bringing private market specialists to help us build the right internal capabilities to manage these assets efficiently. By strengthening our expertise, we can control costs, optimise investment selection, and ensure value flows to members.

Our recent research, conducted by investment expert Toby Nangle[1], informed the approach, which examined how UK pensions can invest in private markets without letting high fees eat into returns. His research highlights three critical lessons:

First, external management fees present a significant challenge. Investing 10 per cent of UK master trust assets in private markets through external managers could result in fees of between £560 million and £1.5 billion per year. Private market investments risk delivering more value to fund managers than pension savers without careful structuring.

Second, international comparisons show a better way. Canadian and Australian pension funds have successfully internalised private market management, reducing costs and delivering stronger net returns for members.

Third, UK pension schemes must adapt by adopting co-investment and direct management models, potentially reducing costs by up to 60 per cent. Developing in-house private markets expertise can unlock savings and deliver better long-term outcomes for members.

These insights are shaping our strategy. We are exploring hybrid models that allow us to access private markets cost-efficiently.

Making the most of productive assets

The role of pension funds in supporting the UK economy through productive asset investments is a key part of the discussion. We identify four fundamentals which are key to making these assets work effectively:

1. Prioritise financial returns

Our focus is on risk-adjusted returns that protect and grow members' savings. We will invest in UK-based assets only when they offer the best value without compromising returns.

2. Expand productive assets to include infrastructure and real estate

While much of the focus has been on venture capital, pension schemes should explore infrastructure, real estate, and energy—sectors that offer established allocation approaches and good value for money at the scale needed for large master trusts.

3. Unlock the supply of assets

Industry alignment and government support are needed to realise the full potential of productive assets. Regulatory reforms are needed to make development easier, so quality assets are available for investment.

4. Build internal capabilities beyond pooled funds

Pension funds need the internal capacity to evaluate complex deals. A hybrid approach inspired by Australian and Canadian models could be tailored to the UK's context and involve collaboration between asset owners to build shared resources, avoiding inefficiencies.

The People's Pension is among the first UK master trusts to plan investment in private markets at scale – we're doing it cost-effectively, and with members' interests at the core. This long-term strategy requires expertise, careful investment selection, and cost control. By expanding our investment team and refining our approach, we're ensuring private markets play a meaningful role in delivering strong, sustainable returns for our 6.5 million savers.

Written by The People's Pension chief investment officer, Dan Mikulskis

In association with

the people's pension

[1] Achieving critical mass, understanding how workplace pension schemes can achieve best value when investing in private markets, The People's Pension

Summary
• The government has proposed the creation of DC megafunds, greater than £25 billion in size, although consolidation was naturally occurring in the DC sector and there is still some confusion as to the practicalities of creating megafunds.
• The DB sector is also seeing consolidation into fewer, larger schemes, through the growth of superfunds, LGPS pooling and larger schemes being more likely to run-on, while smaller schemes wind up.
• Larger pension schemes are expected to have wider investment opportunities and greater economies of scale.
• There is concern that fewer schemes will result in a lack of industry innovation.
• The transition to fewer, larger schemes may mean more work for providers in the short term and a diversification of their offerings in the long term.
• There is scepticism as to how much benefit consolidation and fewer, larger schemes brings to the members.

Supersizing the pensions sector

As the drive towards DC consolidation ramps up, Laura Blows examines the consequences of the trend towards generating 'larger, but fewer' pension schemes on the industry

The controversial 2004 documentary, *Super Size Me,* recorded Morgan Spurlock's efforts to eat purely McDonald's food for a month. It had both an instant impact, such as the detrimental effects to his health during the experiment, and longer-term ramifications, by arguably contributing to the 'supersize' option fading away from fast-food outlets and the rise in 'healthier' convenience food venues.

Over 20 years on from the film, and the UK pensions industry is having its own controversial 'supersize me' moment, with political and regulatory pushes towards fewer, but larger in assets under management (AUM) size, pension schemes. To achieve this goal, consolidation throughout the sector is required. But is bigger always better, or, like the aftermath of the documentary, will it create knock-on events and unintended consequences years down the line?

DC proposals

The most recent area of focus for workplace pension sector consolidation has been the DC market. While The Pensions Regulator (TPR) has for many years highlighted how 'too many' small DC schemes are failing to provide value to members, and therefore recommended for those schemes to wind up/consolidate into a master trust, the government took this a step further last year.

"The government launched its Pensions Investment Review in November 2024, suggesting setting a minimum size for multi-employer scheme default arrangements ranging between £25 billion and £50 billion, by 2030. It wants to explore opportunities to transition to 'fewer, bigger, better-run schemes' and boost the overall efficiency of the pension system, including improving returns for savers," Scottish Widows master trust lead and scheme strategist, Sharon Bellingham, says.

"It is likely that current proposals

would result in further DC master trust consolidation," Smart Pension CEO, Jamie Fiveash, says. "There is also probably greater scope for consolidation in the contract-based market if bulk transfers can be made easier, as is being proposed," he adds.

Yet at first glance the UK DC market already looks pretty consolidated, "with six major providers controlling approximately 75 per cent of the assets, alongside two master trusts with 'meaningful scale' *[Nest and The People's Pension both have AUM over £25 billion]*" Bellingham says, noting however that there is underlying market fragmentation within this.

According to TPR's *Occupational defined contribution landscape in the UK 2023*, since 2012, the number of non-micro DC schemes *[micro schemes have fewer than 12 members]* and hybrid schemes has declined by 70 per cent, from 3,660 to 1,080 *[see figure 1]*. In 2023 alone, the number of such schemes declined by 11 per cent, while the number of members increased by 9 per cent.

"Small schemes have been disappearing in the DC world and what we will start to see is the rise of the DC megafund," LCP partner, Steve Webb, says. "Partly, that's just because of the wall of money that's going to hit DC in the next five years. It's estimated that workplace DC assets will double to around £1 trillion over the next five years, meaning that DC megafunds would occur even without any government intervention."

Speaking in November last year, TPR CEO, Nausicaa Delfas, highlighted its modelling showing that, even without government intervention, the master trust market will contain schemes of systemically important size in 10 years' time.

According to its estimates, there will be seven schemes with more than £50 billion assets under management on a consolidated basis, four of which will be responsible for well over £100 billion each.

Therefore, as the DC market was already consolidating organically, and as the forthcoming value for money framework is designed to weed out schemes that aren't delivering, "the government might find its aims would be achieved as quickly, and without so much disruption, if it allowed the market to find the equilibrium", IGG head of policy and external affairs, Lou Davey, suggests.

"The economies of scale that may come with larger DC default investment funds could improve investment opportunities, yet proposals must consider the impacts of concentration risk and reduced innovation"

Creating DC megafunds would likely be a major undertaking, not least because, as things stand, there is some confusion as to what being a 'megafund' entails.

As Bellingham highlights, it currently remains uncertain whether the scale test should be applied at 'arrangement' level or the 'building block level'.

"For instance, cash or cash-equivalent building blocks – often used in the final stages of lifestyling – are typically much smaller. The impact on target-date funds could also be significant, where each maturity year has a different fund, meaning the design of these funds is crucial," she explains. Just what would happen to DC schemes that did not achieve scale by 2030 is also still to be determined, Bellingham adds.

DB consolidation

DC scheme size may currently be the centre of government attention, but the DB sector has not been exempted from the desire for larger-sized schemes.

Along with announcing plans for DC megafunds in her Mansion House speech last November, Chancellor Rachel Reeves also revealed requirements for the 86 Local Government Pension Scheme (LGPS) administering authorities to consolidate their assets into fewer, larger pools of capital.

As LawDeb Pensions managing director, Sankar Mahalingham, says: "The drive towards LGPS pooling is driven by a desire to reduce fees, increase efficiencies, and free up assets to be invested in local infrastructure."

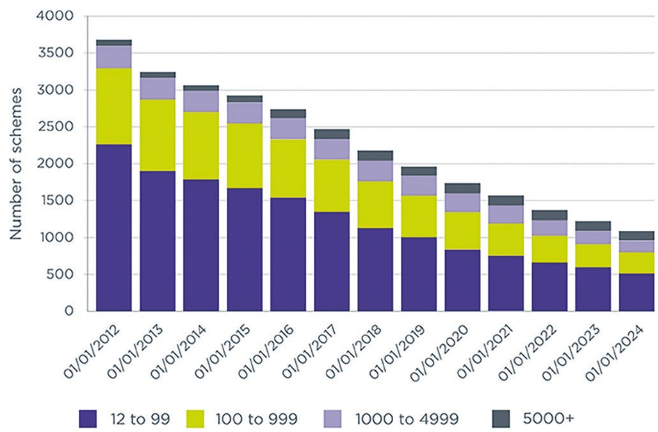
Following a slow start, DB superfunds, which consolidate the liabilities of its DB scheme customers and provides a large capital buffer in lieu of the employer covenant, is now beginning to take off, with the only regulator-approved provider, Clara Pensions, having announced three transactions between 2023 and now.

Last year, the Department for Work and Pensions also proposed the creation of a public-sector consolidator, run by the Pension Protection Fund (PPF), where the PPF would act as a consolidator for those DB schemes that are unable to find a willing commercial provider to secure its benefits.

"Superfunds have become a more appealing and viable option for schemes since the 2023 Mansion House reforms confirmed plans for a permanent superfund regulatory regime, Mahalingham says. "The government's renewed focus on this topic may well motivate new entrants to move at pace," he adds.

Broadstone head of policy, David Brooks, also expects that the healthier funding position of DB schemes in general will result in more schemes reaching buyout and transacting with either an insurer or commercial consolidator. "We would expect the consolidator to write more business as the industry gets more comfortable with

Figure 1: Occupational DC schemes by membership size group (including hybrid schemes, excluding micro schemes)



Source – The Pensions Regulator

that route as a viable alternative to an insurer," he says.

"For DB schemes, consolidation has more benefits and fewer drawbacks [*than DC]* as many schemes are approaching their endgame. As a result, we anticipate the conversation around consolidation will likely accelerate in the coming months as alternatives to a buyout," TPT Retirement Solutions, Phillip Smith, agrees.

However, the improved funding position for many DB schemes may mean that some that had been eyeing consolidating into a superfund may instead jump to being able to afford an insurer buyout, or they may decide just to continue 'running-on' the scheme themselves, if they are large enough with sufficent resources to do so.

"Given improved funding positions and the latest government proposals, more trustees will consider run-on," Smith says. "If schemes decide to run on, consolidation will enable them to benefit from increased diversification and better value through economies of scale, high-quality governance, and ongoing investment expertise," he adds.

However, while "some larger DB schemes may well see the benefit of continuing, and while the surplus assets will be large in aggregate, it is still likely to fall considerably short of the policy's stated ambition *[of pension schemes to be at least £25 billon in size]*", Brooks warns.

Indeed, Webb predicts the DB market will get smaller, not larger, over time.

"I think it is fair to say that, with a few exceptions, the number of DB schemes and DB money is going to go down each year," he states. "For most DB schemes, it has been decades since they had a new member. Existing members, not surprisingly, get a year older every year, and so more and more of the money needed to pay the pensions has actually already been paid out. So, even if a DB scheme is running on for 10 years, in many cases, it will be getting smaller and smaller every year."

Benefits

If both the DC and DB markets were naturally seeing a reduction in small schemes, what has driven the government and regulator push for faster consolidation?

"Scale undoubtedly brings benefits, particularly in DC, in terms of overall value for money and the ability to invest in a broader range of assets," Davey says. She highlights how it could enable schemes to build large in-house investment teams "that can invest directly in private markets, as well as reduce reliance on (and associated cost of) intermediaries and pooled arrangements", alongside potentially delivering high quality services and solutions for members.

Feeling positive about industry consolidation, TPR's spokesperson tells *Pensions Age*: "We welcome the bold reforms announced by the Chancellor at Mansion House, which will accelerate the move towards a market of fewer, larger pension schemes, better equipped to deliver for savers and invest in the UK economy.

"Consolidation across both DB and DC markets will encourage better governance and improved economies of scale, leading to better outcomes for savers."

Fewer, but larger, DC schemes may also generate further consolidation within the sector, in the form of collective DC (CDC) arrangements entering the UK – Royal Mail being the first such company in the UK to provide its employers with one, with its CDC arrangement launching in October last year.

DC megafunds "may encourage providers to offer CDC as a decumulation option as the scale required could be more easily reached", Brooks suggests.

On the investment front, Webb believes that "some will use their scale to bring investment in house. An obvious benefit of this is to negotiate better prices in the market, or to get the investment market to do things that it wouldn't have done for a smaller scheme".

"If they use their buying power effectively, they're paying less for asset management, or they can get more bespoke asset management, which I think has got to be good news," he adds.

Overall, TPP thinks the government's proposals for greater consolidation is "roughly in line with what the international evidence says about the effectiveness of scale as a driver of scheme performance. It's not a surprise that the government is looking at best practice overseas *[the Australian and Canadian pension markets]*, even if that could be challenging for the UK market".

Concerns

There is certainly a great deal of concern about the challenges generating larger-sized schemes could bring.

"The economies of scale that may come with larger DC default investment funds could improve investment opportunities, yet proposals must consider the impacts of concentration risk and reduced innovation," Smith warns.

Webb shares the concern over the lack of innovation.

"We all know where economies of scale sit, but do we know where diseconomies of scale come in?" he asks.

"If you are a £20 billion scheme, you've got a lot buying power. So, we can see why getting bigger up to a point is going to be more efficient. But do any of us really know what happens when you get to £100 billion? Does the scheme become unresponsive, bureaucratic, struggling to find places to invest its money? We just don't know whether issues will arise if pension schemes get too big," Webb explains.

Smith also highlights how the DC pension market in the UK "is already far more consolidated at the provider level than many comparable markets, and the government's proposed reforms could effectively lock out any new entrants to the market, resulting in an oligopoly of large schemes".

This oligopoly could limit innovation in areas such as digital and CDC, Smith adds, and so, "the industry should mirror approaches across other financial service sectors, whereby enhanced customer experiences at smaller firms challenge larger firms to improve".

"Scale undoubtedly brings benefits, particularly in DC, in terms of overall value for money and the ability to invest in a broader range of assets"

The time taken to implement forced consolidation may also be an "unhelpful distraction" from what would otherwise be a "natural transition in an already consolidating market", Davey states.

"Introducing uncertainty about potential mandatory consolidation may mean that existing plans to invest in private markets or innovation are put on hold, creating a perverse outcome to

achieving government aims. Why invest now in assets that may need to be sold with a haircut if a scheme is forced to consolidate at an inopportune time?" she adds.

Davey also notes that there will be a limited supply of quality, UK-based investment opportunities that LGPS, DB and DC megafunds will all be competing for, and "not everyone will be able to secure the best opportunities".

Whether the minimum pension fund scale of £25 billion AUM desired by the governments for DC megafunds will drive any substantial additional investment diversification or any increased investment in UK productive assets, let alone deliver better saver returns, is unclear, the SPP warned in its response to the government's consultation on the proposals.

"An important distinction to make is between master trusts and single employer trusts," Webb says. "You've got traditional employers, who run their own scheme for their own employees, and some of those are quite big, multi-billion-pound schemes, but the government's talking about master trusts having to be over £25 billion in size.

"So, there's a question as to what the government's agenda is for. For example, a bank's excellent pension scheme, which might 'only' be £5 billion, does the government say, 'well, that's too small. All pension schemes have to be megafunds', when actually it could be a very well run, very well invested scheme, investing in the sort of things the government wants pension funds to invest in?"

The SPP has suggested £5 billion

Small pot consolidation

It is not just within the pensions industry itself where fewer, larger schemes is desired; for the members themselves there is a push to encourage consolidation of any multiple, small pension pots they may have accrued over their working lives.

"The proliferation of these deferred small pension pots is burdensome for both pension providers and savers. Fixed costs of administering a pot lead to higher charges, and lower returns, for savers," Institute for Fiscal Studies research economist, Laurence O'Brien, stated to *Pensions Age* last month.

To solve this problem, O'Brien highlighted the case for the automatic consolidation of deferred small pension pots, with the option for individuals to opt out if they wish.

This, he suggested, could be achieved by individuals who have more than one pot with the same pension provider having all these pots automatically consolidated into the pot that represents the best value for money.

When there are a number of different pot providers, O'Brien suggested that "the two most sensible choices would be either one of a set of government-approved consolidators (the 'multiple default consolidator approach') or a member's current pot (the 'pot follows member' approach)".

AUM for DC schemes, with an agreed glidepath to larger scale over a longer timeframe *[than the government's proposed 2030 by the earliest for DC megafunds]*.

"Whether the minimum size is £5 billion or £25 billion, this could clearly stifle the emergence of CDC and other innovations if there are no meaningful exemptions," SPP president, Sophia Singleton, says.

"That's why the SPP has asked for a broad exemption for smaller funds that outperform their larger peers; an exempt growth period during which time any new arrangements can focus on building scale; and exemptions for schemes that serve niche markets such as Sharia-compliant default arrangements and CDC schemes," she adds.

Knock-on industry effects

Putting concern aside and assuming the creation of DC megafunds does go ahead, the effect may be a "frenzy with providers (and their backers) jostling for elbow room as they aim for the magic £25 billion number", Brooks warns.

"As the market transitions to a more consolidated landscape, it will be incredibly important to ensure that

reforms are enacted in a way that avoids undue disruption," Bellingham adds. "It will also be interesting to observe how the scale threshold for providers will influence decision-making and market activity; ensuring that a pension provider can demonstrate commitment to the market is a key consideration for any employer or trustee board."

If DC consolidation is forced over a short timeframe proposed, for employers, it will inevitably increase the costs of pension provision across several areas, including procurement, HR, payroll, finance, and professional services, Smith says. "This will be an unwelcome additional expense for firms and further emphasises the need to deliver the value-for-money framework."

However, providers would likely benefit in the shorter term, with greater demand for advisers and trustees to help schemes navigate through this journey, Mahalingham states.

"We have to remember that 'short term' in the pensions world means a decade, and it will take a decade for the types of consolidation we are talking about to play out," Fiveash points out.

"That will mean much more work over the next decade, not less. Yes, perhaps at that stage innovation will be required, and models may need to change, but the UK market is still growing rapidly in terms of assets and customers.

"If we reach the stage when consolidation reaches a conclusion, I have little doubt there will still be a need for great people to keep working towards better delivering pension savers' outcomes. Perhaps at that stage it may be less about growth in provision of services to employers and schemes, and more toward serving the millions of DC savers heading toward and reaching retirement," Fiveash elaborates.

Yet the potential for conflicts within providers may be higher because of consolidation, as firms operate across a smaller number of schemes, Davey says.

"However, with the increased complexity of managing schemes of the scale envisaged by the government, we may see growing demand for larger teams of highly skilled professionals – professional trustees, governance providers and advisers," she continues. "Ultimately, I don't see the demand for increased professionalisation of trusteeship and governance diminishing – quite the opposite."

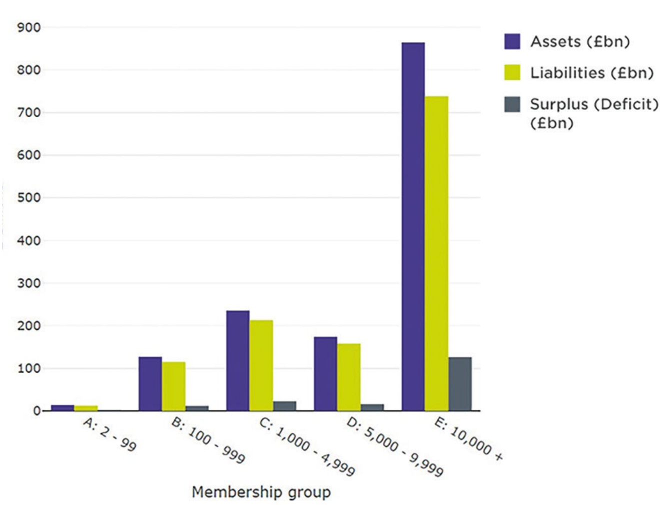
In contrast, Webb highlights how the number of scheme advisers etc is likely to reduce as result of consolidation, as "five pension schemes may need five actuaries; one pension scheme does not need five actuaries".

Therefore, for future proofing, industry providers are increasingly diversifying. Webb gives the example of professional trustees providing consultancy-type work, or consultants providing research and analytics.

Speaking in November last year, Delfas noted that the broader pensions market has become "increasingly concentrated", with 47 administrators covering 90 per cent of memberships and 10 professional trustee firms accounting for well over £1 trillion of assets.

In response to such industry change, TPR has announced that it is moving

Figure 2: Estimated technical provisions funding figures for DB schemes as at 31 March 2023 by membership group (excludes schemes winding up)



Source – The Pensions Regulator

The number of UK DB schemes per year

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Number of DB schemes	7,297	6,974	6,657	6,396	6,206	5,973	5,805	5,701	5,604	5,522	5,378	5,297

Source – The Pensions Regulator

towards a more prudential-style of regulation amid a 'rapid' acceleration in the scale of workplace pension schemes.

TPR's spokesperson tells *Pensions Age:* "We continue to adapt to this new and exciting pensions landscape and are playing a pivotal role in government and industry-wide initiatives and policy making. These opportunities encourage innovation in the market and are one of the reasons we are setting up an innovation hub."

Future impact on members

Throughout all this consolidation and innovation, members need to remain the essential ingredient blended into the industry's 'supersizing'.

After all, "scale can offer many benefits for members, from enhanced digital support, wider expertise in contact centres, and lower management fees, as providers can use their size to invest in a way that is scaled across a wider population", Mahalingham says. "However, oversight and governance is key, to make sure these 'megafunds' are delivering the promised benefits to members."

Webb acknowledges that it is a challenge for master trusts to provide something that is exactly right for each type of its customers' workforce. So, even within master trusts, 'bigger' once again means 'more powerful'.

"What tends to happen is big employers can negotiate something a bit more bespoke for their workforce within the master trust, something a bit more customised," he explains.

Brooks shares his concern that the increase in private market investment, which consolidation is expected to bring, could "occur without the members noticing (not to say they won't be told)".

He explains: "Member charges will increase with no guarantee of greater returns. This is of great concern as the language of cash, credit, gilts and equities gets a further allocation to something members may understand even less. 'Is that right?' will be a fundamental question."

We'll need to look to the future to answer that question. Twenty years on, will consolidation have the same impact as the *Super Size Me* film had on the fast-food sector, by ultimately helping to improve practices for the end user?

"The government might find its aims would be achieved as quickly, and without so much disruption, if it allowed the market to find the equilibrium"

The ramifications of consolidation will almost certainly be felt over the decades, but scepticism abounds as to whether this will benefit pension schemes, and DC scheme members particularly.

The government's own modelling last year found that the expected increase in private market investment that fewer, larger pension schemes is hoping to bring, will only provide a 'slight' improvement to member outcomes.

The Government Actuary's Department (GAD) stated: "Our analysis showed that a greater level of exposure to private markets may deliver slightly improved outcomes to members. However, there is considerable uncertainty, particularly with the assumptions for projected future investment returns."

Singleton says that the SPP agrees "with the government's own consultation document, which states, 'the evidence linking pension provider scale and gross investment returns is mixed'".

"The move to scale will reduce competition, will likely stifle innovation and will consequently detract from member outcomes," she adds.

"There's a huge cost to all of this consolidation," Webb agrees. "Every time pension schemes merge, move data onto new platforms, get all the legal processes, communicate to members etc, all of this comes at a cost, and that all has to be quantified. So, there is a risk, I think, that the member gets forgotten because the government wants to use the pension money for its own objectives."

Brooks shares this concern about the member experience.

"If we fast-forward 20 years, if the [*DC megafunds]* policy is enacted, I would not expect there to be much to tell between the handful of DC providers that exists," he states.

"All will be held to the same standards and largely they will be investing, communicating and decumulating in similar ways so that it probably won't matter who the member is with, in a pseudo-nationalisation of the DC system.

"I suspect the industry would dislike that, on the whole, as it could stifle innovation and differentiators of service and performance, ultimately leading to poorer outcomes, albeit simplifying the pensions system."

Written by Laura Blows

Landmark legal cases

Pensions Age looks at some of the most important legal cases over the past year, and what effect these rulings may have for the pensions sector

The past year has, in particular, seen a significant number of landmark High Court and Court of Appeal pension cases. As the rulings in these are likely to be of considerable practical interest for the UK pension industry, we have asked pensions lawyers to summarise some of these recent court cases, and the impact that they may have.

Virgin Media v NTL Pension Trustees II

In *Virgin Media,* the Court of Appeal upheld the High Court's decision that a failure to obtain a 'section 37' actuarial confirmation in relation to an amendment to a salary related contracted-out scheme invalidated that amendment in relation to both past and future service rights, even where the amendment improved such rights.

The court placed significant weight on what it considered to be the purpose and policy intent of the relevant regulations, prioritising this over what might be considered a more natural interpretation of the definition of 'section 9(2B) rights'.

It is widely accepted that this decision could have significant implications for schemes. Industry bodies have formed a working group that has requested that the Department for Work and Pensions (DWP) considers making regulations to "remove this uncertainty by validating retrospectively any amendment that is held to be void…".

It remains to be seen whether and when the government will act, although the change of government and then Pensions Ministers may be contributing to this delay. Meanwhile, trustees involved in de-risking projects and corporate transactions or facing pressure from their scheme sponsor and its auditors may need to investigate potential exposure, with some undertaking reviews of governing documents executed between 6 April 1997 to 5 April 2016 at varying levels of detail.

DLA Piper partner, Matthew Swynnerton

BBC v BBC Pension Trust

The case of *BBC v BBC Pension Trust* was a Court of Appeal decision concerning a restriction in the BBC Pension Scheme amendment power. Following a High Court decision that the restriction protected changes to future service, the BBC appealed.

The restriction in question specifically applied to active members, and prevented alterations where their 'interests' were certified by the actuary to be affected, unless the actuary could certify that the alteration did not substantially prejudice those interests. While the context for the case was the BBC considering options for reducing pensions costs, including the possibility of reducing or ceasing accrual, there was no specific amendment proposal before the court.

The Court of Appeal confirmed the decision of the High Court that 'interests' in this context included the ability of members to continue to accrue benefits on the same terms. The decision focused on the word 'interests' being a deliberately simple, broad and open-textured word that was not limited by reference to any particular cut-off date. The court also referred to the ability to continue accruing benefits on particular terms as being one of the most valuable interests an active member has, even if they have no enforceable legal right to continue in employment.

This decision will be of particular relevance to other schemes with amendment powers protecting members' 'interests'. However, it should be treated with some caution as the context in which the word is used is very important, and each amendment power needs to be considered on its own terms.

Linklaters managing associate, Sarah Opie

Ballard v Buzzard

In this case, the High Court ruled that a defective scheme amendment where the trustee failed to sign the document in his correct capacity can be rectified. The trustees and the employer of the scheme brought proceedings to determine the validity of four amending documents. Two of the amendments were Scheme Amendment Authorities (SAAs) made in 2001 and 2005, which related to, among other things, pension increases. The third amendment was an SAA relating to the definition of final pensionable earnings. The fourth was a consolidating deed adopting new rules, made in 2006 (2006 Deed).

The scheme's amendment power required an amendment to be signed by all five of the trustees. The issue in respect of the SAAs arose because the signature blocks on the pro forma documents prepared by the administrator did not enable all five trustees to sign as trustees. Instead, they provided for four trustee signatures and one signature "for and on behalf of the principal employer". Therefore, although all five trustees did sign the SAAs, one of the trustees, Mr Beauchamp, signed on behalf of the Principal Employer, rather than in his capacity as trustee. The problem in relation to the 2006 Deed was that it failed to reflect the SAA made in 2005, which had purported to amend the annual pension increase provisions.

The court ordered rectification of the SAAs and the 2006 Deed. The judge accepted evidence from the chair of trustees that an error was made by the administrator in that there should have been five signature blocks for trustees in the SAAs, in addition to the block for the Principal Employer, and that Mr Beauchamp would have considered that he had signed the document in the manner required. In relation to the 2006 Deed, it was the judge's view that it was clear from the undisputed witness evidence and the contemporaneous evidence that the intention of the 2006 Deed was to consolidate the existing amendments and to ensure conformity with changes in law. The judge considered that the failure of the 2006 Deed to reflect the 2005 SAA had been a mistake.

The judge concluded by noting that the defects in the execution of the SAAs and the 2006 Deed amounted to a cautionary tale that will be taken to heart by pension trustees and their advisers.

DLA Piper partner, Matthew Swynnerton

Newell Trustees v Newell Rubbermaid UK Services

Newell Trustees Ltd v Newell Rubbermaid UK Services related to a conversion of certain members' final salary benefits to money purchase benefits in 1992. At the time, a proviso to the amendment power prevented amendments that 'would prejudice or impair the benefits accrued in respect of membership up to that time'. Significantly, the evidence in the case was that some members were better off as a result of the conversion than they would have been if they had remained entitled to final salary benefits.

In relation to the central issue in the case, the judge decided that the conversion was not prevented by the proviso to the amendment power, because at the time of the change it was not certain that prejudice 'would' be suffered. It was not sufficient to say that it 'would probably' happen. The judge also decided that it was the value of the benefits that were protected, not their form.

A related point was whether the proviso meant that a final salary link had to be maintained. The judge acknowledged the force of points made by the employer in disputing this, but decided that the final salary link was too well-established at first instance. As a result, an underpin applied with the values at the point of conversion being recalculated as if the final salary link had been maintained.

The case also considered points on age discrimination and missing documentation, but it is the points on the amendment power that are likely to be of wider interest to other schemes. This is particularly where schemes have amendment power restrictions based on changes which 'would', rather than 'might', be detrimental.

Linklaters managing associate, Sarah Opie

Arcadia Group Pension Trust v Smith

In this case, the High Court permitted an amendment to the rules of a defined

benefit pension scheme that enabled a surplus in one scheme to be used to cross-subsidise another scheme that is in deficit.

The case concerned two pension schemes operated for employees or former employees in the now insolvent Arcadia Group. Historically, both schemes had in various respects been operated in tandem as 'sister schemes'. They shared the same principal employer, adopted a joint approach to funding and negotiated one aggregate pension contribution with the employer, which was apportioned between the schemes to achieve funding parity.

The position was reached in which one scheme was in surplus but the other in deficit. This funding disparity was never intended. The court ruled that the trustee of one scheme (the Staff Scheme) would be acting properly in amending its rules to permit the merger of another scheme (the Executive Scheme) into it. Although this would improve the benefits of Executive Scheme members and dilute any surplus available for Staff Scheme members, the latter members would still receive their full benefits. The court ruled that the employer of both schemes was in liquidation and that the schemes were being wound up did not impose an implied fetter on the power to amend the Staff Scheme rules.

Pension scheme surpluses are now back. However, traditional problems remain, including how to access surpluses that can be trapped. This practical and sensible decision, which enabled an efficient use to be made of a surplus in a scheme, is likely to be of interest and use to trustees and employers alike.

Gowling WLG UK partner and head of pension disputes, Ian Gordon

Avon Cosmetics v Dalriada Trustees

In *Avon Cosmetics v Dalriada Trustees,* the court had to decide issues relating to severance following the closure of the scheme to future accrual and introduction of a career average revalued earnings (CARE) benefits for future service. This broke the final salary link, but while this was detrimental for some members (the FS Winners), others were better off following the change (the Revaluation Winners).

Following a compromise relating to the FS Winners, the court was asked to decide whether invalidity for FS Winners meant the amendment was invalid in its entirety, or whether it could be saved for the Revaluation Winners.

The court's decision was that where the exercise of the power could be conceptually separated into an invalid and a valid exercise, then the valid part could be saved. However, it also needed to be established that the invalid part was only incidental to the valid part, and so it would not result in a substantially different exercise of the power. This could be determined from the context and amending document itself. As the judge considered the substantial purpose in this case was to remove the final salary link and change to CARE benefits, he decided that the change only being valid for Revaluation Winners was still within the overall objective intention.

This represents an interesting development in the application of severance to 'save' part of an amendment where part is invalid, but leaves the law in a state of uncertainty given the potential inconsistency with other cases on similar issues. In this case it meant that members got the 'best of both worlds', despite the original purpose of the change being to reduce costs.

Linklaters managing associate, Sarah Opie

Manolete Partners v White

In a unanimous judgment, the Court of Appeal overturned the decision of the High Court that a member's pension can be accessed to satisfy debts owed. Mr White was the owner and controller of the company and the sole member of an occupational pension scheme established for his benefit (the scheme).

The company went into liquidation in 2017. The unpaid claims of creditors were in excess of £3 million. In 2020, Manolete (the litigation funder) took an assignment from the liquidators of claims that Mr White had breached his fiduciary duties to the company by causing it to make a series of substantial payments in the run up to the administration. In 2022, Manolete obtained a judgment against Mr White for £1 million, which it sought to enforce. Mr White did not and still has not paid any part of the judgment debt.

The High Court case was concerned with whether Mr White's rights in his scheme could be accessed to pay the amounts owed. Following the court decisions in *Bacci v Green* and *Lindsay v O'Loughnane*, the court held that it was within its power to grant an injunction requiring Mr White to exercise his rights under the scheme to draw down his pension in order that he satisfy his judgment debt (the Order). Mr White appealed on the grounds that the effect of the Order was that he would not receive his pension from the scheme; rather it would be used to discharge the judgment debt and that this is prohibited by section 91(2) of the Pensions Act 1995. Mr White contended that, in making the Order, the judge had adopted an artificial approach that was contrary to the clear meaning and statutory purpose of sections 91(1) and (2) i.e. that entitlements and rights to future benefits under occupational pension schemes should be immune from the claims of creditors.

The Court of Appeal agreed, noting that section 91(2) is drafted in terms that prohibit the making of an order "the effect of which" would be that a member would be restrained from receiving their pension. Furthermore, the judge noted the public policy intention behind section 91, which is a general prohibition on creditors having access to entitlements and rights to future pensions from occupational pension schemes. For those reasons, among others, the judge considered that the Order was prohibited by section 91(2) and that Mr White's appeal should be allowed.

The judge acknowledged that the underlying merits of the case were not on Mr White's side and that many small creditors' claims remained unsatisfied. Nonetheless, the judge was of the view that, where occupational pension schemes are concerned, the courts must give effect to the statutory regime.

DLA Piper partner, Matthew Swynnerton

The Pensions Trust

In one of the longest pension trials ever heard, the High Court is considering a vast number of issues concerning the validity of aspects of the legal documentation governing The Pensions Trust.

Amongst others, the court will consider a number of 'section 37 issues' unresolved by *Virgin Media*. Such issues including whether a rule amendment to close a DB contracted-out scheme to future accrual needed an actuarial confirmation (it is widely thought no such confirmation was needed) and whether an actuarial recertification in a valuation after an intended rule alteration had been made had the effect of validating that amendment, either from the date of the recertification or the date of the amendment itself.

The industry is holding its breath as to whether some of the consequences of *Virgin Media* will be alleviated by a more practical judicial approach in The Pensions Trust case.

Given the number of issues the court is having to consider, it is likely to be into the autumn (if not later) that judgment is available. It will be awaited with great interest.

Gowling WLG UK partner and head of pension disputes, Ian Gordon

Final thoughts

As Gowling WLG UK partner and head of pension disputes, Ian Gordon, notes, the past 12 months have seen an unusually high number of significant High Court and Court of Appeal pension cases.

"Unlike in the Court of Appeal, there are currently no High Court judges who specialised in pensions law when they were in practice. This means it is more difficult than ever to predict what the outcome of pensions cases will be," he says.

"In a number of the cases that have come before the High Court in the past 12 months, judges have taken a pragmatic, practical and realistic approach to the issues that have come before them, including on the availability of pension scheme documentation created decades ago. Such an approach is welcome and it is to be hoped will continue."

BPAs: Attention turns to small DB schemes

Summary
• Although small schemes already take up the majority of the market, experts agree that buyout activity in this segment will increase in 2025.
• Despite both large and small schemes' needs being largely the same, insurers and advisers are continuing to create new solutions that cater to the latter's nuances.
• The government's heightened interest in DB schemes' use of surplus funding isn't expected to disrupt smaller scheme de-risking activity, but this is an area many experts watch with interest.

With insurers increasingly taking a shine to smaller schemes, what does this mean for the bulk purchase annuity (BPA) market?

The bulk purchase annuity (BPA) market continues to grow in volume, with LCP reporting that a "cruising altitude" has now been reached in the space. This is set to average around £40-£60 billion a year, with the firm specifically forecasting up to £50 billion activity alone in 2025. LCP risk transfer principal, Ruth Ward, sees smaller DB schemes driving this trend, in large part due to the number of such schemes coming to market.

"Transaction numbers increased on average by circa 17 per cent per year in the three years 2020-2023. We expect this increasing trend to continue, with H1 2024 the busiest half-year on record and the market on course to reach close to 300 transactions for the full-year of 2024 – a 30 per cent growth rate year-on-year," says Ward, who sees particular activity in the sub-£100 million space.

"These smaller transactions had a two-fold increase over 2020-2023 and made up over 80 per cent of all transactions completed in the first half of 2024. Growth has been led to date by two insurers, Just Group and Aviva, which have the most established streamlined propositions for smaller schemes," she adds.

Innovating for smaller firms

This is opening up new opportunities for insurers, helping create competitive edges in an increasingly crowded space. Earlier this year, Utmost Life and Pensions entered the BPA market with what the firm's head of BPA business development, Gary Needham, describes as a "strategic focus" on small schemes.

"Our view has always been that small schemes should be able to shine and deserve the attention just as much as larger schemes," explains Needham. "We know that for members, trustees and employers being labelled a small scheme doesn't start the journey to buyout in the best way, given the importance of their scheme and pensions to them personally."

Others have already been able to carve out a niche in this area. Just Group participates across the market but has been particularly active with small to medium transaction sizes, completing 129 alone in 2024 (up from 80 the year before). Just Group managing director of DB solutions, Pretty Sagoo, says she sees a "buoyant" supply of small schemes, identifying this as a growth area.

"Over the past few years, insurers have expanded their capacity and scaled their businesses – which has enabled them to successfully complete deals with more small schemes," says Sagoo. "Of the 55 deals Just Group completed in the first half of 2024, 50 were for transaction values of under £100 million."

Specific offerings have also been launched with smaller schemes in mind. Recent years have seen the launch of Broadstone's SM&RT Insure (Set up, Monitor and Risk Transfer) – to guide schemes through the buyout process – and PIC's Mosaic, a streamlined solution specifically designed for smaller schemes, alongside many more similar solutions.

"The smaller end of the market is certainly increasingly attractive for insurers, with funding improvements meaning many hundreds of schemes are suddenly in a position where they may be able to transact," says Broadstone head of trustee services, Chris Rice. "Insurers have ramped up capacity and innovated rapidly to meet this demand as they look to capitalise on the market opportunity. Innovations such as SM&RT Insure, and automated pricing tools developed by many insurers, help smaller schemes monitor in real-time when a transaction may be achievable to drive efficiencies and lower cost."

Smaller scheme nuances

Despite these new solutions being launched, small schemes coming to market have similar requirements to their larger counterparts. They likewise want to find a secure home for members' benefits, gravitating towards insurers with proven quality administration services.

There are some differences however, and Aon associate partner, Joe Hathaway, points out that buyout costs will largely be reflective of the work required with smaller schemes seeking services appropriately costed for them.

"Getting to buyout requires schemes to have completed any remaining data and benefit work, and for smaller schemes completing large data projects, such as GMP equalisation, can often appear both expensive and resource intensive relative to the size of the scheme," says Hathaway. "For these reasons, smaller schemes can see various benefits from operating a more streamlined process when transacting a bulk annuity, and this is something we have operated for many years."

Needham says that, despite the fundamental similarities with larger counterparts, 'nuances' must be considered. These, he explains, can include requirements with regards to the price lock given the type of assets they invest in, such as pooled funds.

"Small schemes should be able to shine and deserve the attention just as much as larger schemes"

"This may require a different, more tailored approach to interacting with the sponsoring employer around areas like the data cleanse and move to buyout," says Needham. "Given current supply and demand dynamics in the market, we are aware that smaller schemes have had to restrict their approach to market in order to attract and engage insurers."

The outlook for 2025

Given the composition of the UK DB market – with smaller schemes making up the majority of the landscape – many expect smaller scheme deals to continue taking up the majority of buyout activity. Although the government has been looking at how DB schemes running a surplus could more easily 'run-on', proposing rules that make it easier to unlock surpluses for the benefit of the UK economy, Ward insists that buyout remains the "ultimate endgame" for many.

"Overall, we'd expect small schemes to continue to represent a high proportion of overall transaction numbers, but for scheme funding levels and transaction readiness, coupled with insurer capacity, to be bigger drivers for small scheme transaction numbers than larger scheme run-on decisions," she explains.

The government's interest in DB schemes running-on could continue to attract attention, but many expect smaller scheme trustees to look past this and keep their endgame goals in sight. Hathaway argues it is still too early to accurately predict how government proposals could influence such decisions but sees logic in schemes staying the course.

"We expect the recent government announcement will be a topical discussion point for many pension schemes, and, no doubt, attitudes to refunds before wind-up will depend very much on the criteria that are imposed, such as funding level and covenant strength," he says. "Whilst schemes may have a wider range of endgame options going forward, we expect that for the majority risk settlement will remain their goal, particularly at the smaller end where the rationale for running a scheme on will likely be less clear."

Regardless of how the government's plans impact smaller schemes' buyout intentions, Sagoo warns of the delicacy of such policies. She points out that the DB de-risking market is "the envy of the global insurance world" and trustees should not forget their members' goals.

"The government will need to think very carefully before drafting guidance or legislation that could disrupt the de-risking market," she adds. "The idea that shareholders would prefer companies to operate their DB schemes as independent profit centres is debatable. Managing the core business effectively poses significant challenges."

Written by Jon Yarker, a freelance journalist

Compass Group Pension Plan chair of the trustee board and Capital Cranfield professional trustee, Philip Whittome

Standard Life, part of Phoenix Group, director of defined benefit solutions, Kieran Mistry

Recipe for BPA success

Compass Group Pension Plan chair of the trustee board and Capital Cranfield professional trustee, Philip Whittome; and Standard Life, part of Phoenix Group, director of defined benefit solutions, Kieran Mistry, reveal the key ingredients needed to successfully tackle a complex BPA transaction

Congratulations to the trustee and Standard Life on your recent £1.5 billion bulk purchase annuity (BPA) transaction with the Compass Group Pension Plan. Could you start by telling us about the Compass Group and the Compass Group Pension Plan?

Philip Whittome: Compass Group PLC is a FTSE30 company and a global leader in food services. The Compass Group Pension Plan dates back to 1988 and it predominantly provides defined benefit pension benefits across 99 different membership categories that have arisen over time due to the sponsor's acquisitive nature. The trustee board is made up of two professional trustees from Capital Cranfield, including myself, along with employer- and member-nominated trustee directors.

Please tell us about the intricacies of the deal, the number of pension members/deferred members involved, and what this transaction means for them?

Whittome: This was a complicated deal due to the multiple member classes involved, resulting from Compass Group's M&A history. The buy-in transaction covered the majority of the plan's members, with over 14,000 pensioner members and over 11,000 deferred members. The trustee is confident that this buy-in transaction has enhanced the long-term security of our members' benefits and offers our members a strong experience from an administration perspective. This was important to the trustee and sponsor, given the benefit complexities involved.

Kieran Mistry: The plan came to market well-prepared with clear requirements. This meant that we could identify and deliver solutions that met the trustee and company's de-risking objectives. The entire process was smooth and efficient, with all parties working closely together to deliver a well-executed transaction.

Why was Standard Life chosen by the Compass Group for the transaction?

Whittome: We worked closely with the plan sponsor, Compass Group PLC, to agree on our combined objectives. Our priorities included ensuring the selected insurer would provide continued long-term security for our members' benefits and work closely with us to achieve our other transaction objectives. Having undertaken a competitive process to select our preferred insurer, and taken advice from our professional advisers, we were confident that Standard Life was the right partner.

Which other parties were involved in the transaction?

Whittome: The trustee's long-standing actuarial adviser is Mercer and this relationship expanded to bring in colleagues from the Mercer risk transfer team to lead the transaction and provide specialist strategic transaction advice to the trustee. Eversheds Sutherland is the trustee's legal adviser and Aon is an investment adviser. XPS is the plan administrator. The company's legal adviser is Freshfields and they received strategic and actuarial advice from LCP.

Mistry: All advisers play key, interconnected roles in the BPA process and it's crucial for all parties to work closely, collaboratively and with a clear understanding of objectives throughout a transaction. In this case, all parties maintained open communication throughout the process, with the Mercer risk transfer team being the glue that brought all the strands together to deliver a successful outcome for the plan.

How long did the process take from start to finish?

Whittome: The journey leading up to the approach to the bulk annuity market spanned a number of years, during which detailed preparation work was undertaken. The sponsor was supportive throughout, giving the trustee confidence in the timing of the approach and ensuring the plan was ready to transact from a funding and investment perspective, with the legal and administration aspects firmly in place. The period from initial approach to the market to signing the contract was around six months.

What were the challenges faced and how were those challenges met?

Whittome: We worked with our advisers to ensure that we were well prepared with clear objectives in place. This ensured that all aspects of the transaction process were smooth with no surprises – our mantra was "train hard, fight easy". We also recognised that potential challenges could arise from competing for pricing slots with insurers. However, this was mitigated by working with the advisers and the plan sponsor to engage with the insurers at the earliest opportunity to demonstrate keen interest and keeping them informed through all stages. We were told by more than one of the insurers that this was the best-prepared process they had ever seen.

Mistry: We agree that the plan was very well prepared ahead of approaching the market transaction. We were well-briefed, with a pre-transaction call involving key stakeholders on the trustee and sponsor side giving clarity on the preparation undertaken, timings for the various stages of the process, and expectations and objectives. This trailing of a material transaction meant we could line up resource to participate, understanding where focus would be needed to deliver a compelling package and put us in good stead for securing the partnership of the trustee. The preparation paid off, with a remarkably smooth process from start to finish.

What advice would you offer other schemes who are thinking of embarking on a similar journey?

Whittome: The success of this transaction can be attributed to robust planning, great teamwork and open communication with all parties. We would advise other trustees to focus their advisers' attention on these areas. As trustee, we are very proud of our close relationship with the plan sponsor and the entire process has been positive with open dialogue. This ensured each party understood each other's objectives and worked effectively towards a common goal. Alongside a collaborative approach with the sponsor, we advocate the importance of all professional advisers working together as they move their client towards the final goal.

Mistry: For schemes approaching a BPA transaction, we always encourage early engagement and transparency throughout. Sharing clear objectives, timescales, and any non-standard asks upfront allows us to provide feedback while those aspects are finalised, providing a smoother process. Keeping non-standard asks to those that are truly important allows us to focus on maximising value. Finally, a collaborative approach ensures that any potential challenges are identified and addressed proactively and helps ensure the best outcome for the scheme and members.

Any final thoughts?

Whittome: The trustee would like to thank Standard Life for supporting us in the completion of the transaction. We are very conscious of the importance of this phase as just the first step in our journey and are confident that we are in excellent hands for the next stages on the post transaction and implementation phase.

Particular thanks need to go to the Compass pensions team who worked tirelessly to bring all parties together and keep the trustee board informed. A highly competent pensions manager is a crucial ingredient for success in any major scheme exercise and we have been very fortunate in having Jenny Haines, ably supported by Anne Morey.

Mistry: We are delighted that the trustee and sponsor have chosen to partner with us on the remainder of their de-risking journey. Transactions of this size and nature are fundamental to the strategy of our BPA business, and this particular transaction was identified as a priority early on due to the level of preparedness and clarity on the plan's requirements. We look forward to continuing to support the plan on its journey and provide lifelong security for its members.

Written by Francesca Fabrizi

Summary
• Cyber attacks, both in pensions and the broader financial sector, are on the rise.
• Pension schemes may need to pay more attention to evolving methods used by cybercriminals.
• Artificial intelligence, as well as the introduction of pensions dashboards, presents opportunities and challenges for cyber security.

Sink or swim: The rising tide of cyber threats

Callum Conway looks at why pension fund trustees and members are facing an increasing wave of cyber threats – and what they can do to stay protected

Unless you were living under a pension-proof rock, you'll recall that in March 2023, Capita suffered a serious cyber security breach.

The cyber attack affected thousands of pension holders whose personal data was compromised. Capita estimated that the financial cost of the incident was £25 million. As a result, the company faced increased regulatory scrutiny and investigations from the Information Commissioner's Office (ICO) and The Pensions Regulator (TPR).

Although it might be tempting to think of this devastating incident as recent history or a one-off, cyber security attacks are not going away – in fact, they're very much on the rise, both in pensions and the broader financial sector.

Last year, the BBC Pension Scheme experienced a data security incident affecting over 25,000 members, where sensitive information such as names, national insurance numbers, dates of birth and home addresses was compromised. A similar data breach at J.P. Morgan Chase impacted over 451,000 people with retirement plans.

In 2024, there was a staggering 4,000 per cent increase in pension scheme data breach reports, according to the ICO.

TPR head of policy, Fiona Frobisher, says pension schemes are at increasing risk of being targeted by cyber attacks because they hold large amounts of personal data and assets.

"The multiple high-profile cyber attacks in recent years should leave pension trustees and their administrators in no doubt of the need for robust cyber resilience," says Frobisher.

Norton Rose Fulbright partner, Tim Jones, senior associate, Suzie Kemp, and associate, Alexander McGuire, all agree. They say the pensions industry faces particular risks associated with business email compromise, given some trustees and managers may operate with private mailboxes and domestic hardware without enterprise-level security.

They also highlight a recent surge in browser-based cyber threats – programmes that modify web browser settings without the user's permission and redirects the user to websites the user had not intended to visit – with browser-based malware accounting for 70 per cent of malware cases last year.

"These new methods increase the risks of an attack, illustrating the importance of training and ensuring staff are aware of threat actor's evolving tactics," they explain.

Norton's team also says there are increased risks associated with the growing complexity of supplier networks and the lack of visibility into how third parties store, process and protect data.

According to the World Economic Forum, 54 per cent of large organisations cite supply chain weaknesses as their biggest challenge in pursuing cyber resilience.

So, is the industry aware of these evolving risks, and is it doing enough to stop them?

The *Core Alternative Managers' Mood Index* report by Gen II Fund Services reveals cyber security has become the foremost operational concern for investors during fundraising due diligence.

The report indicates that 27 per cent of investors now prioritise cyber security in operational due diligence conversations, reflecting a heightened awareness of digital threats in the private capital industry.

However, Norton's experts suggest pension schemes may need to pay more attention to these risks.

"We would advise trustees and managers to take steps beyond policy reviews and consider other protection and governance measures that may be incorporated into a scheme's controls," they say.

Echoing this, Frobisher claims trustees are increasingly focusing on the cyber risk to members through administration and digital services, but they are not as focused on their other suppliers, such as offshore third-party suppliers and their advisers.

She says that some schemes may also be over-reliant on employers' and administrators' cyber security plans, which are sometimes accepted without the appropriate scrutiny.

Currently, TPR requires occupational pension schemes to establish an effective system of governance that includes controls to manage cyber risk.

In February 2024, it issued updated guidance for pension scheme trustees on managing cyber risk, including its General Code, which requires trustees and managers to know and understand their scheme's cyber risks.

In addition, TPR makes clear that having an incident response plan is key to lessening impacts on members, according to Independent Governance Group trustee director, Michael Do.

"Well-rehearsed playbooks can help to significantly hasten trustee decision-making and action-taking, ensuring that the adverse consequences for members are reduced as far as possible," he says.

Similarly, the ICO, which has a remit to protect individuals' rights and freedoms, expects pension scheme trustees and managers to implement appropriate technical and organisational measures to protect personal data commensurate to the risk posed.

Cyber security and counter fraud forensic services partner, Tim Robinson, says awareness training can help put cyber security in plain English for trustees.

"Working through the General Code will also support the delivery of an achievable and comprehensive cyber strategy that will help to raise resilience across a scheme's full ecosystem, manage cyber resilience on an ongoing basis and leave [*trustees*] better equipped to respond to incidents if they arise," says Robinson.

Looking ahead, it's impossible to discuss the cyber security landscape without assessing the impact of artificial intelligence (AI) as a force for both good and evil.

On the one hand, technology will play a pivotal role in preventing cyber security risks, Norton's experts argue.

"Its ability to process large quantities of data, spot patterns and anomalies makes delivering services easier and strengthens cyber defences," they say.

"The multiple high-profile cyber attacks in recent years should leave pension trustees and their administrators in no doubt of the need for robust cyber resilience"

"AI has been incorporated into cyber-security frameworks, such as intrusion detection systems and automated response protocols, enabling organisations to better deal with increasingly sophisticated attackers."

On the other hand, cybercriminals can use AI to exploit users through deep-fakes and create more sophisticated attacks. Approximately 40 per cent of phishing emails targeting businesses are now generated using AI, leading to a 60 per cent success rate in deceiving recipients, as reported in the *Harvard Business Review*.

Meanwhile, financial institutions are also facing a significant increase in deep-fake fraud attempts, which have grown by over 2,000 per cent over the past three years, according to data from Signicat's *The Battle Against AI-Driven Identity Fraud* report.

Despite this increase, only 22 per cent of financial institutions have implemented AI-based fraud prevention tools, leaving many companies vulnerable to more sophisticated attacks, the report says.

The introduction of pensions dashboards will also present opportunities and challenges for cyber security in pension schemes.

Centralised monitoring and transparency should encourage stronger regulatory compliance and improved data accuracy, but if not properly secured, a single breach could expose millions of pension holders' sensitive information.

Burges Salmon partner, Richard Pettit, identifies two main risks from a trustee perspective in relation to dashboards. First, the ever-increasing chance of scams, which is a joint cyber and data protection risk, and second, the risks associated with uploading member data to the dashboards ecosystem.

"Trustees should reconsider their obligations as data controllers under the General Data Protection Regulations and update the provisions of their scheme administration contract in connection with pensions dashboards," says Pettit.

The Pensions Dashboards Programme claims it has "identified risks of misusing personal data and inappropriate entities gaining access to the ecosystem".

Clearly, strong cyber security measures – including encryption, AI-driven fraud detection, and continuous risk assessments – will be crucial to ensuring that dashboards enhance rather than hinder security.

Overall, trustees remain in an "unenvious" position when it comes to cyber security, concludes Robinson.

"Due to the volume of rich personal member data, management of significant assets, and the need to pay pensions uninterrupted, schemes are targets and potentially very vulnerable to ransomware attacks," he says.

As the industry continues on the path to digitalisation, it must remain aware of the evolving and increasing risk of cyber attacks and be proactive in its efforts to prevent them.

Written by Callum Conway

The greener choice?

Summary

- The role of artificial intelligence (AI) in pensions is growing quickly, offering both operational solutions and a new investment opportunity.
- The environmental, social and governance (ESG) risks surrounding AI offerings are not always well known or discussed by pension trustee boards, but there is a growing awareness emerging.
- AI-specific ESG frameworks or guidance could prove helpful for the pension industry.

With artificial intelligence (AI) playing a growing role in pension provision, Sophie Smith takes a closer look at the environmental, social and governance risks surrounding the use of AI, and whether short-term gains are being prioritised over long-term goals

Artificial intelligence (AI) is increasingly present in our day-to-day lives, with updates placing new AI solutions directly onto our phones, our TVs, and apparently, even our pensions.

Indeed, Pensions Minister, Torsten Bell, recently said that "AI is at the heart of the government's plan to kickstart an era of economic growth".

This is already feeding through into pensions, as Bell confirmed that The Pensions Regulator (TPR) has used AI in the past year to support its regulatory functions and decision-making.

Key areas where AI has been applied by TPR, according to Bell, include detecting scams, monitoring market trends, predicting pension scheme health and managing website feedback.

And use of AI is not isolated to TPR, as Trafalgar House client director, Daniel Taylor, says that AI is being embraced across pensions administration for its ability to streamline processes, enhance data accuracy, and tackle persistent labour shortages.

Saver support for the use of AI in pensions is also evident, as research from PensionBee found that savers are generally accepting of AI in pensions, provided it works alongside humans.

This increasing adoption and interest in AI has meant that the investment case for AI is also growing.

But although AI seems to be the latest industry buzzword, many industry experts are still unaware of much of the risk associated with AI.

Environmental, social and governance (ESG) risks in particular are often overlooked, especially climate risk, which stem from the huge amounts of energy required to power AI solutions.

Even without taking the toll of supply chains into account, the training process for just a single AI model requires huge amounts of electricity and emits significant amounts of carbon. Many estimates of the carbon impact are also thought to be below the real figure, given the lack of standardisation in this area.

This is just the start of the trend, as the International Energy Agency estimates that by 2026, the AI industry will have grown exponentially to consume at least 10 times its 2023 demand, and AI, cryptocurrency, and data centres could use as much electricity as Japan.

In addition to this, estimates from the World Economic Forum suggest that AI's energy use could add 0.4–1.6 gigatons of CO_2 equivalent annually by 2035.

Water usage is another concern, as the strain on local resources imposed by the water consumption associated with AI, both directly for onsite server cooling and indirectly for offsite electricity generation, can worsen prolonged droughts in water-stressed regions.

E is for ...

Taylor admits that while AI presents clear opportunities for improving service delivery, its ethical and environmental risks are being largely ignored in favour of short-term gains, as the conversation remains firmly fixated on efficiency and cost-cutting.

"Despite the industry's strong focus on responsible investment, pensions administration has yet to scrutinise the environmental footprint of the AI it is adopting," he says. "The irony is that digitalisation can reduce environmental impact – cutting down on printing, postage, and transport costs – but these benefits are rarely acknowledged, let alone measured. For an industry that prides itself on ESG-conscious investing, it's time to apply the same scrutiny to its own digital footprint."

Conversations around ESG are also lacking when considering AI as a potential pension investment, as Society of Pension Professionals member and

Squire Patton Boggs director, Felix Weston, admits there hasn't been much discussion around this yet, "probably because AI investments are not directly held and are held via pooled funds".

But Weston says there is a growing appreciation of the ESG risks AI investments may present, arguing that given the rapid growth of AI-related companies, it makes sense that trustees should start taking these into account.

This is echoed by WTW head of sustainability solutions, Monique Mathys-Graaff, who says that while it is a nascent discussion, "we have been seeing early conversation" around ESG and AI.

"Pensions providers have been using AI-type systems for many years in the climate scenario analysis and so are evolving with it," she explains. "The AI impacts on natural resources are also being considered for generic ESG risk registers. However, as this development is in its early stages, there are not many schemes at this stage."

S is for ...

Concerns have also been raised around the social impact of AI, with research from McKinsey & Company suggesting that, by 2030, activities that account for up to 30 per cent of hours worked across the US economy could be automated.

However, this is an area that trustees have more awareness in, as Weston says: "While we are only just starting to see how a transition to more autonomous systems might look, a number of applicable issues will have been considered by trustees when designing their investment strategies or engaging with the companies they are invested in, which will be of direct relevance."

In addition to this, Taylor says that concerns around AI-driven job losses don't fully apply to pensions administration.

"The sector faces a chronic skills shortage, long training periods, and increasing demand for services," he explains. "A 30 per cent efficiency boost from AI won't eliminate role – it will simply allow administrators to do more with the same resources, improving response times and service quality."

However, Taylor admits AI will shift the nature of work, increasing the need for oversight and governance.

"The focus should be on reskilling staff to work alongside AI rather than replacing them," he suggests. "AI isn't replacing pensions administrators – it's keeping the sector viable."

And this oversight is clearly needed, as Taylor says that the challenge now is making sure AI automation enhances, rather than undermines, the pensions industry's hard-won security standards.

G is for...

"Poorly governed AI could lead to errors in calculations, miscommunication with members, and regulatory breaches," he warns. "While AI can enhance personalisation and improve engagement, pensions administrators must ensure that these advancements do not come at the cost of privacy, fairness, or compliance."

PensionBee chief engagement officer, Clare Reilly, agrees, warning that use of AI in personalised pension communications introduces new governance challenges, including data privacy, purpose limitation, and the risk of AI processing more personal information than necessary.

Given these concerns, Weston emphasises that using member data to create personalised communications with AI must be "strictly controlled".

"It's very important for trustees to ensure that they have robust, GDPR compliant agreements in place with their service providers that may make use of AI when providing services," he continues. "Depending on the services that will be provided, they should also consider whether data protection impact assessments are required, and if privacy notices and records of processing and lawful bases need to be updated."

Seeing through these technical concerns can be challenging, but Reilly says the pensions industry would benefit from "clearer, industry-wide guidelines on the responsible use of AI".

"We welcome efforts to develop an ESG framework for AI," Reilly says. "Such frameworks would be invaluable in helping pension providers navigate the complex ethical and environmental considerations associated with AI."

Agreeing, Weston suggests that this could act as a "welcome reference point" for pension providers.

Some guidance is already available, as TPR executive director of digital, data and technology, Paul Neville, says the regulator's Digital, Data and Technology strategy highlights some of the opportunities and risks related to AI.

Work is also underway to provide more guidance, as Bell confirmed that, to ensure AI is used responsibly and effectively, TPR has established an AI Accelerator Team and is exploring the creation of an AI Advisory Council.

Neville tells *Pensions Age* that TPR will be engaging with the market to navigate this change, to safeguard and enhance the industry's future, encouraging industry to "upskill and engage with the opportunity".

"We intend to bring together pension and technology experts in a new working group, along with professionals from other fields, to design a framework for responsible AI innovation in pensions."

The Treasury Committee also recently launched an inquiry into how AI is being deployed across financial services industries, including pensions.

There is also a flipside to the relationship between AI and ESG emerging, as Mathys-Graaff says a big opportunity that AI brings is related to climate solutions and fast-tracking learning about climate resilience, adaptation, and mitigation approaches.

Google, for instance, recently reduced the amount of energy used to cool its data centres by up to 40 per cent by applying DeepMind's machine learning.

Written by Sophie Smith

Summary
• Environmental, social and governance (ESG) considerations have gained significant importance in the pensions sector, particularly after the introduction of Task Force on Climate-related Financial Disclosures (TCFD) recommendations and related regulations.
• Regulators are encouraging trustees to enhance their oversight of ESG factors, moving beyond minimal compliance to demonstrate active engagement and accountability.
• Balancing ESG factors with fiduciary duty remains a challenge, but many trustees now recognise that considering long-term ESG impacts aligns with members' best financial interests.

Striking the right balance

Paige Perrin examines the delicate balancing act faced by pension scheme trustees as they navigate the growing demands of environmental, social, and governance (ESG) considerations, alongside their fiduciary duty to act in the best interests of scheme members

There has been an increased importance placed on ESG considerations for the pension sector, particularly following the mandate of TCFD recommendations in 2021.

The Pensions Regulator's research found that while most trustees are meeting their ESG duties, many do so at only a minimal compliance level. As a result of this, the regulator said it wants to see more evidence of trustee oversight where management of financially material risks, engagement, and voting had been delegated to an investment manager.

However, this is a complex challenge. Trustees must balance ESG considerations with their fiduciary duty – acting in the best financial interests of scheme members while responding to the growing demand for sustainable investments.

Fiduciary duty is not always straightforward, as Redington head of stewardship and sustainable investment strategy, Paul Lee, explains: "Because fiduciary duty arises under common law, it is not as narrowly and precisely defined as it might be if it were created by statutory legislation. That leads to less certainty and a greater requirement for judgement."

Legal and regulatory landscape

Trustees must incorporate ESG considerations under key regulations, including the Pensions Act 2004, Occupational Pension Schemes (Investment) Regulations 2005, and the Pension Schemes Act 2021.

The Pensions Schemes Act 2004 requires trustees to prepare a statement of investment principles (SIP), outlining investment objectives and policies, including ESG factors.

The Occupational Pension Schemes (Investment) Regulations 2005 mandate disclosure of ESG approaches, including climate change, within the SIP.

Additionally, the Pension Schemes Act 2021 introduced requirements for trustees to report on climate-related risks and opportunities, aligned with TCFD recommendations.

In the UK, the requirement to report in line with the TCFD recommendations applies to larger pension schemes, including master trusts and collective DC schemes and schemes with £1 billion-plus in assets.

Pension Management Institute director of policy, Tim Middleton, says this requires these schemes to prepare an annual report covering the governance structures for managing climate-related risks, climate risk and opportunity assessments, scenario analysis on potential climate impacts, and reporting on climate metrics and targets.

Despite these regulatory developments, there is an ongoing debate around ESG's role in fiduciary duty. Bestrustees trustee executive, Michelle Darracott, clarifies: "These laws and regulations ensure that trustees consider both financial and non-financial ESG factors, balancing their fiduciary duties with broader societal and environmental responsibilities."

Trustees must also identify stewardship themes. Lee says: "All trustees choose climate change as one theme; they usually choose one or two further ESG themes. These form a key focus of scheme annual implementation statements."

Challenges

Fiduciary duty traditionally prioritises high-growth investments without considering societal or environmental impacts. However, as systemic risks like climate change emerge, ESG factors are increasingly seen as financially relevant.

Hymans Robertson defined benefit investment consultant, André Ranchin, emphasises that systemic risks such as climate change are financially material and likely to have a 'significant' impact on long-term investment returns.

Middleton states that to balance ESG and fiduciary considerations, trustees need to consider what investment strategies would be in members' best interests. He adds: "ESG is now a key consideration for most trustee boards, if only from the perspective of compliance with reporting requirements."

However, Lee argues that if the investment world had "dealt with *[ESG issues]* appropriately" in the past, a separate category wouldn't be needed. He believes these issues were overlooked due to their long-term, uncertain financial impacts.

He stresses that pension funds, with their long-term horizons, must consider these factors when assessing investment risks and returns.

However, the challenge is evolving. Darracott states that balancing ESG considerations and fiduciary duty is less of a challenge than it used to be, as trustees increasingly recognise that ESG actions can positively impact long-term returns.

Middleton echoes this, noting that although ESG is not explicitly required under the term 'best financial interests', trustees are unlikely to be challenged over ESG-related investment decisions.

"There is in any event a growing consensus that many companies associated with pollution and climate change, such as those involved in fossil fuels, are actually a suboptimal investment," he says.

However, Charles Stanley Fiduciary Management senior portfolio manager, Barnaby Low, argues that while the challenge has become easier as regulation has clarified trustees' duties, trustees must remain mindful of issues such as greenwashing.

In addition to this, Lee says a potential disconnect could arise if trustees don't approach these issues as matters of investment risk and return.

He also highlights the growing challenge with climate commitments. "2030 is approaching and the world economy isn't shifting at the pace that the ambitions of the Paris Agreement would indicate, meaning that there is a risk that some 2030 ambitions might encourage trustees to dislocate their investment portfolios from the real economy. The investment implications of any such decisions need to be very carefully considered."

"Most trustees recognise *[ESG]* issues matter for investment portfolios over the time horizons that matter to their beneficiaries – so fiduciary duty requires them to consider *[ESG]* issues, it doesn't run counter to considering them"

Practical considerations

Darracott suggests a range of practical considerations that trustees can implement to navigate this, including clear policies, regular training, and engaging with investment managers.

One suggestion to balance fiduciary duty and ESG consideration is to engage with scheme members to understand their ethical and moral views, whether this be through surveys or consultations. This could help trustees align investment strategies with member preferences.

Another is ensuring that any non-financial ESG considerations do not compromise financial returns, as trustees should be able to demonstrate that their decisions are in the best financial interests of the beneficiaries.

Clear policies are also vital to guarantee that ESG is balanced with fiduciary duty correctly, and this should be done in the SIP and reviewed regularly.

In addition to this, regular training for trustees on ESG issues and their financial implications can help trustees stay informed about the best practices in ESG investing.

Other ways to ensure trustees balance ESG considerations and fiduciary duty is to engage with investment managers to ensure they understand and implement the scheme's ESG policies and conduct scenario analysis to understand the potential impact of ESG factors on the investment portfolio.

Railpen climate lead, Adam Gillett, underscores the need for collaboration. "Collaboration and consistent, forceful advocacy from the investment community is needed when faced with systemic challenge," he says.

The Society of Pension Professionals member, Clare Keeffe, notes that some market participants still view ESG factors as separate from other risks.

However, she says Financial Markets and Law Committee guidance clarified that trustees can consider both "numbers and narrative" in their decisions, recognising ESG data is still developing.

Lee adds: "The paper made clear it is entirely within their fiduciary duties for trustees to consider climate and other sustainability matters within decision-making – provided that they approach those issues through the lens of investment risk and return."

As regulations evolve and the financial materiality of ESG factors becomes clearer, trustees are increasingly integrating these considerations into their fiduciary duties. While challenges remain, the overall trend shows that ESG is firmly on the agenda and will continue to shape decision-making in the pension sector.

Written by Paige Perrin

Imran Razvi

Paving the way to better investment

Francesca Fabrizi sits down with The Investment Association senior policy adviser, pensions and institutional market, Imran Razvi, to find out how the association is improving pension funds' access to private markets and more

Please tell us about The Investment Association.

The Investment Association (IA) is the trade association for UK-based investment managers. Our 250 members collectively manage over £9.1 trillion of assets on behalf of their clients in the UK and around the world, including £2.2 trillion on behalf of UK pension scheme members. Ensuring that our industry remains globally competitive is a key priority for the IA so our members can best serve their clients. We also want to support the UK government to deliver a culture of inclusive investment to encourage people to invest and improve their financial resilience.

What is your role at the IA and which areas you are currently focusing on?

I joined the IA in 2014 to lead the work on pensions policy. In this role, I work with our members, policymakers and regulators to create a policy and regulatory environment for pensions investment that helps our member firms deliver high quality investment products and services to pension schemes. Recently, I have been focused on our engagement with the government's Pensions Investment Review and setting out our wider views on pension reform.

You spoke at last year's Pensions Age Northern Conference on the expansion of the role of private assets in UK DC schemes – how has changing policy helped here?

An important dimension of the investment agenda for DC schemes is improving access to private markets, which are forming a growing share of economic activity. The opportunity set domestically and internationally for diversified investment strategies is growing and DC schemes should benefit from this. It can also contribute to the government's growth agenda by driving more capital into UK high-growth companies and infrastructure projects.

Policy has become more conducive to facilitating this access in recent years. Initiatives such as the Long-Term Asset Fund (LTAF) and the work of the Productive Finance Working Group, both of which the IA has been closely involved in, laid a strong foundation in providing the access for DC pension funds to benefit from private markets. The Mansion House Compact has built on this, but more work is needed.

Firstly, the market must change its focus from competing solely on price to competing on value. The proposed DC Value for Money (VFM) framework could help here, although certain modifications to the proposals are needed to ensure the intended effect of driving value for money is achieved. We also recommended that elements of advice around scheme selection and asset allocation may require regulation to drive a focus on value.

Enabling investment in private assets also requires a greater focus on some of the infrastructure issues that are complicating allocations, notably daily dealing mechanisms, which inhibit access to private markets. We recommended that government create a clearer set of policy and regulatory expectations for the UK fund distribution infrastructure to give DC schemes the confidence and ability to allocate to private assets within the broader daily dealing environment.

These changes are critical for increasing private market investment in DC as they will give trustees and pension providers the confidence to make such allocations.

How are you seeing the LTAF market develop in terms of products, and how do you expect this to continue going forward?

The FCA authorised the first LTAF in March 2023, with further launches bringing the number to 17. We expect this to increase significantly over the coming years, as investors increase their investment allocation to private assets.

Current LTAFs are more of a multi-asset vintage, providing a one-stop-shop approach to private markets, but over time we increasingly expect to see more LTAFs focused on a single asset class or specialised investment strategy emerge.

Another interesting development may be bespoke LTAFs being built for specific master trusts as those schemes consolidate. This would give schemes the ability to appoint different managers for different sleeves within their LTAF.

How would you like to see pension policy/regulation develop further in order for the UK pension space to flourish?

There has been a lot of supportive policy that should enable a more positive environment for pensions investment. Equally, there are several initiatives in train, notably the DC VFM framework which, if regulators get right, will further support DC schemes to build well-diversified portfolios. In that regard, regulators have done a great deal to help in recent years.

But regulation can only go so far. It is now up to the market to adapt and compete on the value of pensions – not just price. This is true of both investment and other services provided by pension schemes. Placing long-term outcomes over price when defining value requires cultural change. This is vital to the UK pension system fulfilling its full potential.

"Current LTAFs are more of a multi-asset vintage, providing a one-stop-shop approach to private markets, but over time we increasingly expect to see more LTAFs focused on a single asset class or specialised investment strategy emerge"

What are your thoughts on the government's recent Pensions Investment Review?

We welcomed the Department for Work and Pension's call for evidence and consultation on proposed reforms to build further scale in the workplace DC pensions market. This is an opportunity to harness efficiencies and enhance the way in which investment decision-making takes place, to the benefit of scheme members and the UK economy, particularly where private market allocations are better facilitated.

Our response included a strong focus on 'sophisticated scale', in which governance, accountability and appropriate investment expertise are the starting point for delivering the best investment outcomes. These investment frameworks do not come about automatically as schemes get bigger – they require deliberate actions to be put in place.

While supportive of sophisticated scale, we also cautioned against minimum thresholds in legislation for assets under management or limiting the number of default funds. These moves could incentivise 'asset gathering' over innovation and negatively impact smaller, innovative providers seeking to enter, or remain in, the market.

Advisers could also play a greater part in the culture shift from cost to value. Given the challenges that pension providers face in competing on factors other than cost, advisers and employers can help shift the market dynamic. If done carefully, the regulation of advice, both over scheme selection and investment, could allow regulators to help steer the market away from a narrow focus on cost to a broader focus on value.

Which other areas of pensions need more focus going forward?

The government needs to push ahead with the second phase of the pensions review and address the bigger questions around the shape of the pension system.

Foremost is the issue of contribution rates. Broadly speaking they will need to rise for millions of people if the desired living standards are to be achieved. We have called on the government to identify appropriate contribution rates for different segments of the working population and consider how best to achieve these levels.

We want also to see pension savers enjoy a better retirement income experience. We have recommended that a series of new measures should be put in place both to support pension savers in making retirement income decisions, and to enable a new generation of retirement products that are specifically geared towards the provision of retirement income. This will benefit pension savers and the overall availability of investment capital.

Written by Francesca Fabrizi

Venturing on new investments

Summary

- Pensions in other countries – such as the US, Australia and Canada – are enthusiastic about venture capital.
- The UK has been less keen to get involved.
- The Mansion House Compact, signed by 11 industry giants, signals a commitment to invest in UK unlisted assets, including venture capital.
- Some argue that setting the focus of venture capital allocations to the UK is restrictive and potentially counterproductive, and that a global outlook is required.
- Until pensions are willing to pay the necessary fees for venture funds, they may find themselves excluded from the best performing managers.

Is the time right for UK pension funds to consider venture capital investment?

In February, Aviva Investors launched a new Venture and Growth Capital fund, with a £150 million commitment from Aviva, and the aim to open pathways to investment opportunities in "cutting-edge tech sectors". Conceived with a UK-bias, the fund also explicitly aims to match the intentions of the 2023 Mansion House Compact, in which signatories stated a shared aim to increase investment in UK PLC's emerging industries, and in particular unlisted companies.

Billed as a win-win for pensions savers and for the UK economy, and backed by both the former and current governments, the Mansion House Compact has 11 signatories (Aviva is a founding signatory), committed to achieving a minimum 5 per cent allocation to unlisted equities through defined contribution (DC) pension funds, and other sources of long-term savings. The big idea is to unlock more than £50 billion of capital by 2030.

Aviva group CEO, Amanda Blanc, commenting on the launch of the fund, said: "Aviva is investing more and more in the UK, to support growth and back Britain's flourishing early-stage companies. This new fund will provide vital finance to some of the UK's most promising, high-growth businesses, aiming to deliver great returns for our customers." Aviva's objective, the firm says, is to give investors better access to "early-stage companies", at the same time providing them with the benefit of diversification and the potential for returns offered by private markets.

What venture capital wants

As the British Private Equity and Venture Capital Association (BVCA) head of policy (legal and regulatory), Tom Taylor, puts it: "The prime aim with venture capital funds is to find innovative startup companies that have really good ideas. They want to really supercharge the growth of those innovative ideas." Aviva's new fund, then, gets to the essence of venture funding – providing capital for new ideas, helping them reach their potential, reaping the rewards further down the line.

Essentially, it could be said that all good ideas are fair game for venture capital firms, which go about driving investment into innovation by gathering funds from institutional investors around the world. "The ideas *[funded]* might be coming out of university spinouts, they could be in biotech, life sciences, software as a solution, or any other kinds of technological solutions to society's problems. These are the things that venture capital firms are looking for." In short, though, these are companies that have "very, very, powerful growth potential", says Taylor, and something that has the "potential to grow really very quickly".

The pension perspective

Of course, boosting the companies of tomorrow is laudable and driving growth through innovation is to be applauded, but to put it frankly, what's in it for pension savers? Cardano senior investment manager, Geordie Cox, says: "The greatest potential lies within the diversification benefits that venture capital provides. Venture capital has a relatively low return correlation to public equity markets. Venture capital investments do however live at the higher end of the risk spectrum and, as such, will not be suitable for all pension investors."

Still, according to VenCap chief investment officer, David Clark, there are some very strong arguments in favour of a greater investment in venture capital for pensions. "When you look at the long-term performance *[venture capital]* has the capacity to significantly improve overall returns for a scheme, which ultimately means better outcomes for members," says Clark. And UK pensions have been able to observe venture successes in other geographical regions, Clark says. "They can see they are potentially missing out. Canada and Australia, for example, have been accessing private markets for 15-20 years now, and we can see the results."

Indeed, Taylor says: "There's a heavy bias towards non-UK capital generally in UK private capital firms. About 85 per cent of the capital that our members invest comes from overseas, and it varies year-on-year, but about probably about 30 per cent of that is pension funds.

"The vast majority of that is pension funds that are non-UK pension funds, particularly North American pension funds, Australian pension funds, and so on. Only about 3 per cent of the capital that is invested on behalf of investors by our members comes from UK pensions, and that's probably almost entirely local government pension schemes (LGPS) and some of the more open corporate DB schemes, as opposed to DC schemes' capital. Very little, if any, DC capital is invested in these kinds of products."

Taylor says the reasons for much of this are historical. "Around the 1980s, when the UK's private capital fund industry and the venture capital industry were much younger, it really become a popular institutional asset class in the UK, and the UK's corporate DB pension schemes were big investors in this asset class," he says. That continued until the general shift towards DC provision, and the different investment needs that came with that – leaning towards open ended funds with greater liquidity and lower fees.

Nonetheless, some schemes are better suited to venture capital than others. "DB schemes that are well-funded and amenable to being patient with the capital deployed in their growth portfolios as part of a run-on strategy are best placed to take advantage of the higher potential returns that come alongside the segment's higher risk characteristics," says Cox. "Venture capital can pack a punch even with a small allocation."

But in the DC world, Cox adds: "Much will depend upon the path of consolidation that is rising through the sector; as larger pools of capital are formed, greater potential could accrue from larger critical mass in portfolios that have a longer investment time horizon than DB schemes. DC schemes are therefore more inherently suited to taking on the illiquidity that characterises investments in the venture capital market."

A global view

According to the BVCA, the UK has the second-largest private capital industry in the world, and there is 16 times more capital invested by non-UK pension schemes than by UK schemes. "What that means is that all these strong returns, but also the diversification, the good that this does economically for investors, is going to Texan teachers and the Canadian civil servants and Australian firefighters; those are whose retirement portfolios are getting the benefit of these strong returns, and we've always thought it's a shame," says Taylor.

However, some argue that it would be a mistake for UK pensions to focus solely on UK growth. "When we look at the government's Mansion House incentives, we are fully behind their aims – growth and returns for pensions – but it does feel like killing two birds with one stone is not necessarily the best approach, and could have the opposite effect in both cases," says Clark. "There is no reason why, as a UK investor in venture capital, you should be particularly overweight in the UK. If you want to increase returns through venture capital, you need to have a global perspective."

Indeed, argues Clark, the only way to access the real returns on offer from venture capital is to aim for the areas that will deliver. And, Clark says, the target area is vanishingly small. "When you invest in venture capital, you have to do it right," says Clark. "The reality is that the majority of investments lose money. Over 60 per cent of venture-capital backed companies will not return the capital."

But, says Clark: "The flipside if that the bulk of returns are generated by the top 1 per cent of companies." Those that win, win big, but the winners are highly concentrated, although, crucially, not in geographical terms; they could be anywhere in the world. That's why, Clark says: "I am a bit nervous when I see some of the recent announcements about pension funds investing in UK-focused funds. I'm not sure they will generate the returns the pension funds need, long term."

Getting what you pay for

Still, done right, many experts argue that venture capital could give UK pension funds (and the economy) a much-needed boost. Co-writing for the London School of Economics' LSE Business Review in October 2024, LSE associate professor, Juanita González-Uribe, and King's Business School associate dean for global engagement, Robyn Klingler-Vidra, said: "Private asset investments can offer diversification and higher risk-adjusted returns, benefiting British pension savers. At the same time, this shift could significantly strengthen the UK's entrepreneurial finance, aligning the economy with broader innovation goals." But the authors highlight another potential block for pensions eyeing venture capital funds: High fees.

Typically, venture capital funds might charge 2 per cent management fees and 20 per cent carried interest (performance-related) feed. Clark says: "The very best venture capital funds have fees, and you can't reduce those; you need to find a model where you can pay the market fees, because the returns will justify those."

Written by Sandra Haurant, a freelance journalist

Looking out for tremors

How are DB schemes preparing for tomorrow's market shocks? Alex Janiaud finds out

Summary

- DB schemes perform routine testing to ensure their resilience against market shocks.
- Climate change scenarios features in the testing.
- Sponsors have a right to be consulted over scheme investments.

In the autumn of 2022, a series of unfortunate political events caused a market shock that threatened devastating consequences for defined benefit pension schemes.

A 'mini-Budget' delivered under former Prime Minister Liz Truss's brief tenure in Downing Street frightened financial markets and triggered a sell-off in gilts. Spiking yields and collateral calls under schemes' LDI contracts created a doom-loop of gilt sales that was eventually halted by intervention from the Bank of England. The crisis forced a rethink in how schemes protect themselves against market volatility.

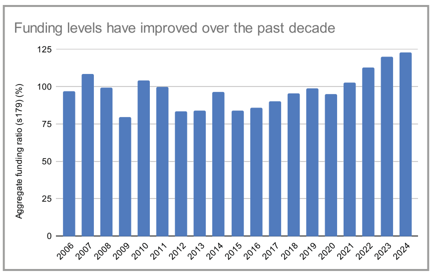
Schemes now follow stricter guidance from The Pensions Regulator (TPR) on their liquidity buffers. But regulation has long stipulated the need for schemes to stress-test their investment portfolios and model for the risks of tomorrow. These risks have evolved to consider threats like climate change.

Investment risk has fallen

DB schemes have to adhere to TPR's Funding Code, which sets out rules for trustees to plan the long-term funding of schemes, as well as for their routine valuations.

The latest iteration of the code came into force in November 2024. It introduced a greater emphasis on covenant assessment, journey planning and risk management, as well having a long-term objective for the scheme. Schemes were told to submit statements of strategy as soon as reasonably practicable to the regulator once they had prepared their funding and investment strategy.

DB schemes are broadly, however, extremely well-funded. As at the end of March 2024 and on a section 179 basis, there was a net surplus of £219 billion and a funding ratio of 123 per cent, according to the Pension Protection Fund's *Purple Book,* which was largely in line with the previous year's position.



Source: Purple Book | Pension Protection Fund

Capital Cranfield professional trustee, Paul Watson, observes that many schemes are broadly fully-funding on a relatively prudent technical provisions basis.

"There is less requirement for investment returns to fill the deficit," Watson says, "hence many schemes are running far less in growth assets (certainly liquid growth assets) and thus less exposed to market shocks". He adds that schemes are still "not immune" to shocks though.

Watson also points out that schemes' LDI positions are now generally designed to hedge 80-90 per cent of their liabilities, and are therefore also less exposed to interest rate and inflation fluctuations than in previous years. Their LDI positions are also supported by a higher proportion of more liquid assets such as absolute return bonds.

"The investment risk is far lower than historically," he says. "As such, many schemes consider that they would stand up well in most stress scenarios, or at least most expected scenarios." Schemes are making less use of stochastic asset-liability management models and now place more focus on journey plans and de-risking further to a steady state run on or insurance transaction-ready portfolio, he adds.

Don't solve yesterday's crisis

One common metric used to conceptualise risk amongst pension schemes is value at risk (VAR), Quantum Advisory principal investment consultant, Paul Francis, says.

"Traditionally, the risk has been calculated at a 5 per cent probability, so a one-in-20 downside risk. This is in comparison to the banking sector, which has historically preferred a more stringent 1 per cent downside risk measure," he adds.

"A great benefit of VAR analysis is that one can decompose the overall risk into its respective drivers. This helps pension schemes understand what the key drivers of risk are and adopt investments or hedging strategies to diversify these and reduce said risk This information also informs further analysis, as for example, if a scheme identifies that is has a lot of, say, equity risk, it can then examine in more detail what specific equity exposures are behind that risk. VAR is also used to predict likely outcomes under specific market situations, such as stagflation, impact of trade tariffs and debt crisis," Francis explains.

However, there are some risks that VAR will not capture, such as liquidity risk, ESG/climate risk and impact of regulatory changes etc. Specific stress testing can help here, he adds.

TPR's new Funding Code expects schemes to be highly resilient to short-term adverse swings in market conditions. The regulator expects schemes to now test for a one-year, one-in-six stress scenario, and for resulting changes in funding levels to be capped at 4.5 per cent, assuming that these schemes are fully funded on a low dependency funding basis.

The regulator advises in its funding code that scenario analysis could consider the impact of collateral calls for schemes using leverage and how the shape and level of liability cashflows affect a scheme's resilience.

"Scenario testing is a really powerful tool when used correctly, but it's also a much less powerful tool when used incorrectly," says Cartwright senior investment consultant, Yona Chesner. But "if the scenario testing is just a restating of everything you've done before, then it can be a nice tool for communication, but it's not really adding an extra layer of scrutiny", he adds.

Scenario testing could have helped some schemes before the LDI crisis of 2022, he suggests, adding that "those who did it, it did help them very well".

"What you don't really want to be doing is solving yesterday's crisis," Chesner says. "Of course, you'll learn lessons out of the LDI crisis and you'll come up with a different approach to that particular part of your portfolio, but if you're not learning the broader lesson of expecting unexpected things, then you're bound to fail somewhere else."

Climate risk emerges

In addition to more conventional investment stress-testing, schemes are now assessing their portfolios' resilience to factors such as climate risk. Since 2022, schemes with over £1 billion in assets under management and authorised schemes have needed to publish climate reports.

A 2021 report by the Pensions Climate Risk Industry Group advised schemes to consider a range of climate scenarios, including an orderly transition in the event that the objectives of the Paris Agreement are met, along with more disorderly or even failed attempts to meet the goals of the Paris accord.

"Over time, schemes should seek to address data shortcomings and modelling limitations identified in their initial rounds of climate scenario analysis," the report said. "Trustees may wish to increase the sophistication and granularity of their modelling, incorporating the latest thinking from across the industry."

"The challenge with climate risk modelling is the impacts tend to happen in the longer term," says Aon partner, Daniel Peters. While Aon does perform climate risk modelling with its clients, Peters observes that "it's really hard to draw actionable insights that people are then going to change their portfolios with as a result of that".

Sponsors have a right to be involved

According to the Pensions Act 1995, sponsoring employers have a right to be consulted over a scheme's investment policy, although sponsors may not dictate the policy itself.

"Ultimately the sponsoring employer is on the hook for making contributions to restore any deficit, so they're clearly going to be very interested in what risks they're taking and what that could mean for them," says WTW head of investment modelling, Alasdair MacDonald.

"The trustee doesn't have to go with the employer's views, but they're going to have some weight in the process, because ultimately they pick up the tab."

Written by Alex Janiaud, a freelance journalist

How to protect against the risk of deteriorating covenant

One scenario facing schemes is the risk of their employer covenant weakening. The Pensions Regulator (TPR) advises schemes to assess covenant from three angles:

• Legal: Schemes should understand their sponsor's legal obligations and how they can be enforced
• Scheme: The size and funding requirements of the scheme, currently and in the future
• Financial: An employer's ability to provide cash when necessary

"Even if you're well-funded as a pension scheme, if you have an insolvent sponsor that still gives you challenges," says Aon head of covenant and security, Alex Beecraft. "The access to your IT systems might be dependent on the operation of your sponsor."

Some schemes are more reliant on their covenant than others, Beecraft notes. Schemes should establish what they want from their sponsor, and then test their ability to support their needs.

"If you're just hoping for it to remain solvent, then there's tried and tested ways of doing financial analysis to look at that," he says, while schemes can also observe how other stakeholders are behaving towards the sponsor, such as whether lenders are still lending to the company or if shareholders are still investing in the business.

"For those that need a bit more cash funding, for those pension schemes that have more risk inside them, then you're probably doing a bit more financial analysis," he continues, which can involve understanding the sponsor's cashflow forecasts, and working out how much more money the sponsor could theoretically contribute to the scheme.

Closing the DEI gap

As part of *Pensions Age*'s year-long special focus on diversity, equity and inclusion (DEI), Pensions for Purpose research manager, Bruna Bauer, discusses how those managing pension funds can harness their investment power to improve DEI, both within their own organisations and those they invest in

What inspired the formation of Pensions for Purpose and what are the primary goals you aim to achieve?
Karen Shackleton, chair and founder, initially proposed Pensions for Purpose (PFP) after running a 2017 workshop at 'The Gathering', a meeting of foundations, charities, social enterprises and impact investors. The workshop explored why pension funds weren't allocating to impact investment. Two key barriers were identified: Pension funds lacked awareness of impact investing, and small impact managers struggled to compete with larger firms. To address these obstacles, Shackleton suggested a collaborative, educational platform giving all members an equal voice. PFP launched with 17 members and has since grown to 447 organisations.

When we conducted our research on diversity, equity and inclusion (DEI) between late 2023 and early 2024, we observed that asset owners and investment consultants broadly agreed on its importance, and many had taken significant steps to advance the agenda within their organisations. However, efforts often remained siloed. Through collaboration, organisations could learn from one another and unify their diversity, equity and inclusion (DEI) expectations for managers. Rather than focusing solely on quantifiable statistics, we could start driving real-world outcomes through collective industry initiatives.

We focus on developing methods to measure pension inequalities, starting with the gender pensions gap, and aim to share best practices to help employers address inequalities by providing practical tools and guidance. Additionally, we aim to collaborate with governments and policymakers to drive positive change and highlight potential industry product developments that can promote greater equity.

Why should the industry look to improve their DEI? For instance, can you provide examples of how DEI improvements in pensions have positively impacted both the industry and/or its members?

> **Pensions for Purpose**
> Pensions for Purpose was founded in 2017 by Karen Shackleton, with 17 original members. Today, the organisation offers a knowledge centre, training and events, research, and a collaborative community comprising over 400 members and more than 1,200 individuals. Members benefit from a trusted environment to interact, collaborate, and share knowledge, engaging in activities that shape their strategies in environmental, social and governance, sustainable, and impact investments.

There is growing evidence that companies with better DEI practices achieve better outcomes. For instance, Moody's research from June 2023 revealed that American companies with stronger DEI initiatives had higher credit ratings. Similarly, our research found that pension funds are increasingly willing to engage in DEI. However, for many, this responsibility is often delegated to asset managers or consultants and incorporated into broader engagement and stewardship activities.

We spoke to over 20 industry professionals, and all of them identified a positive correlation between DEI and performance. Beyond the imperative for schemes to reflect their diverse member bases, asset owners we interviewed highlighted that diverse boards contribute to more effective decision-making. By raising more questions and considering a wider range of perspectives, diverse boards can drive better outcomes for the industry and its stakeholders.

How can DEI be improved within pensions? What practical tips would you give to help pension organisations focus on, and improve, their DEI?
Our research looked at DEI from three perspectives: DEI within the pension fund's own organisation, how they considered DEI when procuring for third-party service providers such as asset managers, and how asset owners thought

about DEI in relation to their underlying investments. We felt more could be done in the latter.

The starting place is to measure DEI in portfolios, which would then facilitate a broader discussion with managers about how they might do more. Our research report also highlighted examples of best practices, such as starting with internal training on DEI to help the organisation build a shared understanding of the topic. Once clear definitions and concepts have been established, organisations can take further steps, such as integrating DEI considerations into the manager selection process and increasing representation across investment committees.

How can the industry support each other and work together to improve DEI across the board?
We are launching a community interest group focusing on people values as part of our key ecosystem themes. This will bring together industry experts, regulators, policy advisers, and asset owners with the aim of making the pensions industry more aware of improvements that can be made. We will discuss topics such as whether and how DEI can lead to better outcomes and signpost to useful resources such as the Asset Owner Diversity Charter's questionnaire for procuring third-party providers.

What political or regulatory help would you like to see the pensions sector receive to improve its DEI?
The main gap we identified in our conversations concerns education and the need for frameworks to help asset owners navigate DEI challenges. While individuals acknowledge the importance of DEI, obtaining internal buy-in remains a key hurdle to initiating meaningful change. We anticipate that organisations like the Pensions Equity Group will provide much-needed support in this area. Additionally, asset owners are often left to navigate this journey independently. While we recognise that there is no one-size-fits-all approach to DEI, most organisations start from scratch, lacking a clear roadmap. Industry organisations, such as PFP and others, help foster knowledge-sharing and promote the development of unified standards and expectations across the sector.

Over six years since the formation of PFP, have you noticed any improvements in DEI over this time within the pensions sector?
Nearly half of the asset owners we interviewed began considering DEI between 2020 and 2022, making it a relatively new topic within the industry. However, we have observed some notable progress over the past two years. First, new dimensions of diversity are gaining recognition. While gender representation remains a priority, there is a gradual shift towards including other aspects of diversity, particularly ethnicity.

Second, asset owners are engaging more actively with DEI when interacting with managers, and pension schemes are increasingly requesting DEI. However, there is considerable variation in the level of engagement, frequency and the specific data requested. Recently, some have begun including DEI-specific questions in their formal annual due diligence questionnaires shared with investment teams.

These initial questions act as a triage mechanism, helping to identify managers with limited progress on DEI. For those flagged as lacking significant advancements, a more detailed questionnaire is sent to address potential barriers or challenges. Additionally, asset owners are increasingly using tools like the Diversity Project questionnaire, either partially or fully, to track improvements and measure progress over time. There's still much to do, but progress is being made.

What future trends or challenges in DEI do you anticipate for the pensions sector?
Undoubtedly, some of the messaging on DEI coming out of the US is a headwind for progress. For example, large global tech firms like Meta and Amazon have ended their DEI programmes and terminated their DEI teams. We hope this will raise awareness of the issues surrounding DEI and lead to a broader and more informed discussion of the benefits of engagement on this topic by pension funds. We also expect the discussion to broaden beyond DEI to include health and wellbeing, for example, and other ways organisations can support their staff to result in better outcomes for all.

On the other hand, we expect UK asset owners to progress beyond considering DEI within their own organisations and in their interactions with third-party providers. We hope they will begin implementing DEI considerations in their underlying investments, as observed in the US (at least before the ESG pushback), with examples such as gender lens investing.

Written by Callum Conway

Pensions Age diversity, equity and inclusion (DEI) focus for 2025
Pensions Age is proud to explore DEI as its year-long special focus for 2025. Commenting on this, Pensions for Purpose research manager, Bruna Bauer, says it is "excellent timing" to bring up the importance of DEI and "demonstrate its effectiveness" in driving performance, considering the recent environmental, social and governance (and DEI) pushbacks from big US corporations. "The focus aligns with our priorities, which is why 'people values' is one of our six ecosystem themes for the next three years, alongside climate innovation, place-based lens, biodiversity and nature, system and governance change and impact integration," she adds.

Summary
- Women face a 35 per cent pension gap compared to men, largely due to career breaks for maternity leave, childcare, and elder care.
- Re-entering full-time employment is harder after this, leading to a further reduction in pension contributions.
- This can cause missed promotions, limited professional development, missed matched contributions, threshold issues, and fragmented contributions.
- Experts stress the need for better workplace policies, auto-enrolment (AE) expansion, better parental leave, and governmental intervention.

Paying the price

In our latest contribution to *Pensions Age*'s year-long diversity, equity and inclusion (DEI) focus, Paige Perrin explores how career breaks continue to impact women's long-term financial security in retirement

The average difference between men's and women's private pensions is 35 per cent – a direct result of career breaks, caregiving, and the gender pay gap.

Career breaks for maternity leave, childcare, care for elder relatives and health issues disproportionately impact women, leading to lower pension contributions, reduced employer matches, and missed pension investment growth.

According to Scottish Widows' *2024 Women and Retirement Report*, the current average gap in pension savings at retirement shows women trailing men by about £100,000.

This financial disparity translates into a persistent gender pensions gap, with women expected to receive 30 per cent less in overall projected retirement income than men. Worryingly, two-fifths of women (42 per cent) are currently on track to face poverty in retirement, compared to just over a third (35 per cent) of men.

With an ageing population and increasing pension inequality, the gender pensions gap demands urgent attention from the industry.

Causes

Pensions Policy Institute deputy director, Suzy Morrissey, suggests several factors influence the gender pension gap, with the most "significant" being the difference in labour market participation, which alone makes up 33 per cent of the gender pensions gap.

Building on this, Phoenix Insights director, Catherine Foot, explains that the gap is "fundamentally" driven by women's distinct employment patterns compared to men. "The gender pension gap is not a story of pensions engagement or pensions confidence. It is strongly driven by women's different experiences of employment," she notes.

Aegon head of public affairs and Pension Equity Group policy co-chair, Kate Smith, adds that the gap reflects longstanding life opportunities and structural expectations, such as the belief that women should primarily raise children and care for elderly relatives.

Scottish Widows managing director, Jackie Leiper, warns: "We are still a long way from where we need to be. Without drastic action, the gender gap will take another 20 years to close, and there is a very real risk that we won't see pension parity for many generations to come."

These career interruptions not only lead to missed employer contributions but also stifle salary progression and long-term investment growth.

Impact

A multitude of reasons contribute to career breaks. Maternity leave is often the starting point, with Smith explaining that the divergence in pension savings begins in women's 30s. Over half of women experience 'noteworthy' employment gaps due to maternity leave.

Once that leave ends, many face the challenging decision of whether to return to work full time, part time, or whether to stay at home with the children full time.

"The gender pay gap means that women will be the lower earner in many families and this may reinforce the decision that women will become the carers," Morrissey says.

Abrdn Investments head of UK and EMEA, Mandy Rawlinson, explains: "When they do return to work, many women come back on reduced hours in order to balance societal needs."

She says this reduced engagement results in lower pension contributions and less benefit from compounding returns. Rawlinson stresses that "this is very far from being just a 'mother' issue – it is a female issue".

Rawlinson says that when looking for solutions for the gender pensions gap, the impact of specific issues, such as lower pay and often long career breaks to look after children, cannot be overlooked.

Beyond childcare, women also often care for elder relatives or adult children who require support. Morrissey points out that "strong cultural norms" present women as caregivers and many women want to take time away from paid work to care for family members.

This then plays into the fact that, as Smith says, women are more than twice as likely to work in part-time roles due to dependants. The impact of part-time jobs is that women again will receive a lower or no pension from these roles, even if they work multiple part-time jobs.

"There are all sorts of reasons why women go part time, not just childcare costs. They can be caring for other relatives, they could be caring for a partner, they could be caring for elderly parents, or dependent children as they get older. This part-time work makes it difficult for women to work to their skill level and to stay in work," Foot explains.

This feeds into the idea that lower-paid jobs, being self-employed and part-time work can, as PensionBee chief business officer, Lisa Picardo, says, "significantly" reduce pension contributions and long-term financial security if not carefully managed.

PensionBee figures revealed that every year out of paid work lowers retirement savings by approximately £5,000 and working part time reduces it by around £2,000 annually.

Smith says there are substantial impacts to working part-time as, generally, part-time roles could be paid less pro rata, and have less progression, by choice or otherwise.

She explains that women might refuse a promotion or a higher paying role or not increase their hours if offered as they feel with other responsibilities (looking after the home, children or relatives) they need to minimise in another area, which is often their careers.

"We are still a long way from where we need to be. Without drastic action, the gender gap will take another 20 years to close, and there is a very real risk that we won't see pension parity for many generations to come"

Solutions

Having examined the various factors, ranging from maternity leave and part-time work to societal expectations that contribute to the gender pensions gap, it is important to explore how industry and policy interventions can help narrow this gap.

Arguably, one of the most effective strategies is the expansion of auto-enrolment (AE).

Morrissey explains: "Government policies can help support recognition of unpaid work and access to workplace retirement savings schemes."

Currently, two million of the 13 million female employees in the UK do not meet the eligibility criteria for AE, with 1.2 million women earning below the financial threshold.

"If amendments were made to the threshold rules, more women would be eligible for AE into workplace pensions and would have more retirement savings for later life," Morrissey says.

Rawlinson supports extending AE, especially for those in part-time or lower-paid roles, arguing that it "would allow more women to start saving earlier".

Foot believes the second phase of the government's pension review focused on adequacy must integrate gender considerations to close the gap.

Beyond AE, arguably improving workplace policies is crucial. Foot recommends that employers auto-enrol employees annually, not just every three years as required, to recapture those returning from career breaks.

Additionally, flexible working arrangements, which have expanded post-pandemic, are beneficial.

"The good thing is the flexibility of the workplace supports women to work more, and we are seeing that. There is a lot of female participation. That does help with having a family and caring for relatives," Smith says.

Foot argues that it is principally about what employers can do to enhance inclusive employment by retaining women workers, offering good-quality, part-time work, and ensuring opportunities match skill levels.

Morrissey says employers should also assess whether their work culture and leave policies support both men and women equally in taking on caregiving responsibilities. By doing so, they can help shift societal expectations and create a more balanced division of care.

To further support women, Foot suggests that workplace policies should include both unpaid and paid carers leave, as well as occupational health policies for menopause, fertility-related conditions, miscarriage, and endometriosis.

Employers also need to ensure that women in senior positions receive proper support, as career interruptions due to caregiving responsibilities often prevent them from advancing.

Recognising the importance of leadership, Rawlinson emphasises: "We need to nurture and grow senior female leaders and remain focused on the pipeline of women into senior positions."

Picardo argues that equal pay for equal work is crucial in closing the gender pension gap. "Employers should also audit pay data and ensure equal opportunities for advancement, so women are not held back in their earning potential or career growth," she says.

In addition to this, Picardo suggests that enhancing parental leave packages and offering shared parental leave can help balance caregiving responsibilities between men and women, ensuring that career breaks do not disproportionately impact women.

A key concern regarding pension contributions is that matching schemes may unintentionally widen the gap. Smith argues that since women's salaries tend to be lower, their contribution percentages result in lower pension savings. She suggests that employers consider alternative methods, such as adjusting contribution structures to account for pay disparities.

Another proposed solution is for families to maintain private pension

contributions in a woman's name while she is undertaking unpaid work. Morrissey highlights this as a potential strategy to prevent long-term pension disadvantages.

Policy interventions can also help bridge the gender pension gap. Expanding state pension credits for unpaid carers and introducing more flexible pension schemes that adjust for career gaps are important steps.

"Providers and employers should be actively seeking to engage women in their workplace pension and recognising the desire for information and support," Foot emphasises.

On a broader level, government reforms, such as extending childcare funding beyond the point where parental leave ends, Picardo says, are key in enabling both men and women to balance their earning potential with caregiving responsibilities.

Meanwhile, Foot suggests employers could also continue paying pension contributions while workers are on maternity or parental leave.

A significant factor contributing to the gender pension gap is the lack of financial literacy. Digital tools and easily accessible information could also help women better understand the long-term impact of career gaps on their pensions.

"Urgent action must be taken, and we must empower more women to take control of their money through life and into retirement, with education, support, and innovative ways to engage with their money," Leiper continues.

Interactive Investor senior manager, Camilla Esmund, highlights this issue: "Frustratingly, there is still a clear lack of financial capability in the UK. There is a desperate need to give people the financial tools and literacy to build financial resilience and make the most of their often-limited financial resources."

By improving financial education and providing better guidance on pension planning, women can make more informed decisions and take proactive steps toward securing their retirement.

Recognising that the industry's current approach exacerbates the problem, Foot argues: "Until the industry stops treating career breaks as a women's issue and starts designing pensions for real-life working patterns, this gap will never close."

"We all have a responsibility to call out the enormous challenges women still face every single day due to societal imbalance," Rawlinson says.

While there seem to be multiple solutions to the gender pensions gap, challenges remain in ensuring that governmental policy and action from the industry are put in place that will not only narrow the gap but also encourage savers to understand their pension better and the true impact that pension pauses can have on their future financial security in retirement.

Written by Paige Perrin

Summary
• Economic and financial abuse issues are more often likely to be reported to banks than police, according to the Financial Conduct Authority, giving the financial services sector a vital role to play in spotting the signs and offering support where they suspect financial abuse is happening.
• Greater pension confidence can also help to build up greater defences against financial abuse, as well as helping victim-survivors take back control of their finances.
•Pension organisations can take steps to put the right support in place, with training available from charities such as Surviving Economic Abuse.

Tackling financial abuse: The role of the industry

With victim-survivors of financial abuse more likely to reach out to family, friends or their bank for help as a first step, Sophie Smith takes a look at the vital role the pensions industry can play, and whether the current complexity surrounding pensions could leave savers more vulnerable

Economic and financial abuse are a stark reality in the UK, affecting all income brackets, sexes and age groups. Estimates can be challenging, but in 2024, a survey on behalf of Surviving Economic Abuse (SEA) found that 4.1 million women (15 per cent) experienced this form of abuse in the past year.

Younger women are also more at risk, as the SEA found that 35 per cent of victim-survivors are aged between 18 and 24.

Whilst often hidden, the Financial Conduct Authority (FCA) suggests that, given the numbers affected, it's likely most of us will know a friend, family member or colleague who is experiencing financial abuse, even though we may not be aware of it.

According to research from Aviva, most victim-survivors of financial abuse are more likely to reach out to family, friends or their bank for help as a first step, before they consider reporting it to the police or victim support.

As the FCA rightfully points out, this gives the financial services sector a vital role to play in spotting the signs and offering support where they suspect financial abuse is happening.

This includes pension providers and all organisations associated with the pensions industry. After all, pensions are often one of the biggest assets people have to their name, making up the second largest proportion of household wealth in Great Britain, at 35 per cent, according to the latest figures from the Office for National Statistics (ONS).

There is already evidence of the role pension providers can play, as Scottish Widows workplace savings specialist, Susan Hope, tells *Pensions Age* that nearly 5,000 Scottish Widows customers have told the provider that they are experiencing, or have experienced, economic abuse.

"We expect the scale of the issue to be far wider than just the number of customers who have told their bank or pension provider," she says. "That's why we're working alongside SEA to always look for better ways to support victim-survivors, and equip our colleagues with the right tools and skills to help those customers, through safeguarding their information, and signposting to specialist support, for example."

And the importance of addressing issues such as economic and financial abuse are particularly prevalent amid initiatives such as International Women's Day this month (8 March 2025).

Although it is not only women who are affected by financial abuse, women are more likely to report experiencing financial abuse than men, with figures from the ONS revealing that one in five women in the UK have experienced financial abuse, compared to one in seven men.

Building confidence to build a defence

This is perhaps unsurprising, given the gender divide that is seen more broadly in financial attitudes, with research from the Money and Pensions Service (Maps) revealing that 45 per cent of UK adults do not feel confident managing their money, rising to 48 per cent of women, compared to 42 per cent of men.

In addition to this, over half of women (54 per cent) say they lack the confidence to make these financial decisions (47 per cent of men).

This confidence falls even further when considering pensions in particular, as the Money and Pensions Service found that women are less likely to have a plan for their money in retirement (60 per cent of women compared to 44 per cent of men) and are less likely to say they understand enough about pensions to be able to make effective decisions about saving for retirement (41 per cent of women compared to 57 per cent of men).

Indeed, Trafalgar House client director, Daniel Taylor, says that "the pensions industry has a stark reality to face: Women are being left behind when it comes to retirement confidence".

"Our latest research reveals a significant gender gap: While 34.1 per cent of men feel confident that their pension will provide a comfortable retirement, only 18.9 per cent of women share that optimism. Even more concerning, 40.2 per cent of women feel negative about their retirement prospects compared to 31.6 per cent of men," he adds.

But financial confidence can play a huge role in combating financial abuse, ensuring that people are able to take control of their assets and take ownership of their financial situation, as well as empowering victim-survivors of economic and financial abuse to regain control of their finances.

"Financial independence isn't just about planning for retirement; it's a vital defence against financial abuse," Taylor says. "Yet, our data shows women are more uncertain, with 17.8 per cent admitting they simply don't know if their pension will be enough."

Taylor warns that this lack of confidence and understanding can create vulnerabilities that can be exploited, arguing that "the industry needs to step up".

"We must ditch the jargon, simplify communication, and actively engage women earlier in their careers," he says. "Schools, workplaces, and public campaigns all have a role to play in building financial literacy and confidence across the board."

Hope agrees, suggesting that the complexity and variety of pension arrangements is a key issue, with couples "banishing annual benefit statements to the 'too difficult' box, never to be seen again".

"However, we can see that online tools and apps, growing open finance capability and personalised 'just in time' communications are proving helpful in providing simplified information at a time when it can be digested and more importantly acted upon," she says.

Hope suggests that the legal profession also has a key role to play here in ensuring that pensions are appropriately considered in divorces, noting that the pensions gender gap is particularly exacerbated at specific life moments, predominantly career breaks, divorce and when making retirement decisions, such as annuity purchase.

Taking back control?

Divorce in particular is a current weak point, as Hope notes that the gender pensions gap widens further for divorced

Financial abuse - The Care Act 2014 describes 'financial abuse' as a type of abuse that includes having money or other property stolen, being defrauded, being put under pressure in relation to money or other property and having money or other property misused. It can happen to anyone of any age, and can include acts such as taking pension payments or other benefits away from someone. Financial abuse is often part of wider economic abuse.

Economic abuse - Recognised for the first time in law in England and Wales in the 2021 Domestic Abuse Act, economic abuse often occurs in the context of intimate partner violence, and involves the control of a partner or ex-partner's money and finances, as well as the things that money can buy.

women, with 60 per cent of them being on track for poverty in retirement, compared to 42 per cent of women in general.

"Three in five (60 per cent) women also didn't discuss pension in divorce settlements, leading to an average loss of £77,000 in retirement savings," she adds.

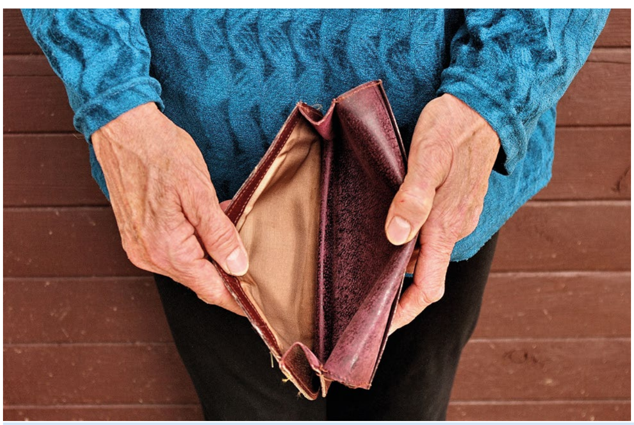
Indeed, pensions are a challenging and often overlooked issue during divorces at the best of times, and situations involving economic abuse are even more prone to further issues, as this can create an uneven power dynamic, with one partner often still able to excerpt control over a victim-survivor.

Morrissey also admits that whilst there are a number of options available upon divorce, including a pension sharing order or a pension attachment (or earmarking order), those looking for a clean break this probably isn't the best option.

"In the case of financial abuse it could make it easier for the abuser to stay in control and potentially withhold income," she says.

Taylor agrees that there are vulnerabilities abusive or controlling partners could take advantage of, explaining: "One persistent issue is when one party refuses to engage with the pension-sharing process, leaving the other in limbo for months, if not years, and more seriously, blocking their access to funds and income because the benefits can't be split.

"This situation creates a power imbalance that can be exploited by a controlling partner. Providers need clearer processes, better legal cooperation, and more authority to intervene in these situations."



Given this, Taylor argues that "the pensions industry must act".

"With the FCA's Consumer Duty putting customer protection front and centre, we have both a moral and regulatory obligation to support savers, especially those who may be more vulnerable," he continues. "Financial literacy isn't just a nice-to-have; it's a critical defence against exploitation. It's time for a step-change in how we communicate, educate, and empower people to take control of their pensions and, ultimately, their financial futures."

Getting the right support in place

Knowing how to identify and help victim-survivors of economic and financial abuse can be difficult, but there is training available for those employers and providers that are truly looking to support their savers and members.

Surviving Economic Abuse (SEA), for instance, offers bespoke training on economic abuse for a wide variety of professionals, from customer support staff at banks and building societies to domestic abuse champions in the police force. This includes a specific financial services training course, which takes just five hours and can be done online. The course helps workers to understand and recognise economic abuse as an issue and, specifically, how economic abuse occurs within the context of financial services. It also aims to help professionals to develop the necessary skills and knowledge to provide an appropriate response to customers experiencing economic abuse, with increased knowledge of effective signposting and where to access resources.

The charity is also currently working with Money Advice Plus to update its course on financial capability, to help survivor-victims to feel more confident in their financial understanding.

Raising standards to protect savers

The FCA itself encourages firms to be alert to the possibility of coercion and financial control to reduce foreseeable harm, with the Consumer Duty setting higher and clearer standards of consumer protection across financial services.

"When a report is made, firms should treat the victim-survivor appropriately, so they do not experience further avoidable harm," the FCA states. "This could include how firms treat repayment of any debts and how they are recorded."

"We will continue to work with the Financial Ombudsman Service, government, domestic abuse charities and trade associations, to understand how firms are identifying and managing harm for victim survivors of domestic financial abuse," it stated. "We will also look at whether there's any further action needed to help the victim-survivors as they rebuild their lives."

Future regulatory changes, including reforms being considered as part of the Advice Guidance Boundary Review, could also allow the pensions industry to provide even more support to victim-survivors.

"We welcome government interventions, such as the Advice Guidance Boundary Review, as it could allow new free guidance tools to support people in making holistic savings decisions," Hope says. "Technology can be a great and cost effective enabler of this, allowing for full advice service to be provided to those with less assets."

Written by Sophie Smith

Risks to watch

Recent research found that pension fund managers expect an increase in overall risk levels this year. *Pensions Age* asks: What risks are top of pension managers'/trustees' list of concerns?

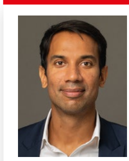
In the past, the current level of global and local, political and economic, uncertainty would have been concerning for DB trustees – uncertain bond yields, inflation, and increasing threats to global growth.

However, with 75 per cent of schemes now in surplus on a low risk basis, these threats are less of a concern for most, and we're increasingly finding that trustees are considering a broader set of risks.

Operational risks, including talent retention and cyber risk, are rightly getting more focus. And with uncertainty about the government's pension policy, many trustees are concerned about regulatory risk, although recognise that change may also provide new opportunities.

Many schemes are now much more mindful of threats from systemic risks following both the pandemic and the 2022 gilt crisis. Consideration of these risks can impact endgame strategies, given that these risks will impact insurers as well as pension schemes, albeit in different ways.

LCP partner, Jonathan Camfield



Trustees continue to rank market volatility as the leading risk to their endgame strategies, with our research finding that nearly half (46 per cent) cite it as a key barrier to achieving their endgame. With a view to purchasing a bulk annuity specifically, more than two-fifths also highlight attracting insurer interest (42 per cent), while concerns around investment strategy and sponsor engagement have declined compared to 2023.

Standard Life managing director of defined benefit solutions, Kunal Sood

Whether UK corporate pension schemes are looking to ensure their overall portfolios are positioned so that endgame options are available in the near or medium term, or whether they have decided to run-on, schemes and their advisers will always remain focused on how they are best positioned to respond to inflationary or interest rate risks in their portfolios. Macro-driven market volatility events are a continual risk to journey planning for UK pension schemes.

However, since late 2022, schemes and their advisers have looked to increase scheme resilience to these market shocks by having more efficient access to liquidity. Since the 2022 mini-Budget and in response to any future market volatility, they have continued to actively manage their cash positions and have improved the management of collateral through better frameworks and processes.

Everyone in the industry – not only pension schemes – are closely monitoring regulatory and legislative changes in 2025, particularly where there is currently heightened interest from the government across both the public and private pension scheme sectors.

M&G Investments head of UK institutional distribution, Grant Hadland

Top of the list of concerns over the next six months in our latest research was 'regulation' (46 per cent of respondents), closely followed by 'geopolitical conflict' (44 per cent). Inflation and central bank policies were also high on the list (38 per cent), while trustees and pension scheme decision-makers seemed less concerned about climate change (22 per cent) and liquidity/collateral management (19/9 per cent).

Pensions managers continue to be concerned about GMP equalisation and the potential impacts of the *Virgin Media* case – but most of their fear is reserved for pensions dashboards and other DC-related regulatory demands.

Meanwhile DB trustees are continuing to assess the merits and risks of a potential run-on of their schemes, and these discussions with sponsors will continue to be a feature of 2025 and beyond. This topic has been brought sharply into focus following recent funding improvements, government announcements and the publication of the DB Funding Code. Irrespective of which long-term objective they choose, trustees will want to make sure that all investment risks are managed closely. Huge strides have been made here in the past few years in improving investment governance and accountability – such as moving to sole trustee arrangements and/or outsourcing to a fiduciary manager or implementation partner.

Russell Investments head of UK fiduciary management, Simon Partridge

With funding levels looking healthy for most defined benefit schemes, operational risks are high up the agenda. For example, dashboards connection dates are fast approaching and the whole industry is resource constrained for the many projects around administration, data and GMP equalisation. Managing the successful and timely delivery of these is a challenge for all stakeholders – even more so for schemes where this is a precursor to a planned insurance buyout. There is also the approaching deadlines for having an Effective System of Governance in place and carrying out their Own Risk Assessment.

Trustees and sponsors are juggling the somewhat conflicting regulatory policies of complying with the new DB Funding Code (and extensive covenant guidance and Statement of Strategy requirements) alongside the government's planned easements on access to surplus. The regulatory risk is a very real one, and it's unclear whether the pendulum will swing towards trustees or sponsors.

On the investment side, trustees are grappling with finding good homes for their money when many asset classes look expensive and with significant geopolitical uncertainty. Previous safe havens like UK sterling credit now look less attractive and finding appropriate levels of return isn't easy. There are also practical challenges for trustees looking to efficiently manage down illiquid assets where this is holding up other activities.

Isio director, Iain McLellan

The key operational risk is connecting to pensions dashboards. Large schemes need to do this in 2025, with smaller schemes following in 2026. Securing the resource from administrators, filling the data gaps, and automating the process may be a challenge for some schemes. Smaller schemes still have time to consider using an alternative administrator and may wish to look at this.

The main regulatory risk is the new funding regime for actuarial valuations after 22 September 2024. This should be relatively straightforward for better-funded schemes, although agreeing an expense reserve may lead to debate between trustees and employers. It will be more significant for poorly funded schemes, particularly where the employer covenant is also weak, with a need to assess a range of new covenant metrics and have a viable plan for reaching a low dependency funding basis by significant maturity.

The main demographic risk relates to life expectancy, and whether we're seeing a return to more normalised pre-Covid levels of mortality and longevity improvements. If so, the longevity gains that most schemes have banked over the past three years may start to reverse.

Investment risks are scheme specific. But after five years of strong positive returns in most growth asset classes, and higher yields now available on bonds, schemes that have not already done so may want to bank some of those returns and increase allocations to fixed interest assets.

Spence & Partners head of corporate services, Alistair Russell-Smith

Pensions history

Surplus to requirements

In *Alice in Wonderland*, the White Queen remarked to Alice that she believed as many as six impossible things before breakfast. And the current consultation on surplus is much the same. The government's objectives are to make it easier to share surplus with employers and scheme members by removing 'practical' and 'behavioural' barriers to surplus extraction. New flexibilities are promised "intended to balance enhanced options for trustees with prioritising the security of member benefits".

We have been here before, although motivated on that occasion by concerns that employers were claiming unnecessary tax relief. The 1986 Finance Act required schemes to reduce surplus to a prescribed level by taking a contribution holiday, increasing benefits or repaying surplus to the employer. Trustees and trade unions pushed for benefit improvements. When surpluses eventually turned into deficits, which had to be filled by employers, the criticism of those contribution holidays and refunds (although rarely of benefit improvements) was fierce. Greater member security was the priority, bolstered by stricter funding and associated regulatory requirements – and the Pensions Act 2004 completed the job by prohibiting surplus refunds to continuing schemes, unless trustees actively resolved to retain existing powers.

The balance between the employer's business interests and member security has never been easy but the direction of travel has been inexorably in one direction. However well-intentioned the ideas in the consultation, past experience suggests that whittling down the barriers and attitudes to using surplus will not be easy.

www.pensionsarchivetrust.org.uk/ourcollections

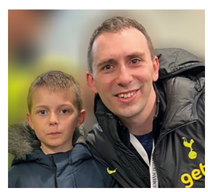
Pensions Archive Trust director, Jane Marshall

Charity times

In a change from the norm this month, *Pensions Age* is highlighting a personal fundraising request

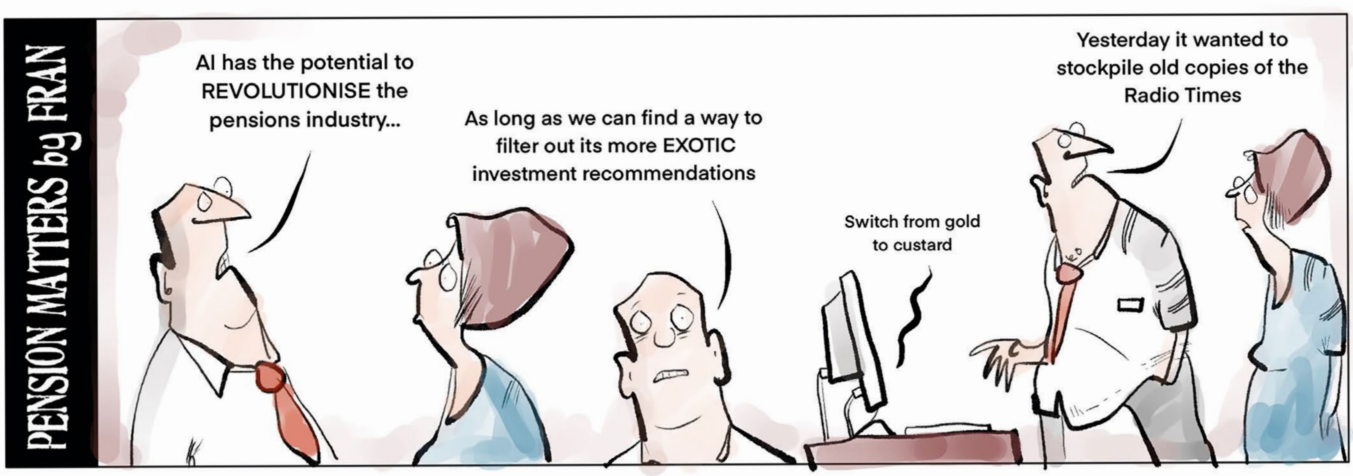
From 2-5 May, Andrew Green, cousin of *Pensions Age* editor, Laura Blows, will be walking from Stadium MK to all Premier League, EFL and National League football grounds in London to fundraise for the charity, Young Lives vs Cancer.

In March 2022, Andrew's then seven-year-old son was diagnosed with rhabdomyosarcoma and underwent nine rounds of chemotherapy, 23 sessions of radiotherapy and a surgical procedure. Unfortunately, Andrew's son relapsed during his remission in May 2024. Following this, he had to undergo more intensive chemotherapy and a bigger surgical procedure. However, with the efforts of the staff at Oxford's John Radcliffe



Hospital, the cancer should hopefully now be kept at bay. "The fear that my partner and I felt at the time of diagnosis is something we wouldn't wish on anyone. If it wasn't for Young Lives vs Cancer this nightmare would have been unbearable," Andrew says.

To donate: www.justgiving.com/page/andrewsfundraiserforyounglivesvscancer



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