Pensions Publication of the Year 2019!*

Regulatory delays
The initiatives being delayed and how trustees can prepare for when they restart

Dashboard
The latest on the development of a pensions dashboard

Dividends
What suspended dividend payments mean for pension fund investors

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May 2020

PENSIONS Age

The leading pensions magazine

Retirement saving: *Should pension saving still occur when Covid-19 is causing more immediate financial pressure?*

Communications: *The appropriate frequency, content and format of messages to scheme members during the Covid-19 crisis*

How concerned should trustees be about rising deficits and weakening employer covenants?

EAPF case study: How it is helping its members through the coronavirus crisis

Editorial Comment

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

Pressing pause is usually a luxury. To step away from the screen, have a conversation, pop to the loo, make a cup of tea, and then settle down to really concentrate. Getting to extend this pause button to real life has been a wish thought by many, to create more hours in the day.

Be careful what you wish for. The world has hit pause to hopefully stop coronavirus in its tracks, or at least slow it down sufficiently until a solution can be found.

But this is no global tea break. No pit stop on our everyday lives to recharge and get going again later. Instead, it has been a slow, seemingly interminable slog, which sadly has seen far too many not be able to continue this fight.

Indeed, tackling coronavirus is often compared to fighting a war. And, while war is usually glamorised on screen (as the efforts to tackle Covid-19 will undoubtedly soon be too), our efforts to stop the virus spreading via lockdown more closely matches the reality of conflict than the Hollywood sheen –"months of boredom punctuated by moments of sheer terror", as WWI was described at the time.

This is a war of attrition. There is no quick win, no easy victory. Just as there were hopes and expectations during the start of the First World War in July 1914 that it'll be all over by Christmas – which instead rolled on from a few months to over a few years – hopes that we will soon be returning to 'normal' in a post-coronavirus world have been delayed, and delayed again, as lockdown gets extended.

These delays have affected all parts of life. They have extended the mundane, like the speed at which we can enter a supermarket, postponed important rituals, such as birthday celebrations and wedding bells, driven apart our ability to see loved ones, which is especially needed in times of sorrow, and they have also risked adding to this grief with the hold-up of vital NHS equipment.

Delays too have taken place within the pensions sector. As our feature shows on page 34, many regulatory reforms for the pensions sector have had to be put back. Plans to make the pensions industry an even-better place for people to save their money are put on hold; maintaining the status quo is now challenging enough. Even funding retirement, either for ourselves, or our employees, has been put off by some for the here and now, as our features on retirement savings and DB scheme deficits on pages 40 and 30, respectively, reveal.

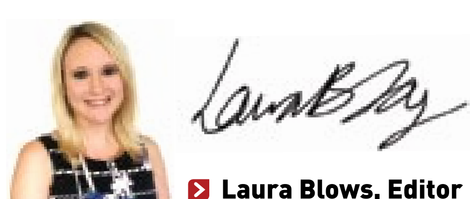
However, positive routines are also emerging. For instance, there is the recognition of the underpaid, overlooked key workers through Thursday's clap for carers, and rainbows in windows to simply make our short time allowed outside more pleasant.

Within pensions, despite grappling with volatile investment markets, there are still opportunities to grab, as we see in our article on page 50. A number of pension companies are also making efforts to directly help others during this crisis; some examples of which we explore on page 60.

Many individuals are also using this time to take stock of their lives and consider what was working well and not so well before lockdown, so they can make appropriate adjustments once social distancing is relaxed.

May I suggest this also be a period of reflection for the pensions industry. For example, with regulatory delays, to consider if upcoming reforms are the most effective or what else may be needed to improve the sector. Or maybe utilising the work-from-home setups that have been established during lockdown to enable flexible working, therefore encouraging a wider variety of employees into the sector.

Whether we look back at this time as pre- and post-coronavirus is one for the history books. But if so, we now have a chance to create a better part II once we let go of the pause button.



Laura Blows, Editor

COVER FEATURE

Theme: Rules and regulations

Highlighted features

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Features & columns

PENSIONSAge

Publisher
John Woods
Tel: 020 7562 2421

Editor-in-Chief
Francesca Fabrizi
Tel: 020 7562 2409

Editor
Laura Blows
Tel: 020 7562 2408

Associate Editor
Natalie Tuck
Tel: 020 7562 2407

News Editor
Jack Gray
Tel: 020 7562 2437

Reporter
Sophie Smith
Tel: 020 7562 2425

Reporter
Duncan Ferris
Tel: 020 7562 4380

Design & Production
Jason Tucker
Tel: 0207 562 2404

Accounts
Marilou Tait
Tel: 020 7562 2432

Commercial
John Woods
Tel: 020 7562 2421

Camilla Capece
Tel: 020 7562 2438

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Managing Director
John Woods

Publishing Director
Mark Evans

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

Dateline - April 2020

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

1 April The Financial Conduct Authority (FCA), **Money and Pensions Service (Maps)** and **The Pensions Regulator (TPR)** warn savers against the rising threat of pension scams amid the current coronavirus crisis. The regulators issue a joint statement to raise awareness of pension scams, highlighting that the rising levels of vulnerability stemming from Covid-19 lockdown are likely to increase people being targeted by scammers.

2 April The deficit of UK defined benefit (DB) pension schemes increases by over £100bn since the start of 2020, rising to £290bn at the end of March, according to the **PwC** Skyval Index. The index notes that whilst this is a "significant increase" from the £170bn recorded at the start of the year, it has still not reached levels seen in late summer of 2019, having hit £340bn at the end of August.

3 April TPR confirms that it is extending the submission deadline for responses to its DB funding code consultation to 2 September 2020. The regulator had initially set a deadline of 2 June 2020. TPR executive director of regulatory policy, analysis and advice, David Fairs, says that the regulator recognises that respondents may not have the time to focus on all the issues, due to the current circumstances.

6 April High street retailer, **Debenhams,** fails to pay its agreed April deficit recovery contribution (DRC), with the firm filing for administration. Debenhams had agreed a monthly payment into its DB scheme, which reportedly has a substantial funding deficit. It announces that it will again be filing for administration to protect itself from legal action from creditors while its stores are closed.

7 April The FCA confirms that the implementation of new default investment pathways will be delayed until February 2021 as a result of the Covid-19 pandemic. The regulator also announces delays around the introduction of more stringent rules for pension transfer specialists, which have now been postponed until October 2021. Stating its support for firms' reprioritisation amid the pandemic, the regulator argues that dedicating resources to deal with "critical functions" may outweigh any harm caused by delaying the implementation of certain policies.

8 April The Pensions Dashboard Programme (PDP) at **Maps** publishes its first progress report, as plans for further industry engagement and consultation are put on hold amid the coronavirus pandemic. The report is published alongside two working papers on the potential scope and definition for data standards for an 'initial dashboard', which, in addition to recommendations from the report, will be subject to further consultation "when the time is right".

Editorial credit: D K Grove / Shutterstock.com

8 April Tesco reaches an agreement with its pension trustees to make a one-off £2.5bn scheme contribution to eliminate its funding deficit. Following the sale of its businesses in Thailand and Malaysia, Tesco has made the agreement to help wipe its pension deficit of £2.57bn. The deficit had increased on an IAS 19 basis by £235m year-on-year, as of February 2020, its 2019/20 preliminary results report reveals.

9 April TPR publishes updated Covid-19 guidance on reporting duties and enforcement activity, outlining plans for a 'flexible approach'. The regulator confirms that it will be adopting a more pragmatic approach to what must be reported, and its enforcement action, amid the Covid-19 crisis. The updated guidance outlines a number of changes to reporting requirements that support this approach, stating that if a breach can be rectified in less than three months and does not negatively impact savers, then there is no need to report it. However, schemes should still keep a record of any decisions and actions relating to breaches. TPR adds that it would be making decisions on regulatory action on a case-by-case basis.

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

14 April DB transfer values drop by 3 per cent in March as the number of transfers fall to new lows, according to **XPS Pensions Group.** The pension consultancy's *Transfer Value Index* declines from £249,700 at the end of February, to £242,600 at the end of March as fluctuations in gilt yields lead dramatic movements throughout the period. During the week ended 19 March, transfer values fall by 11 per cent to £222,800, a level not seen since July 2016, while the number of transfers completed fell from an annual equivalent of 0.89 per cent of eligible members in February to 0.76 per cent in March.

17 April The **UK Statistics Authority** and **HM Treasury** agree to extend the Retail Price Index (RPI) reform consultation deadline until 21 August 2020 due to the ongoing pandemic. Responses will be accepted throughout the extended period, with an official response to the consultation expected to be published in Autumn 2020. It was launched on 11 March as part of the Spring Budget, and seeks views on the implementation of the alignment with the Consumer Prices Index including owner occupiers' housing costs (CPIH), as well as when, between 2025 and 2030, the reforms should be introduced. The consultation had been originally scheduled to launch in January 2020.

22 April Savers should not rush into making rash changes to their pensions amid the current crisis, and should instead continue to seek advice and guidance, **Pensions Minister Guy Opperman** warns. The minister highlights that market volatility and changes to savers' employment status, both of which are prevalent in the current crisis, are scenarios often used to try and trick people into transferring their pension into a fraudulent scheme.

23 April Between 5 and 10 per cent of sponsoring employers have been requesting to suspend DRCs, according to **TPR**. In a webinar hosted by XPS Pensions Group, TPR executive director for regulatory policy, analysis and advice, David Fairs, states that although experience "seems to vary a little", between "5 and 10 per cent of organisations are asking to suspend DRCs".

28 April Mercer writes to the Chancellor, Rishi Sunak, urging the government to allow sponsoring employers of DB pension schemes to defer DRCs for up to six months. In the letter, Mercer UK CEO, Sylvia Pozezanac, states that allowing DRCs that would have been payable over the next six months to be spread out over the next three years would make it possible for "much needed capital" to be allocated to keep businesses afloat, without compromising the financial security of pension schemes. Pozezanac warns that if the government does not extend the DRC suspension period, then the PPF could face "huge demands".

29 April PPF confirms that the impact of the Covid-19 crisis on levy bills will be 'minimal', with no individual scheme to be asked to pay more than 0.5 per cent of liabilities. The lifeboat stipulates that there would be a limited impact as the rules used to calculate the levy were fixed before the Covid-19 pandemic.

30 April TPR asks trustees to warn DB scheme members looking to transfer to defined contribution schemes against doing so during the Covid-19 pandemic. In its latest guidance update, the regulator calls on trustees to send letters to relevant members, warning them of the risks amid the crisis and urging them to consider the decision carefully.

30 April TPR stresses the 'vital' need for trustees and employers to work together to manage the immediate effects of Covid-19, with a focus on long-term planning and risk management. In its Annual Funding Statement, the regulator outlines how schemes that follow TPR guidance can balance the impacts on employers, while also putting them in a stronger position to improve funding levels.

News focus

Up to 1 in 10 employers requesting DRC suspensions

The Pensions Regulator has revealed that up to one in 10 sponsoring employers of defined benefit schemes have been requesting deficit recovery contribution suspensions to remain financially stable in response to the ongoing coronavirus pandemic, with firms such as Arcadia and Reach having already done so

Between 5 per cent and 10 per cent of sponsoring employers have been requesting to suspend deficit recovery contributions (DRCs), according to The Pensions Regulator (TPR).

In a recent webinar hosted by XPS Pensions Group, TPR executive director for regulatory policy, analysis and advice, David Fairs, stated that although experience "seems to vary a little", between "5 per cent and 10 per cent of organisations are asking to suspend DRCs".

"Clearly the longer the current situation persists then that might change. That is information that we are gathering and keeping a close eye on," he added.

This follows XPS's findings that 12 per cent of pension schemes in its client base have requested contribution suspensions for their employers.

"The evidence that we've seen from professional trustees and other advisers is not dissimilar to your findings," Fairs noted.

XPS senior consultant, Stephanie Cole, commented: "While that *[12 per cent]* is a minority, it is quite a significant number and I think sadly it is plausible that number will increase quite a bit further in the coming weeks and months.

"It's probably not surprising to see that the majority of those requests from employers are in relation to deficit reduction payments, often the most significant of employers' costs to a pension scheme.

"At any point when I'm working with and advising trustees about agreeing a contribution schedule, I'll be strongly recommending that those trustees have a very strong understanding of the covenant that their employer provides to the pension scheme."

Lane Clark & Peacock (LCP) said that it expected more than 500 employers to defer on DRCs, totalling around £0.5bn.

It estimated that at least 10 per cent of sponsoring employers were likely to delay making contributions by at least three months, based on survey data from industry analysts and clients.

Under new flexibilities outlined by TPR, employers are permitted to delay making contributions to schemes if they are undergoing significant financial hardship and have explored other means of easing cashflow problems.

LCP partner, Steven Taylor, said ensuring that pensions are paid and employers stay in business "may mean easing cashflow pressures, including agreeing a package of measures with creditors that includes holding back on agreed pension contributions", adding that "most employers will not take this step lightly".

LCP added that reasons employers might not want to take advantage of this flexibility included the irregular nature of some DRCs and avoiding compromising long-term plans for tackling deficits.

Additionally, some employers might not need to defer payments as their sectors could be handling the coronavirus crisis relatively well, while schemes that are in surplus would also have little need to worry about contribution deferrals.

LCP partner, Jill Ampleford, added: "Some firms that are fundamentally sound are nonetheless facing huge short-term cashflow pressures during the present crisis. The ability to agree with trustees a delay in making pension contributions will help them to weather the present storm and continue their support to the scheme in the long term.

"But it will be vital to get things back on track once the crisis is over so that a realistic plan is put in place to deal with the shortfall in the pension scheme, particularly as this could have materially increased due to changes in financial markets."

The Pension Protection Fund said there were 5,436 defined benefit pension schemes in operation in the private sector in March 2019, while data from the Office for National Statistics showed that employers pay around £5.5bn into DB schemes in a typical quarter.

Some of the major companies to have already sought a delay to DRCs include Arcadia and Debenhams.

Reach PLC, the publishing house for the *Daily Mirror*, *Daily Express* and *Daily Star*, has also requested discussions with pension scheme trustees to defer DRCs amid the Covid-19 pandemic.

The firm's board agreed that all stakeholder groups should be asked to contribute to ensuring the company is "in as strong a position as it can be", requesting discussions with trustees as a result of this.

Its year end financial report, published in February 2020, reported a £52.7m fall in the accounting pension deficit to £295.9m, which was attributed to the firm's contributions over the past year.

The firm had been set to make a further £48.9m in contributions in 2020, having already made payments of around £49m and £39m in 2018 and 2017 respectively.

Mercer has written to the Chancellor, Rishi Sunak, urging the government to allow sponsoring employers of DB schemes to defer DRCs for up to six months.

In the letter, Mercer UK CEO, Sylvia Pozezanac, stated that allowing DRCs that would have been payable over the next six months to be spread out over the next three years would make it possible for "much-needed capital" to be allocated to keep businesses afloat, without compromising the financial security of pension schemes.

Meanwhile, The Financial Conduct Authority (FCA) has confirmed that the implementation of new default investment pathways will be delayed by six months, until February 2021, as a result of the Covid-19 pandemic.

The regulator has also announced delays around the introduction of more stringent rules for pension transfer specialists, which have now been postponed until October 2021.

Stating its support for firms' reprioritisation amid the Covid-19 pandemic, the regulator argued that dedicating resources to deal with 'critical functions' may outweigh any harm caused by delaying the implementation of certain policies.

The default investment pathways, designed to support consumers entering into drawdown without advice with their investment choices, were expected to be introduced on 1 August 2020.

Written by Duncan Ferris, Jack Gray and Sophie Smith

NEWS IN BRIEF

Redington has called for the alignment of RPI and CPIH to occur at the latest proposed time (2030), in its response to the government consultation. The firm also stated that it supported the solution of redefining RPI as CPIH plus a margin, where the margin would "reflect the fact that CPIH has historically been lower than RPI on average".

Despite Covid-19 headwinds, buy-in and buyout demand is expected to average around £37bn a year over the next decade, **Hymans Robertson** has predicted. Its analysis showed that Covid-19 is unlikely to dampen pension scheme enthusiasm for buy-ins and buyouts, predicting a 'bumper decade' for risk transfer activity, with 50 per cent of schemes already set to reach buyout in the next 20 years.

Defined benefit transfer values dropped by 3 per cent in March as the number of transfers dropped to new lows, according to **XPS Pensions Group**. The pensions consultancy's Transfer Value Index dropped from £249,700 at the end of February, to £242,600 at the end of March as fluctuations in gilt yields led dramatic movements throughout the period. During the week ended 19 March, transfer values fell by 11 per cent to £222,800, a level not seen since July 2016, which XPS attributed to the Covid-19 pandemic's effect on gilt yields.

The **Co-operative Pension Scheme** has completed a £400m buy-in with the Pension Insurance Corporation (PIC), covering liabilities for around 2,000 members in the bank section of the scheme. Having been completed in April 2020, this is the Co-op's third buy-in deal of the year, and second with PIC.

VIEW FROM TPR

Covid-19 has increased the risk pension savers will feel hurried to make snap decisions they wouldn't have made before the pandemic.

The virus has brought volatility to markets, uncertainty over employment and increased isolation as the UK adjusts to unprecedented restrictions on people's travel and work. This makes knee-jerk, rushed decisions over finances more likely and creates an environment perfect for scammers.

We want schemes to urge all members to avoid rushed decisions and provide them with clear, relevant information, at the right time.

For the foreseeable future, we also expect members requesting a transfer from a DB scheme to be sent a template letter telling them what to consider before making a decision and where they should go for impartial guidance.

The letter tells members that pensions remain a safe, long-term investment for retirement, and transferring funds is a serious decision; to visit the ScamSmart website to check the firm they are dealing with is regulated and check if what they've been offered is a known scam or has the signs of a scam; that transferring out of a DB pension into a different type of arrangement is unlikely, in most cases, to be in their best long-term interests; and to get guidance or advice before making a decision from The Pensions Advisory Service, part of the Money and Pensions Service offering free specialist pensions guidance.

TPR chief executive, Charles Counsell

The Pensions Regulator
Making workplace pensions work

TPR's Annual Funding Statement calls for trustee/employer collaboration

The regulator's Annual Funding Statement highlighted the importance of trustees working with their sponsoring employer to ensure the long-term financial stability of their scheme

The Pensions Regulator (TPR) has stressed the 'vital' need for trustees and employers to work together to manage the immediate effects of Covid-19, with a focus on long-term planning and risk management.

In its Annual Funding Statement, the regulator outlined how schemes that follow TPR guidance can balance the impacts on employers, while also putting them in a stronger position to improve funding levels.

Building on existing regulatory guidance, the statement addressed how DB schemes should approach forthcoming scheme valuations, with the update focusing on key issues around covenant assessments and affordability, and design recovery plans in particular.

The regulator has emphasised that it expects trustees to approach valuations and scheme funding "in conjunction" with their employers, with the guidance particularly relevant to those conducting valuations between 22 September 2019 and 21 September 2020.

It also acknowledged that March and April 2020 valuations would be particularly challenging, with many trustees not having access to sufficient information to form a reliable view on long-term future returns from scheme investments.

As such, it clarified that it is reasonable for trustees to delay taking decisions about technical provision assumptions, "until more clarity emerges".

It emphasised, however, that it expects schemes to proceed with "as much of the preliminary valuation work as possible".

TPR reiterated that trustees should ensure dividends and other forms of shareholder return are also suspended when agreeing to any reduction or suspension in deficit recovery contributions (DRCs).

It added, however, that in addition to DRCs, where possible, TPR expects trustees to incorporate appropriate "incremental increases in contributions, which track corporate health recovery", especially if the scheme has taken on additional funding risk to support the employer's recovery.

Commenting on the statement, The Society of Pension Professionals president-elect, James Riley, added: "The document is clear that where a scheme is taking additional risk supporting a sponsor it should share in the sponsor's recovery through increases to contributions.

"Schemes may be prepared to share some of the pain now, but sponsors should recognise their need for exposure to the upside when things start to recover."

The statement was based on recent market analysis by TPR, which revealed that the funding level of DB schemes with low exposures to equity markets and good levels of hedging should be in a "stronger position than might be expected".

Written by Sophie Smith

Flexible pension withdrawals up by 23% to reach record levels

HMRC statistics showed that the number of people making flexible pension withdrawls in Q1 2020 reached a record 348,000

The number of individuals making flexible pension withdrawals in Q1 2020 leapt by 23 per cent compared to 12 months prior, according to HMRC data.

HMRC's figures showed that 348,000 people flexibly withdrew from their pensions during the period, the highest number ever recorded in a three-month timescale, while the total amount withdrawn climbed by 19 per cent year-on-year to £2.5bn.

The average amount withdrawn per individual in Q1 2020 was £7,100, a fall of 3 per cent from £7,300 in the same period in 2019, which followed the trend of a steady decline in average withdrawals since reporting became mandatory in the second quarter of 2016.

The figures showed that £35bn has been withdrawn by 1.4 million individuals since pension freedoms was introduced 5 years ago, with the total withdrawals from the 2019/20 tax year reaching a record high of £9.61bn.

Withdrawal numbers typically rise in the first quarter before peaking in the second, meaning that the next quarter is likely to see further record numbers of people flexibly withdrawing.

Aegon pensions director, Steven Cameron, said: "For those facing financial difficulty, pension freedoms offer flexibility to ease financial burdens in uncertain times, such as those we are experiencing today.

"However, freedom comes with great responsibility and it is crucial that people understand the risks associated with drawing down their retirement savings which for many need to last a lifetime. For many, it may be better and more tax efficient to use other sources of savings first."

Just Group communications director, Stephen Lowe, added: "Using pensions for emergency funds means less retirement income later and it can also restrict a saver's ability to refill their pension fund if they become subject to the strict Money Purchase Annual Allowance rules that limit annual contributions receiving tax relief to just £4,000 a year.

"We would urge people to consider other options first, such as checking what state benefits may be available to them or first using cash accounts which they may have put aside for a 'rainy day' like this.

"Where people see a pension as the only option, then first they should use the free, impartial and independent guidance offered by Pension Wise to ensure they understand all the potential consequences. This could help them defer making a rushed decision that they may regret in the future."

Canada Life technical director, Andrew Tully, expressed concern that recent research showed some savers were simply making withdrawals to "save the money in a bank or invest elsewhere", adding that this strategy "makes no sense whatsoever".

Written by Duncan Ferris

VIEW FROM THE PLSA

Covid-19 may have, rightly, taken all the headlines recently, so it's easy to forget that it's been five years since pension freedoms came into place.

Five years on, and debate about their suitability and effectiveness continues. The key issue is about how to support savers moving from a default saving position, to making critical decisions about how they access those savings to fund retirement.

In 2018, we launched Hitting the Target, following an industry-wide consultation. In it, the PLSA said it wanted to see guided at retirement decisions – a form of signposting by schemes that didn't offer decumulation products and also a set of standards for what products should offer.

Step forward to 2020 and we can see schemes and providers developing new solutions; some of which will be highlighted in our upcoming pension landscape research.

However, there are still some barriers to innovation, development and delivery and getting the balance right for schemes and savers.

This is why we have been seeking to further develop a new approach. We want to see a system that supports savers and the type of engagement we see in reality, while mitigating some of the risks of running out of money and the complexity of decision making. We'll start with sharing our research shortly, and call for evidence on our proposals later in the year.

Five years on, it's time to push forward a more radical approach to ensure savers are getting the best options available when it comes time to retire.

PLSA head of DC, master trusts and lifetime savings, Lizzy Holliday

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

VIEW FROM THE AMNT

'All men are equal but some men are more equal than others' is a slight misquote from George Orwell's masterpiece *Animal Farm.* Just substitute 'animals' for 'men' then you have the correct quote. However, as Orwell was satirising the Soviet Union, perhaps the first interpretation is more accurate.

In any event, the idea that we treat all people equally is a fundamental precept of Western democracy; as, for instance, 'all are equal before the law'. In reality we know this is not the case and Orwell's quote is nearer reality.

The Pensions Regulator during 2016 published a discussion paper on 21st century trusteeship and governance. Based on the results from that paper they have now instigated a programme to raise the standards of governance across all pension schemes and to make clear what their expectations are on those responsible for managing a scheme effectively.

The programme is an excellent blueprint for trustees and pension funds to follow, however it makes the assumption, as we all tend to do, that all trustees and trustee boards are equal when in reality they are not. Size tends to matter in the allocation of resource and commitment; in the attitude of sponsors.

What is required is a way to ensure that all are 'equal before the regulator' by providing funds where they are needed and ensuring sponsors commit to 21st century trusteeship.

AMNT member, Stephen Fallowell

Association of Member Nominated Trustees

Pension freedoms has led to 'significant risk of harm' to investors

The Financial Conduct Authority (FCA) has said that the introduction of pension freedoms in 2015 is partly responsible for pension investors being subject to a 'significant risk of harm', while also calling on the industry to do more in protecting members from scams

The introduction of pension freedoms has partly driven a 'significant risk of harm' to pension investors, the FCA has said.

The regulator stated that it had observed the risk of consumer losses and fraud in the pension investment market, which was part driven by giving consumers additional responsibility for complex investment decisions.

This included pension freedoms, introduced by the government in 2015, and the shift to defined contribution schemes.

Drawing attention to the issue of unsuitable investment decisions, the regulator's *2020/21 Business Plan* highlighted the 'catastrophic' consequences for consumers, with most of those scammed losing an average of 22 years' worth of pensions savings.

In particular, it added that the investment distribution process, and the support network around it, is not working well enough for consumers to make effective decisions about their investments.

As a result, the FCA has launched a consultation into support for an industry-funded consumer campaign to support member decision making.

The regulator explained: "We want consumers to have access to high-quality advice and support, and be aware of how to protect themselves from scams and fraud. An area where we have seen increasing consumer harm is retail investments.

"To help tackle this we are proposing a consumer harm campaign to initially help consumers make better-informed investment decisions."

Addressing two of the FCA's operational objectives, market integrity and consumer protection, the campaign will build upon the work of Scamsmart, with consumers investing in high risk, high return, illiquid investments being particular targets.

The regulator stated that a consultation was "the most transparent and fairest approach" to fund the activity, and has proposed raising £2.3m in 2020/21, allocated proportionately across all firms.

It has clarified however, that minimum fees will not be affected by this.

Small-scale intervention campaigns have already been tested for effectiveness, with early evaluations indicating that consumers are not always aware of what the FCA actually regulates, or fully understanding the individual protections they have when making investments.

Campaign planning will be initially informed by research focusing on what drives and motivates audiences, existing levels of awareness, and how they consume media.

However, the regulator has clarified that there will be room to review and assess the campaign, as markets and consumer threats evolve.

Written by Sophie Smith

DB pension deficits increase further to £135.9bn - PPF

The Pension Protection Fund's (PPF) 7800 Index found that the deficit of the UK's defined benefit (DB) pension schemes had increased to £135.9bn at the end of March, while PwC's Skyval Index estimated the total deficit to be £290bn

The combined deficit of UK DB pension schemes has continued to increase amid Covid-19 uncertainty, rising to £135.9bn at the end of March 2020, according to the PPF.

The deficit rose from £124.6bn at the end of February 2020, representing the third consecutive month of increases in the PPF 7800 Index, and a more than £100bn surge since the start of the year, when the deficit sat at £35.4bn.

The PPF highlighted that the position had also worsened when compared to this point last year, when a deficit of £12.7bn was recorded.

Within the index, total scheme assets had fallen by 2.3 per cent over the month to £1,680.5bn, while liabilities also showed a decrease of 1.6 per cent over the month to £1,816.4bn.

The funding ratio had also continued to drop, falling from 93.2 per cent at the end of February 2020 to 92.5 per cent.

Like the overall deficit, the index funding ratio has also fallen comparatively to this point last year, with the index recording a 99.2 per cent ratio in March 2019.

Furthermore, the number of schemes included in the index in deficit has also shown a further increase, rising from 3,492 at the end of February to 3,606.

This subsequently also saw an increase in the deficit of the schemes in deficit, increasing by almost £10bn to £254.1bn at the end of March 2020 (£244.8bn in February 2020).

The update provides the latest estimated funding position, on a section 179 basis, which is the premium that would have to be paid to an insurance company to take on the payment of PPF levels of compensation.

Using its own methodology, the PwC Skyval Index found that the deficit of DB schemes has increased by over £100bn since the start of the year, rising to £290bn at the end of March.

The index noted however, that whilst this was a "significant increase" from the £170bn recorded at the start of the year, it had still not reached levels seen in late summer of 2019, having hit £340bn at the end of August 2019.

The deficit increased by £60bn over the last month, increasing from £230bn at the end of February 2020.

The firm emphasised that the first quarter of 2020 had shown the "inherent volatility in the measurement of pension funding", urging trustees not to "overreact".

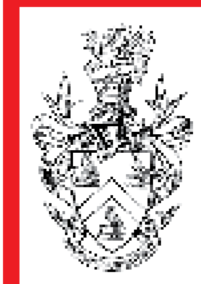
PwC noted that while the deficit has increased month-on-month, the drivers have been different.

It stated that lower yields were a key driver in January, pushing the liability measure up to £2trn, but high assets had offset some of the impact.

The current Skyval Index figures are based on the 'gilts plus' method.

Written by Sophie Smith

VIEW FROM THE PMI



The Covid-19 emergency is now the worst peacetime crisis of the modern era. Apart from the immediate risks of the pandemic, the social and economic disruption has been unprecedented. With approximately nine million employees furloughed, this has led to extensive anxieties about family cashflows and concerns for the future.

Pension schemes have a vital role to play in providing effective messaging to members to discourage them from panicking and jumping into rash, short-term decisions that could have a detrimental impact on their long-term retirement planning.

With their regular income reduced, many furloughed employees may be tempted to reduce or cease pension contributions. In many cases, this may be necessary, but it is vital that members are able to make an informed decision and are able to recognise the longer term implications of leaving a scheme. Rather, it could be appropriate for schemes to amend rules to allow membership to be resumed as soon as lockdown ends, but members should balance the short-term gains of extra cash against the longer-term cost of reduced pension accrual.

A more serious threat is that some members may be targeted by pension scammers. The temptation of early access to pension savings may cause some to heed the siren voice of criminals during a period of serious economic instability. For those that do, the consequences would be serious and irreversible. During this period, effective scheme communications are crucially important.

PMI director of policy and external affairs, Tim Middleton

VIEW FROM THE ACA

For many trustee boards there is a desire to reassure scheme members that they are keeping careful watch, with day-to-day practicalities, paying benefits, and for some, working with sponsors whose covenants are increasingly strained. Yet, whilst our individual technology skills have never been so challenged, nor improved so fast, for many trustees a stark reality is hitting home. How do they communicate?

The largest schemes invested years ago in websites to which written communications – and now increasingly video updates – are being posted. For these, providing their members can access the internet (and we must remember some can't), there is a place to share news on how the crisis is being managed. Members can often also access benefit information and even retirement and transfer calculations.

For the majority of small and mid-sized schemes, updates have always been by post – now nigh-on impossible as printers and post rooms are shut. Email addresses have never been gathered and so that avenue is closed too.

As we return to business as usual, we must find innovative and inexpensive solutions to such challenges. As scheme actuaries and advisers, we spend our lives working to improve the security and understanding of member benefits – but all that is for nothing if members can't access that at the time they are worrying most about their pension fund.

ACA chair, Jenny Condron

ACA

ASSOCIATION OF CONSULTING ACTUARIES

Tesco to pay £2.5bn one-off pension contribution to wipe funding deficit

The supermarket and its pension scheme trustees have agreed for the firm to make a one-off contribution to the scheme following the sale of its businesses in Thailand and Malaysia. Meanwhile, BP saw its pension deficit fall by over £1bn

Tesco has reached an agreement with its pension trustees to make a one-off £2.5bn scheme contribution to eliminate its funding deficit.

Following the sale of its businesses in Thailand and Malaysia, Tesco has made the agreement to help wipe its pension deficit of £2.57bn.

The deficit had increased on an IAS 19 basis by £235m year-on-year, as of February 2020, its 2019/20 preliminary results report revealed.

Tesco attributed the rising deficit to an increase in the measurement of scheme liabilities due to a fall in corporate bond yields.

However, the firm stated that this was largely offset by strong asset performance, including that of its liability-driven investment portfolio, in addition to continued deficit contributions and the application of the latest actuarial assumptions.

Between February 2019 and February 2020, the firm made deficit contributions of £267m.

The supermarket company stated that the one-off contribution of £2.5bn would "significantly reduce the prospect of having to make further pension deficit contributions in the future".

The agreement with the trustees also covers the key principles of the triennial scheme valuation, which will now be calculated as at 31 December 2019. The trustees will aim to conclude the valuation "as soon as is reasonably possible".

Following the sale of its businesses in Thailand and Malaysia, Tesco will

Editorial credit: D K Grove / Shutterstock.com

also return £5bn to its shareholders via a special dividend.

Tesco CEO, Dave Lewis, and CFO, Alan Stewart, received a cash allowance in lieu of pension of 25 per cent of base salary.

Meanwhile, BP's defined benefit (DB) pension scheme deficit fell by £1.15bn between December 2019 and March 2020, according to its Q1 2020 results report.

The multinational oil and gas company saw its DB scheme deficit fall from £1.24bn to £64m over the year and a quarter.

Its scheme assets increased from £5.66bn to £6.43bn, while its liabilities decreased from £6.9bn to £6.5bn.

The report stated that the movement was as a result of actuarial gains in other income, arising from improved discount rates and lower inflation assumptions.

This reduced the scheme obligations, offset by reductions in the valuation of scheme assets.

It added that the current financial environment is likely to continue to affect the value of scheme assets and liabilities, resulting in potential volatility in the scheme's funding level.

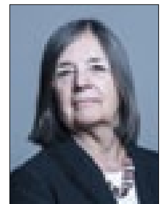
Written by Jack Gray

Appointments


Tom McPhail

Hargreaves Lansdown head of policy, Tom McPhail, has announced his departure from the pensions industry after 20 years. *[For more information, see p23]*

He will be joining the electric mobility retailer, Pure Electric, which was founded by former Hargreaves Lansdown managing director, Adam Norris. McPhail has been with Hargreaves Lansdown for over 18 years, initially acting as head of retirement policy and more recently as head of policy. Holding a prominent position in the pension industry, McPhail has been both a Pension Policy Institute governor and a member of the Life and Pensions Steering Committee for over 10 years. Previously, he also held the role of chairman for the Pensions Income Choice Association and was Torquil Clark's pension development manager for over four years. Announcing the move via Twitter, McPhail, an avid cyclist, suggested that the opportunity would allow him to pursue interests more aligned with his own values. McPhail has been a prominent spokesperson throughout his time in the industry.


Jeannie Drake

The People's Pension (TPP) has appointed Baroness Jeannie Drake CBE and Mark Condron to its board of trustees.

Baroness Drake is a Labour life peer and former member of the Turner Pension Commission. She also served on the board of the Pension Protection Fund and the board of The Pensions Advisory Service. Condron has 30 years of experience at Mercer as a scheme actuary and senior partner.


James Riley

The Society of Pension Professionals (SPP) has elected James Riley as its president.

The two-year term takes effect from 1 June 2020. Riley succeeds Aon partner Paul McGlone, who had been president since 1 June 2018. Riley is a partner at Isio, a UK pensions advisory firm which was formerly KPMG's UK Pensions Advisory Practice and where Riley has worked for just over a decade. Riley first joined SPP as a council member in 2013.


Lisa Mundy

Mercer has appointed Lisa Mundy as a BESTrustees representative to its master-trust board.

Mundy will lead the administration and communications sub-committee on behalf of the Mercer master-trust trustees. She has 28 years of experience in financial services and has served as a pension trustee for defined benefit and defined contribution schemes since 2016. Mundy joined BESTrustees in 2019.


Mark Cliff

Legal & General (L&G) Investment Management has appointed three new trustees to the L&G master-trust board.

Mark Cliff of 2020 Trustees, Catherine Redmond of BESTrustees and Robert Thomas of Law Debenture joined the master-trust board on 5 April. The trio replace Steve Carrodus, Rachel Brougham and Ali Toutouchni, with Brougham and Toutouchni stepping down to focus on roles in the firm's IGC.


Mads Gosvig

RPMI Railpen has named Mads Gosvig as chief fiduciary officer for investments. Gosvig will be responsible for determining the high-level investment strategy and risk profile of the railways pension schemes. Leading the in-house fiduciary team in tailoring investment solutions for the multi-employer sectionalised schemes, he will also be working closely with the trustee board. Gosvig joins the firm from ATP Group.


Robert Branagh

The London Pensions Fund Authority (LPFA) has named Robert Branagh as its chief executive officer.

Branagh takes on the role after being the LPFA's managing director since joining in April 2018. He is also chairman of the Armed Forces Pension Schemes. A senior executive with extensive experience across private- and public-sector pensions, trustee and governance, he is the immediate past president of the Pensions Management Institute. He is also a governor at the Pensions Policy Institute.

Commenting on his appointment, LPFA chairman, John Preston, said: "Robert's new role reflects the next stage in the LPFA's evolution. While his day-to-day activities will largely continue, Robert will also lead on developing the LPFA's strategic direction, supporting collaboration across the LGPS sector and raising our profile – particularly relating to our responsible investment and sustainability aspirations – across the industry."

Taking action

Laura Blows looks at the shareholder activism implemented by the LGPS during this AGM season

The Local Government Pension Scheme (LGPS) has been leading the way with shareholder activism over the past month.

In April, Brunel Pension Partnership (BPP) and Merseyside Pension Fund (MPF), urged Barclays to 'firm up' on its climate commitments ahead of the bank's annual general meeting (AGM) on 7 May.

The investors confirm they would vote in favour of Barclays' proposal to have the "ambition to become a net-zero bank by 2050 and a commitment to align all of its financing activities with the goals and timelines of the Paris Agreement".

BPP and MPF describe the board's proposal as "a significant step forward for the bank reflecting the positive pressure of shareholders and stakeholders" and applaude Barclays' "commitment to transition its provision of financial services across all sectors to align with the goals and timelines of the Paris Agreement".

However, they state that they would be voting for the resolution previously filed by ShareAction to bring the bank's energy financing in line with the goals of the Paris Agreement.

The ShareAction proposal, co-filed by 11 institutional investors, including BPP and MPF, directs the bank to set and disclose targets to phase out its financing of fossil fuel companies within the energy and power sector that are not aligned with the goals of the Paris climate agreement.

The LGPS investors also query the transparency of Barclays' planned virtual AGM, which would not allow investors to ask questions on the day, with questions submitted in advance and the 'appropriateness' and responses determined by Barclays.

According to *The Guardian,* Barclays says in response: "We are working to help tackle climate change, and we meet with ShareAction and other shareholders regularly to update them on our progress."

Commenting, ShareAction campaign manager, Lauren Peacock, says: "Pension funds, as fiduciary investors looking after the savings of millions of young people, need to think about what is material to the lives of their members now and when they retire. It's not in members' best interests to live in a world of high air pollution and wracked by a climate crisis.

"Concretely, they need to ask their asset managers to vote for special climate shareholder resolutions that aim to reduce the level of greenhouse gas emissions created and financed by companies, simultaneously mitigating the risks inherent in their portfolio, and making them more resilient to economic shocks in the long term."

Meanwhile, the Local Authority Pension Fund Forum (LAPFF), a voluntary association of 82 public sector pension funds and six pools, issued a voting alert recommending members vote against Boeing board members who have been in place for over a year. At least 24 LAPFF members hold Boeing shares directly, with others holding the stock in pooled funds.

While the forum is pleased that Boeing replaced Dennis Muilenburg by separating the chair and CEO positions, the new chair, Lawrence Kellner, has been a Boeing board member since 2011. According to LAPFF, this means Kellner cannot provide independent oversight in guiding Boeing through the 737 Max plane crashes and subsequent grounding. Kellner's board membership during the Max crisis also raises questions about his

ability to lead the company through coronavirus impacts, it adds.

According to *Bloomberg*, 52 per cent of Boeing's shareholders voted to separate the chief executive officer and chairman roles permanently at the virtual AGM held on 27 April. After the vote, Kellner said the company would take the advisory votes into account, *Bloomberg* states.

In February, the PLSA stated in its annual *Stewardship Guide and Voting Guidelines* that pension fund investors must be prepared to hold directors accountable on issues such as executive remuneration, which must "demonstrate some recognition of wider societal expectations, the general economic environment and the returns to long-term shareholders".

However, given the current crisis, the PLSA adds that investors must keep an eye on how those firms in which they invest manage the pandemic and consider voting against directors who they believe did not behave appropriately towards their workforces this AGM season.

The guidelines state that one of the most effective ways of investors using a vote to effect change is through holding relevant directors individually accountable.

"This AGM season it is worth investors remembering that the post-crisis memories of the public and policymakers tend to be long," PLSA policy lead for investment and stewardship, Caroline Escott, says.

"How companies behave now towards their workforces will likely have a material impact on their future revenue, operating costs and even the post-Covid-19 regulatory environment. This in turn has consequences for scheme investors' risk-adjusted returns and ultimately for the value of beneficiaries' savings."

Written by Laura Blows

Podcast: Fixed income markets in the time of Covid-19

In *Pensions Age*'s latest podcast series, Laura Blows speaks to Royal London Asset Management senior client portfolio manager, Ewan McAlpine, about how the fixed income market is faring following the market disruption caused by the coronavirus

It all began in late February, Royal London Asset Management senior client portfolio manager, Ewan McAlpine, states, the first signs of the horrific downturn that was to occur within the fixed income market, and the economy generally, over the next couple of months or so. "From the end of February, *[fixed income]* performance has broadly been negative; the main exceptions to that being safe haven assets, eg government bonds, and gold, "but even they were down at one point, which was an awful point in time when everything had fallen", he explains in the *Pensions Age* podcast, *Fixed income markets during coronavirus disruption*.

"If you look through the markets, investment-grade credit fell as far as 9 per cent on average. Some sub-sectors fell further. For instance, subordinated financial bonds fell by 11 per cent. Long-dated credit fell even further due to the duration impact, so around 17 per cent at its worse and, within that, long-dated utilities fell by 23 per cent," McAlpine adds.

However, from this fall they have bounced up again, some even higher than they were in February. "Investment-grade credit, which fell by 9 per cent, is now just 2 per cent down from where it started, and long credit is down by less than 1 per cent, with long-dated utilities actually up by a couple of per cent. The lower-rated sectors of the credit market, such as high yield, were affected more at the time, being down by over 20 per cent, but are now up by a lot more since then," he explains. So, fixed-income markets may have been overall negatively affected by the economic fallout of Covid-19, but, "in the midst of a crisis, one can look fairly opportunistically at where to invest". McAlpine explains that some companies have been so desperate for cash that they have been issuing in different ways, such as issuing secured bonds where normally they wouldn't, and issuing at fairly high levels of coupon where normally they would be a lot lower.

However, while wide credit spreads are making the bonds quite cheap on the face of it, when it comes to buying those bonds, they've actually tightened in very sharply. So some of these opportunities may have come and gone, he warns. With regards to an increased risk of defaults, "while the investment-grade market has not suffered any defaults or downgrades yet in our portfolios, those downgrades are yet to happen", McAlpine says. "That is a theme that we are likely to see, that of downgrades and defaults being avoided for some time but they will eventually happen," he warns.

In contrast, the spreads in the high-yield market have come in only by half and recovery has only progressed by half as much; there will probably be defaults affecting that sector. "And that is where you have to think of security and the risk mitigations that this provides – a claim over the assets and the cashflows that the company has, which you could have a claim on," McAlpine advises. "The risk of default being priced into the markets was probably too much at the peak, so I think we will find that markets will behave differently as we progress through the recovery period," he adds.

"You need to look for those assets that will give you the best chance of seeing this crisis through and then will continue to perform"

When asked how he would recommend investors respond to these conditions McAlpine suggests looking at those areas that give more confidence for the medium to long term, through investing in sources of secured income. "They have had their moments of volatility but they look to us to be the best place to invest and their volatility has been lower than others," he explains. "You need to look for those assets that will give you the best chance of seeing this crisis through and then will continue to perform."

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

VIEW FROM THE PPI

The coronavirus outbreak has significantly affected the world's economic landscape.

Increasing unemployment rates and reduced household income will mean that saving into a pension may be more difficult or seem like a lower priority for some people. Without essential contributions into DC pension schemes, pension pots may not grow, and some may decrease due to significant falls and increased volatility in the market.

With already 26 per cent of baby boomers, 33 per cent of generation X and 53 per cent of millennials at high risk of not achieving a suitable level of retirement income, these proportions are likely to increase. A cessation in contributions may particularly impact millennials, whose initial contributions will benefit from compound interest for a longer period.

While it might be tempting for those who are experiencing uncertainty, to cease contributing or to change investment, these moves could reduce retirement income in the long term. Those who are stressed about their pension would benefit from free guidance from the Money and Pensions Service or from the use of a financial adviser. However, panicking could result in people making decisions that ultimately lead to poor outcomes, especially as scammers are taking advantage of people's nervousness to gain control of their pensions. In the words of HM Government: Don't panic!

PPI policy modeller, Chetan Jethwa

PENSIONS POLICY INSTITUTE
PPI

Market commentary: Oil on troubled waters?

While the Covid-19 pandemic continues to wreak havoc on the global economy, attentions lately have turned to yet another unprecedented event, as US oil prices slid into the negative for the first time ever.

"'Unprecedented' is the most over-used word at the moment," notes Kingswood chief investment officer, Rupert Thompson, but the fall in oil prices was indeed unprecedented as people began to be paid, rather than having to pay, to take delivery of oil.

"All this leaves us believing now is not the time to take a big position one way or the other," explains Thompson, adding that the firm has recently reduced UK small- and mid-cap exposure fearing equities have rebounded far too fast.

"If markets do retreat again, as seems quite possible," he adds, "our plan is to take advantage of the falls by reinvesting the proceeds back into larger cap equities."

However, BMO Global Asset Management chief economist, Steven Bell, argues that to some extent, the oil pricing fall could be seen as "a peculiarity of the contract delivery of West Texas Intermediate and the storage facilities in Cushing". However, he emphasises that there is also a "fundamental issue with the supply-demand imbalance", which could see oil prices remaining low for an "extended period" if not corrected.

But, as AJ Bell personal finance analyst, Laura Suter, highlights, oil pricing has already seen a "massive impact" on the UK's inflation rate, dragging it down further to just 1.5 per cent. This fall is likely to continue for the next couple of months according to Suter, and while many pension schemes will have been worried about the impact of oil pricing on their investments, the subsequent drag on inflation rates could actually be good news for pension schemes.

"If the lower inflation rate is sustained, it will ease the pressure for some DB schemes with sizable deficits," explains Barnett Waddingham principal and senior investment consultant, Ian Mills, adding that the dip could be a "precursor of lower inflation to come".

Mills explains that this would offer schemes a "window of opportunity" to address deficits and edge closer to their endgame. Suter, however, highlights the current crisis has brought practical challenges that could impede this, such as how the ONS can accurately record inflation.

"Not only is it harder to get hold of pricing information with so many retailers closed," she explains, "but the way we shop and what we're buying has vastly changed. How much this matters depends on how long the crisis lasts and whether our spending habits are dramatically altered for the remainder of the year – or beyond."

Indeed, the issue as to how long the current crisis will continue remains vague, with Thompson clarifying that despite recent market enthusiasm, which he highlights was no doubt in part due to the massive injections of liquidity by the central banks, a "tremendous amount of uncertainty remains".

This is echoed by Barings Investment Institute chief global strategist, Christopher Smart, who adds: "For the global economy, the terrors ahead still depend overwhelmingly on how fast doctors, scientists and governments develop strategies to test, track and treat Covid-19."

"The jaw-dropping macroeconomic data will lag too much to provide any real clarity," he adds, "but weird anomalies aside, investors can still look to markets themselves for the best guide to the path ahead."

Written by Sophie Smith

Podcast: Sustainable investing in gold

The latest *Pensions Age* podcast features Laura Blows speaking to World Gold Council Chief Financial Officer, Terry Heymann, about the role gold has to play within a pension fund's sustainable portfolio

When looking to construct a sustainable portfolio, a pension fund investor may not instantly think to invest in gold. But they should.

That's what World Gold Council chief financial officer, Terry Heymann, reveals in *Pensions Age*'s latest podcast, *Sustainable investing in gold.*

"As investors increasingly consider sustainability and how to build sustainable portfolios, there are some really compelling reasons why gold should be considered," Heymann states.

"We're hearing that more investors are trying to incorporate climate-related planning into their portfolios and, looking at carbon emissions, gold has a really strong case to play, both in terms of the lack of emission created directly with an investment in gold and also the role that gold plays as a climate risk hedge."

Pension funds playing their part to help reduce carbon-related climate change through the investment choices they make has grown into arguably the dominant consideration within building a sustainable portfolio in recent years.

The World Gold Council has conducted research into different climate-related scenarios, such as whether climate change can stay less than 2 degrees above pre-industrial levels or not, and how these scenarios may impact different asset classes.

"What we have seen to date shows that gold is very well placed to withstand those changes and is likely more resilient than many other asset classes that are typically included in a pension fund portfolio," Heymann reveals.

When looking at investing in gold, the incremental carbon emissions from investing in gold are tiny, he adds, explaining that once the gold bar is made and ready to be an investment, there are only the operational carbon emissions in keeping a vault going, such as lighting and ventilation, to consider.

Yet it is not just climate change , but wider environmental, social and governance (ESG) considerations that are often being scrutinised within a pension fund's overall portfolio.

"The gold industry as a whole has been very committed around ESG considerations for a long time, and certainly the gold mining industry takes those responsibilities very seriously," Heymann says. "However, it's often been the case that the industry hasn't always communicated what it is doing – it is often led by and overseen by lots of technical people, engineers etc who focus on doing the right thing, but do not always talk about what that means and how they do that."

To counter this, in September 2019, the World Gold Council released its responsible gold mining principles, very clearly setting out what constitutes responsible gold mining. This has been part of the World Gold Council's focus on helping the gold investment sector communicate clearly to investors the role that responsible gold mining companies play in supporting sustained social and economic development, such as community development, healthcare and education around where the gold mines operate.

For those pension fund investors thinking about investing in gold, there are a number of different ways to do so, be it through investing gold mining equities or gold ETFs, for example, depending on what may best suit the investor's needs.

"The gold industry as a whole has been very committed around ESG considerations for a long time"

And these needs go beyond just generating a sustainable portfolio. Most institutional investors should hold somewhere in the region of 3-10 per cent of their overall portfolio in gold, Heymann recommends, as gold provides portfolio diversification.

"The correlation with other asset classes is very low and it is in times of stress especially, this lack of correlation is a benefit that strengthens overall portfolio robustness," Heymann explains.

"An aspect of the gold market that isn't very well understood is that it is very liquid. Gold's return profile is also not well understood. It has performed equivalent to or better than most asset classes over the past 10-20 years," he adds.

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

VIEW FROM THE SPP

Until the Chancellor's statement on 20 March, the word 'furlough' was not in the British pensions and employment lexicon. Now it very much is; according to recent analysis by the Resolution Foundation, more than nine million employees in the UK are expected to be furloughed.

The scheme, which will last until 1 June initially, will cover 80 per cent of an employee's basic pay but will also cover the auto-enrolment minimum money purchase contribution of 3 per cent of qualifying earnings.

The scheme will help millions of employees who would otherwise have faced immediate redundancy due to the lockdown. However, it is not without its complications.

Employers who provide more generous money purchase benefits than the auto-enrolment minimum may want to reduce these to the minimum for furloughed employees. Similar employment law considerations will apply to such reductions as to pay reductions. One potential difficulty is that any such reduction will be a 'listed change', which would normally trigger a 60-day consultation period under the employer consultation regulations.

However, TPR has announced it will not take regulatory action for breach of these regulations if the reduction is in respect of furloughed staff, only for the duration of the furlough and staff have been told in writing. No such relaxation applies in respect of non-furloughed staff and no easements of the auto-enrolment legislation have been made.

SPP European sub-committee chairman, Tony Bacon

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

In my opinion

On pensioners' cash access

"It is good that the DWP has special schemes to help people obtain cash in these difficult times. But with nearly a million people normally getting pensions and benefits in cash via a post office, it is worrying that less than 30,000 have been contacted directly by the DWP to discuss alternatives. There must be a concern that some pensioners feel they have no choice but to break shielding rules in order to get cash from a post office, or that others are simply going without. It should publish data on how many pensioners have stopped collecting cash since the crisis began and set out a strategy for reaching them."
LCP partner, Steve Webb

On savers' coronavirus fears

"I understand that many people will be concerned about the effect the coronavirus pandemic may be having on their future finances. But I want to urge savers to stay calm and avoid making any knee-jerk changes to their investments or pensions. Although there are callous crooks who will be trying to take advantage of anxious savers, there are trusted organisations that are able to help advise you."
Pensions Minister, Guy Opperman

On auto-enrolment changes

"If we wait until the middle of this decade to extend auto-enrolment to 18-year olds, then eight years will have passed by since this crucial change was first pledged. We would like to see this change implemented earlier to help younger savers start saving as early as possible for their futures. Now, more than ever, we should be encouraging everybody to start saving as much as they can for their future – once the Covid-19 crisis recedes."
The People's Pension director of policy, Gregg McClymont

On employers deferring pension contributions

"The ability to agree with trustees a delay in making pension contributions will help them to weather the present storm and continue their support to the scheme in the long term. But it will be vital to get things back on track once the crisis is over so that a realistic plan is put in place to deal with the shortfall in the pension scheme, particularly as this could have materially increased due to changes in financial markets."
LCP partner, Jill Ampleford

On Covid-19 pension panic

"Lockdown will not last forever, but the decisions you make today about your pension could impact on your standard of living for years to come. Now, more than ever, it is important to think longer term, consider your options, and seek advice and guidance – whether from the Money and Pensions Service or a financial adviser – before making any decisions. And don't fall victim to scammers – shun any unexpected approaches; and remember: if a deal seems too good to be true, it almost always is."
ABI director of policy, long-term savings and protection, Yvonne Braun

A time for reflection

As Tom McPhail leaves the industry, he looks back on the pensions trends he has noticed during his 30+ year career

I've worked in financial services since 1986, long enough to see tides ebb and flow and for the same stupid mistakes to come around again, sometimes in new and more interesting forms. Businesses make the same mis-selling or PR mistakes, while the pendulum of policy intervention rarely stops in the right place and it frequently overshoots. Policymakers act in response to evolving circumstances; as an industry we have to accept often they are too slow to act on some issues and over-enthusiastic on others.

In pensions as elsewhere in public policy, there is an ongoing tension between individualism and libertarianism on the one hand, characterised by the shift to DC pensions, the pension freedoms and the development of non-advised platform services; and on the other hand the recognition consumers need protection through defaults, good governance and restrictions on firms' activities.

I have a lot more sympathy for politicians, regulators and the media than I used to. It is easy to conclude they don't know what they're doing and it's true, often they don't understand the minutiae of the industry's technical considerations the way we do. They're looking through a different lens, considering issues from the perspective of their particular responsibilities and constituencies.

Those external stakeholders have a healthy detachment from our narrow concerns of hitting next quarter's sales targets and appeasing our shareholders. Too often still, people working in financial services forget they aren't like most people. We are generally better educated and better paid, more financially literate, more secure, healthier, more white and more male than much of the rest of the population. What's more, the more power and influence people in the industry have, the truer these generalisations tend to become. Some parts of the industry still don't understand the point about 'where are the customer's yachts' and are too quick to defenestrate any dissenting voices or to just slap some more lipstick on the PR pig and carry on as before.

However, we are also mostly doing good stuff. DB pensions were never going to last and between us all, we're doing a pretty good job responding to that reality, as well as to demographic, economic and cultural change. We're addressing the challenges of long-term saving participation and overall savings rates; of financial engagement and literacy and of managing the risk/reward trade-offs.

The pensions tax system is still a mess. Gordon Brown sort of tidied it up in 2006 but since then, successive policy decisions in the Treasury and the DWP have made it proper messy again. I'd very much like to see a fundamental rethink, taking account of the success of auto-enrolment. My colleague Nathan Long at Hargreaves Lansdown has a really strong set of proposals for reform and as the present Covid-19 related crisis abates, the Treasury should engage with the industry on this issue. It is possible to put people more in control, to help them be more engaged, to reward socially beneficial behaviours more effectively and equitably and to do so at lower cost than is the case at present. However to do these things requires courage and political capital, or alternatively a good crisis, as was the case for the coalition in 2010: 2021 could be the moment for bold reform.

I've worked on numerous industry forums and collaborative undertakings over the years, from lobbying for reform of annuity purchase rules, to working on common standards and scrutiny on transfers. I've sat on, and in some cases chaired, many committees. The financial services industry is fortunate to have organisations such as the ABI, the IA and Tisa that not only speak up on the industry's behalf but which also constantly challenge its members and lead them through change. With the government still new and the coronavirus impact to deal with, this industry leadership will be more important than ever.

VIEW FROM THE ABI

When you last moved home did you tell your life insurance and pension providers? If your answer is no, you are not alone. Moving house is an exciting and stressful time. We might not be able to keep track of everything on the checklist, for example, telling your pension providers your new address.

With the average Brit moving house eight times in their life, it is therefore very easy for providers to lose contact with customers. Providers spend millions every year to trace these gone-away customers and prompt them to verify their new address. However, many customers fear that these communications are scams and do not respond. This means customers may not receive all communications, and could ultimately lead to delay in paying their benefits.

We recently published two publications for gone-away customers reconnection. The first document, a gone-away customers engagement optimisation tool kit, summarises good practices, for example smart update address reminders and alternative verification methods.

As a complement to the tool kit, the second document is a set of communications guidelines, which outlines recommendations from our research on behavioural biases. It shows that customers often do not prioritise responding as they do not realise the consequences. Using appropriate 'nudges' in communications can change their perspective.

ABI policy assistant, long-term savings, Evey Tang

Pensions – A tonic to lockdown lethargy?

Now that the nation finds itself more than a month into lockdown, there are signs of fatigue among the population of the UK. Social media is littered with frustrated jibes and some of the first lockdown protests have begun cropping up. It seems that some of us might have hoped this state sanctioned solitude would last just three weeks or so, but it is becoming increasingly clear that we could be in this for the long haul.

We no longer have restaurants, gyms, cinemas, gigs, festivals, theatres, bars, clubs, museums or sports with which to entertain ourselves. For many people, this has probably led to hour upon hour of gazing at the television, the concerned faces of their loved ones or even their bedroom ceiling. But for many more, this has presented the exciting opportunity to learn new skills or achieve previously abandoned or overly ambitious goals.

For my flatmates this appears to mean countless hours and hours of knitting, baking and yoga, while I have instead set my sights on attempting to write a novel, learning about the Roman Empire and the noble art of sampling as many varieties of breakfast cereal as possible. We must all pass the time somehow.

But perhaps one of the most productive ways in which the public can use this bizarre purgatory is to finally get their financial affairs, including their pensions, looking ship-shape. I imagine that, like me, most people have vague ambitions of becoming masterful in their control of their personal finances and there is no reason why that should not become a reality.

It is important to make a distinction here between learning more about one's personal finances and making bold or foolish decisions with money. April saw its fair share of words of caution, with Pensions Minister, Guy Opperman, telling savers to "stay calm and avoid making any knee-jerk changes to their investments or pensions" and the Association of British Insurers warning people to steer clear of "rushed financial decisions".

These are wise words, as the Financial Conduct Authority, Money and Pensions Service and The Pensions Regulator have warned that pension scams are on the rise. Fraudsters aren't the only threat either, as moves such as accessing funds early while a pension pot's value has been decreased by market movements will have damaging consequences.

However, these factors don't mean that savers can't use this time to get to grips with their pensions and try to fully understand what their achievable outcomes might be. They can try to understand what their scheme does for their money. If somebody has five different pension pots, they can work out how to consolidate them. People can investigate increasing their contributions if they realise their savings won't stretch far enough for them to achieve retirement goals.

The industry could even play a key role here, using communication to actively encourage savers to understand more about the state of their savings, and just what they can do to improve things.

Just 22 per cent of Brits think that their state and private pensions will provide enough to live off, according to research released by finder.com in March. We can and should be able to do better, and perhaps if we push people to discover more about their savings, some of that remaining 78 per cent will be able to feel more confident in a happy retirement.

Written by Duncan Ferris

Financial wellness at-retirement

Jonathan Watts-Lay considers how creating financial wellness at-retirement is an essential element in the workplace

The concept of financial wellbeing in the workplace is firmly on the agenda, with one of the most fundamental elements being retirement preparation. Helping employees to achieve financial security in retirement is no longer a 'nice-to-have' offering but is an essential element in the workplace.

This is because we are seeing increasing evidence that leaving employees to their own devices at-retirement can lead to them making costly mistakes.

A big part of this is due to a lack of understanding around pensions and retirement planning. The Institute for Fiscal Studies recently reported that only around half of individuals think they understand enough about pensions to make decisions about saving for retirement.

This lack of pension understanding carries many risks for employees. Not only will they struggle to choose the best retirement income option for their needs, many are also unaware of the tax implications involved when accessing their pension. Findings from our poll showed 91 per cent of employers believe their employees do not understand the tax rules when withdrawing pension funds.

Low pension knowledge also increases the risk of employees falling prey to scams and fraudsters. If an employee does not understand the basics around their pension options, they are more vulnerable to losing their pension to scams as they are unaware of the warning signs to look out for.

An important part of supporting employees with their financial wellbeing at-retirement is making sure that they understand their options, as well as any associated risks. Many employers are now realising that providing support around this is vital but aren't quite sure where to start. We have therefore listed five tips on what can be done to help.

Tips to help employers support their employees at-retirement

1) Educate employees on their retirement income options – Employees who have a defined contribution (DC) pension will need to decide how to access their income whether that is through income drawdown, buying an annuity or taking it as a cash lump sum or indeed a combination of these. Financial education can help employees understand these options to make an informed decision.

2) Help employees to understand the tax rules – Research we conducted last year showed 81 per cent of trustees believe members are not equipped to deal with the taxation implications of accessing their pension. This means that employees and members could find themselves paying more tax than they need to if they don't plan carefully. Providing support around this is crucial.

3) Encourage employees to shop around – The Financial Conduct Authority (FCA) found that those who go into income drawdown could increase their annual income by 13 per cent by switching from a higher cost provider to a lower cost provider. It is important that employees shop around and do as much research as possible to ensure they select a retirement option that best suits their needs. This means finding a solution that enables them to access the right amount of cash as and when they want it, and for as long as they need it.

4) Switch employees on to the dangers of pension scams – Scammers tend to sound completely legitimate and it's easy to see why so many people are fooled, and it isn't small amounts of money which are being taken. So, whatever employees are planning to do with their retirement savings, it's vital that they understand the risk of scams and how to protect themselves. They're best checking whether any company that they're planning to use is registered with the FCA https://register.fca.org.uk first and also that they don't appear on the FCA's ScamSmart website, which includes a warning list of companies operating without authorisation or running scams www.fca.org.uk/scamsmart. Regulated financial advice can also provide additional protection measures.

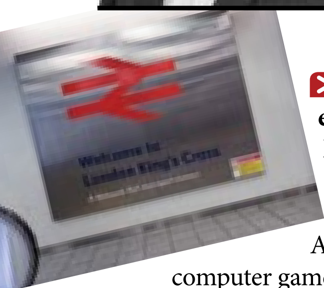
5) Empower employees to take action – Many workplaces now offer support to their employees in terms of financial education, guidance and regulated financial advice, so that employees are informed and empowered at retirement. This can help ensure that they are able to make better choices, which will lead to better outcomes for all.

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

In association with WEALTH at work

Quarantine in the Grand Budapest

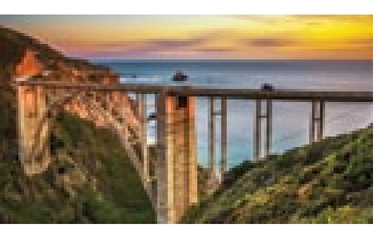
PTL client director, Dan Richards, chats with Sophie Smith about his love of travel and how he's using the world of film, literature and music to escape the constraints of lockdown



Editorial credit: pio3 / Shutterstock.com

What's your employment history (including jobs outside of pensions)?
After a stint testing computer games for EA and managing bridge replacements with Network Rail, the allure of a graduate position set me off on the road to becoming an actuary, and now I'm using that qualification in my role as a professional trustee.

What's your favourite memory of working in the pensions sector?
We successfully designed and set up a new pension scheme for a joint venture between two of my clients. A large whisky and a cheer accompanied the completion of transferring over the active members, along with all their past service (yes, we did have to ask them all individually for permission).



If you did not work in pensions, what sector do you think you would be in instead?
I've always loved architecture and big construction projects, hence my earlier dalliance with railways. I've always thought that to stand on a bridge only held up by your team's hard work must be very satisfying.

What was your dream job as a child?
I often fancied being a firefighter – what six year-old doesn't love helping people, staying fit climbing up those ladders and driving big red trucks?

What do you like to do in your spare time?
I'm lucky to be able to travel far and wide, and love to soak in the countryside around the world. Hiking in Hawaii, cycling the Loire valley, swimming through cliff tunnels in Malta. You name it, I'd like to be there taking photos and eating local delicacies.

Is there a particular sport/team that you follow?
I'm not a conventional sports fan, but I do like watching people play video games. Some communities like Games Done Quick on Twitch can raise millions for charity in just a week, whilst bringing together players and audiences from around the globe.

If you had to choose one favourite book, which would you recommend people read?
There are so many good books out there that the difficulty is choosing just the one. *Swallows and Amazons* was the first book that sucked me in so completely that as an eight year-old I was shocked that the sun was shining outside in the garden, so expertly had the rainstorm in the book been described.

And what film/boxset should people see?
As with books, there are many truly great films, but I find an outing with Wes Anderson is always a pleasure. Let's imagine that we've been quarantined in the *Grand Budapest Hotel*, and let Wes entertain us into the night.

Is there any particular music/band that you enjoy?
The newest album in my life helping me stay calm during quarantine is *Sixteen Oceans* by Four Tet, the spaced out grooves soothe me into relaxation.

Who would be your dream dinner party guests?
AC Grayling (I've got to put that philosophy degree to use somehow), Phoebe Waller-Bridge (how is her writing so crisp?), Devin Townsend (Step over Bieber and Dion, here's Canada's finest musician), Jacinda Ardern (what's it like being both in charge and responsible?), Louis Theroux (someone who disarms people into honesty, yes please).

Is there an inspirational quote/saying you particularly like?
Memento Mori.

Written by Sophie Smith

Finding the right approach

Hannah Cook looks at how to structure and access the best pricing when longevity hedging

Many UK pension schemes have spent a large part of the past decade progressively reducing their investment risk. For them longevity risk has rapidly become the dominant residual risk. This means that most schemes have a real focus on how and when to hedge longevity risk and are incorporating this into longer-term planning and integrated risk management frameworks.

Structural options

While it is not possible for pension schemes to transact directly with the global reinsurers who have the appetite and capacity to take on longevity risk, a UK insurer or a special purpose vehicle (typically a captive) can facilitate the transaction. For pension schemes seeking to implement a longevity hedge, reviewing how to structure a transaction is an important consideration. The market has evolved over the past 10 years and a variety of structural options are now available:

- Fully intermediated: The pension scheme transacts with a UK insurer, who sorts all the reinsurance 'behind the scenes' and takes on the operational aspects of the hedge. Importantly, the insurer rather than the pension scheme is exposed to the reinsurer credit risk.
- UK pass-through: Similar to a fully intermediated approach, the pension scheme transacts with a UK insurer, but under this structure it is the pension scheme that is exposed to the reinsurer credit risk.
- Self-intermediated or captive approach: The pension schemes sets up its own insurance vehicle (typically an offshore captive) to access the reinsurance market capacity and takes on the responsibility for the operational aspects of the hedge, as well as more structural and legal risk.

Structuring varies by size

For £multi-billion transactions, the pass-through and captive approaches offer significant cost savings relative to the fully intermediated route. Of these two options, a UK pass-through approach tends to be appealing for a lot of pension schemes given the operational simplicity achieved. In our experience, schemes only tend to focus on a self-intermediated approach where they have sufficient scale to achieve material savings or have significant in-house resource to manage the day-to-day operational responsibilities this method requires. Regardless of the structuring approach, larger transactions are typically collateralised to mitigate any counterparty credit exposures.

In recent years, the UK longevity market has also increasingly become accessible to pension schemes with liabilities under £500 million. For schemes in this category, a streamlined approach is typically adopted to ensure cost effectiveness. This means that, unlike the larger end of the market, transactions tend to focus on a more simplified approach for day-to-day data management and reporting. It is also more typical to adopt an uncollateralised model as the costs of setting up and managing collateral accounts may outweigh the benefit of the protection this offers.

Getting the attention of reinsurers

The reinsurance market remains extremely busy with significant demand from both UK pension schemes as well as bulk annuity providers seeking

longevity reinsurance to support new business and for capital management of existing annuity business. All of this means that schemes engaging with the reinsurance market need to be focusing on actions that put them at the front of the queue. In particular, reinsurers are always keen to see that strong transaction governance processes have been established, that data and benefit preparation has been carried out and, crucially, that the scheme has a clear idea on how the transaction will be structured prior to engaging with the market.

Is now a good time to hedge longevity risk?

Early 2020 pricing was at a historical low point reflecting the change in trend towards lower future improvements in life expectancies in recent years. At the time of writing, and in light of the ongoing developments relating to Covid-19, pension schemes currently navigating through the longevity market will need to keep a very close eye on developments, to ensure pricing offers fair value and is reflective of the latest available information.

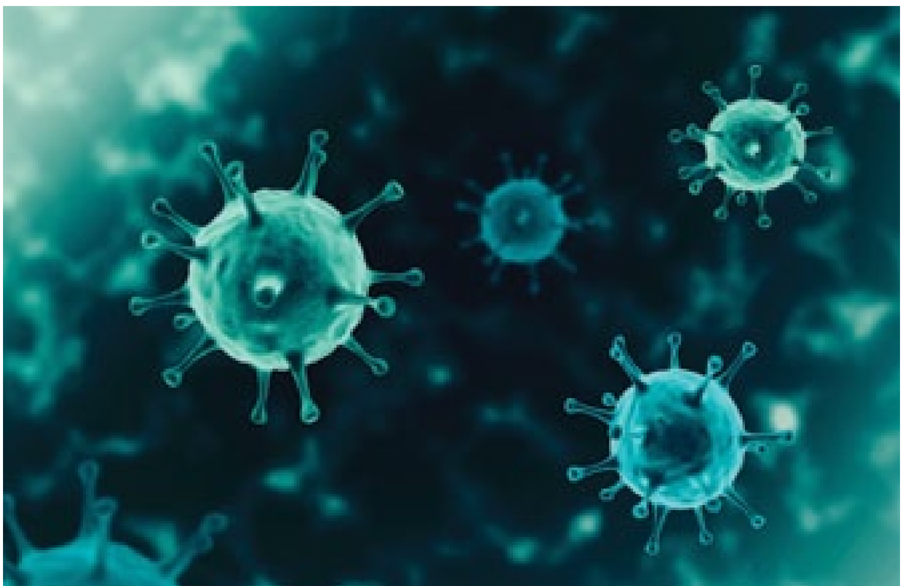
In summary, longevity risk is likely to be one of the most significant risks remaining for many pension schemes. The good news is that there is now a wide range of options for schemes of all sizes wishing to take steps to manage this.

Please get in touch for further information: talktous@aon.com

Written by Aon principal consultant, Risk Settlement Group, Hannah Cook

Covid-19 guidance round-up

In response to the Covid-19 crisis, the government and regulatory bodies have been issuing regular guidance on how to minimise the negative effects on savers, schemes and the industry



TPR urges trustees to form contingency plans in response to Covid-19

The Pensions Regulator (TPR) says it expects trustees to have contingency plans in place and be "alive to risks" in response to the coronavirus. It adds that they should have a business continuity plan setting out strategies for dealing with events that could impact their schemes, stressing that trustees must understand what contingencies are in place to deal with issues such as staff shortages. The guidance urges trustees to prioritise certain scheme activities, such as pension payments, retirement processing and bereavement services, and to pass the information on to administrators and providers.

Updated TPR guidance tells employers to meet contribution requirements

In TPR's second Covid-19 guidance update, the regulator emphasises that "employers need to continue contributing" throughout the outbreak. The regulator states that it will take a "proportionate and risk-based approach towards enforcement decisions, in light of these challenging times", also acknowledging the strain put upon employers by the outbreak. Trustees are also called upon to confirm priority order in the event of under-resourcing, stressing the need to communicate this with administrators and providers.

DWP confirms Covid-19 pension process changes

The Department for Work and Pensions (DWP) issues further guidance on changes to pension processes being introduced as a result of Covid-19. Its *Pension Schemes Newsletter* confirms details on rent and loan payment holidays, as well as addressing issues around obtaining 'wet signatures'. The changes apply for a preliminary period of three months, when a review will be undertaken. The department highlights that whilst a payment holiday would usually require an independent valuation to confirm it was on a commercial basis, this will not apply for the time being.

DRC suspensions to be allowed by TPR

TPR confirms easements for employers to suspend deficit repair contributions (DRCs) as part of its 30 March Covid-19 guidance. The guidance also includes provisions around scheme valuations and transfer requests. However, it clarifies repeatedly that TPR has no power to waive statutory duties, but that the regulator would make allowances in terms of its enforcement activity to provide easements for schemes amid the pandemic. TPR also tells trustees to be open to requests to reduce or suspend DRCs.

Pasa publishes Covid-19 guidance for administrators

The Pensions Administration Standards Association (Pasa) publishes Covid-19 guidance for pension scheme administrators. The priorities in the guidance are aligned with those outlined

by TPR, including continuing to pay promised benefits, ensuring funds are available, and keeping records of any ongoing work. It highlights basic enablers as a crucial tool in the current remote working environment, identifying around 12 basic enablers for administrators to consider. These include daily operations and leadership calls, planning for critical task, reviewing cashflow policy and communicating with members.

TPR issues Covid-19 guidance for scheme administration

The regulator urges trustees to work flexibly with their scheme administrators to ensure the delivery of critical processes, emphasising that the pandemic had placed huge pressures on the administration of pension schemes. It states that this would likely affect non-critical scheme and member services, and service level agreement targets, adding that breaches were also likely to occur in certain areas. TPR suggests trustees reduce non-critical demands and queries, and agree any changes in operating procedures, such as allowing electronic signatures, to support administrators in the crisis.

FCA publishes consumer support guidance for providers and DB transfer advisers

The FCA releases updated consumer support guidance for pension providers and DB transfer advisers during the Covid-19 pandemic. It warns that providers must still steer clear of giving regulated advice by pointing customers towards specific changes to their investments but explains that clients should be supported with the information to make well-informed decisions. The regulator notes that consumers wanting to withdraw funds from their pensions early should still be notified of the availability of free and impartial pensions advice, encouraged to take regulated advice and questioned to identify possible risks.

Employers' AE duties 'continue to apply as normal' – TPR

Employers' auto-enrolment (AE) duties towards their staff will continue to apply as normal, despite the ongoing challenges posed by the coronavirus, TPR states. The regulator's new guidance update says that this includes paying minimum contributions, as well as re-enrolment and re-declaration duties. However, if an employer has put a worker on the Coronavirus Job Retention Scheme, then the government will cover the minimum AE contribution of the furloughed employee's 80 per cent salary. Furthermore, those struggling to complete re-enrolment duties on the third anniversary of their staging or duties start date will be able to choose a later date by up to three months.

TPR outlines 'flexible approach' in updated Covid-19 reporting guidance

TPR's 9 April Covid-19 guidance on reporting duties and enforcement activity outlines plans for a 'flexible approach'. The regulator confirms that it would be adopting a more pragmatic approach to what must be reported and its enforcement action amid the Covid-19 crisis. It outlines changes to reporting requirements that support this approach, stating that if a breach can be rectified in less than three months and does not negatively impact savers, then there is no need to report it. However, schemes should keep a record of any decisions and actions relating to breaches.

TPR issues guidance on pension contributions in salary sacrifice arrangements

The regulator highlights that when employers are calculating the pension contributions of furloughed workers with a salary sacrifice arrangement, any contractual and pension scheme rule obligations will continue to apply as normal. It adds that the existence of the grant available under the Coronavirus Job Retention Scheme does not change an employer's usual pension contribution payment obligations or processes in salary sacrifice arrangements. TPR warns that employers may need to amend their payroll processes to calculate the contribution under the scheme rules where a salary sacrifice arrangement is in place.

Trustees requested to warn savers against pension transfers

TPR asks trustees to warn DB scheme members looking to transfer to DC schemes against doing so during the Covid-19 pandemic. In its latest guidance update, TPR calls on trustees to send letters to relevant members, warning them of the risks amid the crisis and urging them to consider the decision carefully. The regulator says that due to ongoing market volatility, and uncertainty for businesses and personal finances, members may be more likely to make 'knee-jerk decisions' that affect their pensions.

Written by Jack Gray

Red alert

Summary

- The economic impact of the coronavirus pandemic has contributed to DB scheme deficits rising.
- Employer covenants may be weakened as a result, so TPR has encouraged trustees to allow sponsors to pause or reduce deficit recovery contributions.
- Schemes may face cashflow problems as a result, and may look to alter their investment strategies to counter this.
- Long-term ramifications may include extended recovery plans and greater pressure on the Pension Protection Fund (PPF).

Laura Blows looks at how the economic downturn caused by the efforts to stifle the coronavirus pandemic is affecting DB scheme funding levels

It started so well. On 1 January 2020, the aggregate deficit of UK defined benefit (DB) schemes, as defined by the PPF 7800 Index, sat at £10.9 billion – a tiny amount in relative terms.

Fast forward a few months and it's a very different situation. By the end of March, the PPF 7800 aggregate deficit had reached a colossal £135.9 billion.

Volatility

Volatility in scheme funding levels is not unusual, but these *are* unusual times. The economic impact of the coronavirus pandemic is having a significant effect on pension schemes' finances.

"We've seen some short-term downward movement across DB deficit levels over the course of the past few months, driven by Covid-19's impact on markets and some of the regulatory responses – including slashing interest rates to record lows," PLSA head of DB, LGPS and Standards, Joe Dabrowski, says.

How a scheme's funding levels have responded to current market changes does depend upon circumstance and investment strategy, Mercer chief actuary and partner, Charles Cowling, states.

"Most schemes are seeing an increase in the deficit compared to the position at the start of the year," he explains. "Those schemes with little hedging and significant equity exposure may be seeing a much larger increase in deficit."

However, for many the fall in funding level has not been as severe as the headlines about the stock markets might imply, Aon partner, Lynda Whitney, says.

PPF chief finance officer and chief actuary, Lisa McCrory, agrees, noting that "if you take a long-term review of our monthly PPF 7800 Index, you will see that the current aggregate deficit of £135.9 billion is very similar to the average deficit figure of around £135 billion over the past 10 years".

Also, the deficit increased to more than £400 billion in 2016, "and this deficit has of course improved since then", she adds.

"A typical FTSE 100 scheme has seen funding on its accounting basis fall back to where it was around 2.5 years ago," Whitney continues. "They have typically lost the gains they would have expected to have made from the deficit contributions and investment return, but not in a way that isn't manageable if the sponsor survives to pay contributions in the future."

It is that 'if the sponsor survives' that is the question. Certain sectors, such as retail, leisure and transport are suffering more than others. The scheme's maturity can also determine how vulnerable it is to sponsor concerns.

"The current climate leads trustees to be more concerned about protecting their interests, should anything untoward happen to the sponsor," TPT Retirement Solutions head of IRM, Tom Neale, says. "It is critical that trustees understand the impact of current events on the short- and long-term sponsor covenant as this may drive different decisions."

DRCs

To help with those sponsors currently struggling, at the end of March The Pensions Regulator (TPR) confirmed easements for employers to suspend deficit repair contributions (DRCs), as part of its updated guidance on Covid-19.

While it also clarified that TPR has no power to waive statutory duties, it did announce that the regulator would make allowances in terms of its enforcement activity to provide easements for schemes amid the Covid-19 pandemic, and told trustees to be 'open' to requests to reduce or suspend DRCs.

It stated: "Where sufficient information is not available to make a fully informed decision, trustees should, where appropriate, agree to requests to suspend or reduce DRCs for as limited a period as possible while appropriate information is being provided."

If allowing this, Cowling recommends that trustees have a regularly updated understanding of employer business plans and cashflows, and maintain good communication with the sponsor to ensure the pension scheme is treated equally with other shareholders.

According to TPR, the suspension should be no longer than three months, with a condition of the agreement being a "full and ongoing provision of information" to allow trustees to closely monitor the employer covenant.

Despite this, PwC covenant director, Dickon Best, states that its company's research shows 10 per cent of deferment requests are for up to 12 months or more.

TPR's own findings are that 5-10 per cent of sponsoring employers have been requesting to suspend DRCs, it announced at a recent webinar, while LCP analysis is that more than 500 employers are expected to defer on DRCs, totalling around £0.5 billion.

Some of the major companies to have already sought a delay to deficit reduction contributions include Reach PLC, the publishing house for the *Daily Mirror, Daily Express* and *Daily Star,* Arcadia and Debenhams.

However, 47 per cent of pension scheme trustees and professionals surveyed by Hymans Robertson cite a lack of clear information on the strength of sponsor covenant as a 'major barrier' in agreeing DRC deferrals.

Additionally, 21 per cent say scheme funding is a major barrier in accepting deferral requests.

"The current situation may be causing cashflow issues for some sponsors, and where this is particularly acute, they may seek to deviate from the agreed schedule of contributions," DLA Piper partner, Matthew Swynnerton, states.

"Any proposal to alter an agreed schedule of contributions would, as a minimum, require the agreement of the scheme trustees, and the rules of the scheme should also be checked, as these could add additional conditions and provisos above the statutory requirements."

Trustees will need to consider what is in the best interests of the pension scheme, which will usually include making an allowance for the maintenance of an ongoing sponsor who can continue to support the scheme, he adds.

Investments

If employer contributions are suspended, trustees may increase focus on another staple to help plug a funding deficit – its investment strategy.

Dalriada Trustees senior trustee representative, Charles Ward, states that market volatility can actually present

opportunities, as seen with corporate debt during the financial crisis in 2008. "Pension scheme investment horizons are typically longer than for other investors and so they should take advantage of this where they can," he explains.

The fall in the UK's inflation rate could also ease the pressure for some DB schemes with sizable deficits, according to Barnett Waddingham principal and senior investment consultant, Ian Mills.

"Employers of these schemes could then see the value of their liabilities drop, offering a window of opportunity for struggling schemes to address their deficits and edge closer to their endgame," he says.

However, while taking risk out of the investment strategy to prevent further losses would seem like an obvious solution, Ward warns, "this will put strain on the employer due to the resulting increase in funding that could be required and trading in volatile conditions also introduces risk".

With investment markets also going through volatile times in response to Covid-19, trustees may need to look to protect their position through other means such as security or alternative financial structures like asset-backed contributions, Neale suggests.

Those schemes that have a robust integrated risk management (IRM) framework are also expected to be better prepared to handle rising deficits.

So with these weapons in their arsenal, just how concerned should trustees be about their scheme's current funding situation?

For Neale, if there is confidence in the long-term viability of their sponsor, the trustees may be able to accept some volatility in funding and investment plans.

"However, some trustees will be worried, particularly where current events are expected to cause a long-term weakening of the sponsor's covenant, meaning that they may have a reduced ability to take risks, eg in pursuit of investment returns," he explains.

Long-term impact

Ward adds that for the majority of schemes, funding their liabilities remains a long-term project and this gives schemes time to implement appropriate plans to recover their losses.

However, "it is too early to tell how Covid-19 might impact on scheme deficits or recovery plans in the long term," Dabrowski says, but for example, buyouts may have to be pushed back because of short-term funding pressures.

"The longer-term ramifications for schemes will be highly dependent on the wider economic situation, in particular whether markets recover and how sponsors and business bounces back. Emerging analysis from the OBR and IMF indicates that even in the best-case scenarios we can expect a bumpy ride."

This could lead to longer recovery plans, he states, despite TPR's stating that it 'ideally' wants recovery plans to remain the same.

"It also feels like the time has come for both the government and the regulator to set out the interim regime for superfunds, which could play an important role in providing new solutions for schemes and employers", Dabrowski adds.

Even with the additional de-risking option of superfunds, there are concerns that PPF levies will rise as a result of the Covid-19 crisis.

LCP recently stated that, while the coronavirus fallout is likely to see an overall increase in the rise of the levy across all firms, some may face much bigger increases, particularly where their scheme deficit has increased or their solvency position weakened.

However, in response, the PPF has published an update on its website to reassure its levy payers that Covid-19 will have a minimal impact on the amount of levy it expects to charge this autumn.

But even once the coronavirus panic passes, whether things will then return to 'normal' in the longer term is subject to debate.

"The simple answer is that it we don't know," Ward says. "This is a very different type of crisis and 'normal' is likely to be several years away. Even then, a proportion of the losses we have seen are unlikely to be recovered and consumer behaviour will change. Trustees should plan for the potential impact of this on both the scheme investment strategy and their employer covenant. The impact is likely to be particularly acute in certain business sectors, for example leisure, bricks and mortar retailers and transport."

As it is unclear what a 'new normal' will look like for individual sponsors and the markets as a whole, Whitney encourages a stronger focus on contingency planning.

"Do ensure you are getting enough information about the sponsor covenant, have considered cashflow and liquidity, and understand some of the investment risks you are continuing to run," she says. "In the words of *Hitchhiker's Guide to the Galaxy*, don't panic."

Written by Laura Blows

Valuations

The coronavirus impact on the economy is particularly painful for DB schemes having to undertake 2020 funding valuations.

According to Aon, 15 per cent of schemes have an upcoming valuation date of 31 March 2020, or 6 April 2020.

Aon head of UK retirement policy, Matthew Arends, says: "Actuarial valuations with effective dates on 31 March or 6 April 2020 will be anything but repeats of 2017 valuations, given the impact that Covid-19 has had on pension scheme funding and sponsor covenants. And this is despite, in many cases, significant deficit contributions having been made over the past three years."

Following examination of the funding levels of 190 schemes, Aon predicts that a quarter of schemes' funding levels were estimated to have fallen by more than 6 per cent over the past three years due to market conditions.

For a typical pension scheme with a liability value of £250 million, a 6 per cent worsening of funding level would correspond to a £15 million increase in deficit, it states.

The company forecasts that half of schemes would have seen anything from little or no change to a 6 per cent worsening in funding level, while the remaining quarter of schemes were seen as likely to have experienced an improvement in funding levels over the period.

In its newly-released *Annual Funding Statement,* The Pensions Regulator (TPR) emphasises that it expects trustees to approach valuations and scheme funding 'in conjunction' with their employers, with its guidance particularly relevant to those conducting valuations between 22 September 2019 and 21 September 2020.

It also acknowledges that March and April 2020 valuations would be particularly 'challenging', with many trustees not having access to sufficient information to form a reliable view on long-term future returns from scheme investments.

"The trustee needs to determine whether existing long-term strategic scheme funding and investment plans remain appropriate, given what may be a short-term issue for some sponsors," TPT Retirement Solutions head of IRM, Tom Neale, says. "There is a balance of not putting undue pressure on the sponsor during this difficult time, whilst ensuring that suitable long-term funding plans are put in place and member interests are protected."

DLA Piper partner, Matthew Swynnerton, says that current market turmoil could lead both trustees and employers to conclude that it is an inappropriate time to set the effective date of or conclude an actuarial valuation, which is effectively a snapshot of the funding position of a scheme on a given date.

"However, where there is scope within the time limits of the three-yearly valuation cycle and the 15 months in which a valuation must be submitted to TPR, the trustees and the scheme sponsor may think it would be preferable to use a date that falls outside of the acute circumstances currently being experienced when seeking to set longer-term funding objectives," he suggests.

"If that's the case, they should seek the scheme actuary's views in relation to the impact of the current situation and what may be possible in terms of using an alternative date.

"Alternatively, trustees and employers will be aware that, in determining any additional funding required by a scheme arising from the actuarial valuation, it is within the actuary's scope to take account of post-valuation date experience. It may also be useful to discuss with the scheme actuary the possibility of adopting this course of action."

Neale also advocates options such as stepped or extended recovery plans, depending on the circumstances, which may be supported by the provision of contingent charges or assets from the sponsor.

Necessary delays

Summary
- The Pensions Regulator and the Financial Conduct Authority have delayed regulatory initiatives, including the defined benefit (DB) funding code consultation and DB transfer rule changes.
- Although this gives trustees the opportunity to focus on the short-term issues thrown up by the coronavirus, it could delay industry progression and affect schemes in the long term.
- Trustees have been urged to also use this time to prepare for consultation responses and future regulatory changes.

With the ongoing Covid-19 pandemic creating uncertainty in the markets and for pension schemes, the regulators have been delaying initiatives until the crisis, hopefully, subsides. Jack Gray analyses what trustees should be doing now and in the future, when relative normality resumes

In order to relieve short-term pressure on trustees trying to do what is best for their scheme and its members during these challenging times, regulators have been delaying regulatory initiatives and consultations. The Pensions Regulator (TPR) announced that it was postponing all its ongoing initiatives, including its *Corporate Plan*, long-term strategy and consultations on bringing together its codes of practice, while extending the submission deadline for the DB funding code consultation.

The Financial Conduct Authority (FCA) announced it was postponing the implementation of its proposed changes to DB pension transfers, its default investment pathways policy and the introduction of more stringent rules for pension transfer specialists.

Other organisations announcing delays that would affect the pensions industry included consultations from The Pensions Dashboard Programme on the implementation of the dashboard, and the UK Statistics Authority and HM Treasury agreed to extend the Retail Price Index (RPI) and Consumer Price Index including owner occupiers' housing costs (CPIH) alignment consultation deadline.

"Overall, most of the regulatory delays make sense because the regulators themselves need to focus on the impact of the current situation and not be distracted by worthy but resource-hungry long-term aims," says Aon partner, Lynda Whitney.

Taking the good with the bad

The delays, although necessary, could have both positive and negative consequences. "Some of these delays just give trustees a bit more time to get their house in order," explains Whitney. "Whereas others mean that trustees need to step in to protect members where regulations do not.

"Trustees get more time to fix data issues given the delay to TPR's poor data quality initiative. However, this should not be an excuse to delay for too long, as so many potential projects rely on good data."

PLSA director of policy and research, Nigel Peaple, adds that, although the delays will give trustees the opportunity to deal with short-term issues, the postponement of some of the changes could negatively impact members.

"Delays in consultations are welcome as they ensure that the whole industry will have time to fully feed into new policy and regulator initiatives," he says. "However, delays in the policy process where known risks could continue to cause harm need to be considered on a case-by-case basis.

"As for the easements in the current application of the regulatory regime, these too are generally welcome, although it is essential that the right balance is struck in taking account of the financial and operational pressures on sponsors and schemes, whilst also ensuring that such measures do not harm the scheme member."

LCP partner, Alex Waite, warns that trustees and sponsoring employers of DB and defined contribution (DC) schemes will face different issues to overcome, and the delays may give them the chance to help tackle them.

"Some employees might still be earning extra pension each year in a DB scheme, but employers that are struggling financially may need to review that and consult about moving to a less expensive form of pension provision in future," he notes.

"DC scheme members may have seen their fund values being quite volatile due to the current market turmoil, but what really matters is the value at the point of retirement and so hopefully there is still time for the asset value to recover."

Short-term action

Delays to regulatory initiatives may give trustees the opportunity to use this time to prepare for future policy implementation or to better coordinate consultation responses, if Covid-19 risk mitigation is not taking up all of their time.

Aegon head of pensions, Kate Smith, urges trustees to have more frequent discussions to ensure that their scheme is meeting regulatory requirements.

"In these extraordinary times, trustees can't afford to wait for the next quarterly meeting to make decisions. They need to meet frequently and review the scheme's investment and service providers.

"Trustees of DB schemes should be liaising with their actuarial and legal advisers to review their scheme's funding, investments, cashflow and cash equivalent transfer basis."

Trustees can also take steps to conform to future regulatory changes, despite the delays.

"An area where trustees and employers can usefully step in to fill a gap is in relation to FCA delays to removing independent financial adviser (IFA) contingent charging in relation to DB transfers," says Whitney. "If the trustees and employer provide a pre-selected IFA this means they can avoid contingent charging, ensure an IFA knows their scheme and ensure members get a better price for the IFA advice."

PwC pensions partner, Paul Kitson, adds that, despite the regulatory postponements, the fiduciary duties of trustees remain unchanged and the best interests of members should "remain at the forefront of trustees' decision-making processes".

"Trustees will need to consider what's more important for their members; cash or stronger downside protection in the form of contingent assets. For example, the use of third-party guarantees to 'underwrite' or 'insure' the cash deferral," he continues.

"Much of the anticipated DB funding reform is intended to accelerate the recovery of scheme deficits. Any decisions made now could therefore be closely scrutinised by TPR in the years to come."

Although the crisis has had a negative impact on some schemes, other schemes that were well-hedged against market risks may have had smaller deteriorations in their funding positions.

"Such schemes will need to ensure that they effect GMP reconciliation, rectification and equalisation and potentially GMP conversion in order to be able to move to buy-in and buyout," explains Fieldfisher pensions lawyer, Jeremy Harris.

"Trustees will also need to take account of the changes in aligning RPI with CPIH. Different schemes will be affected in different ways by those changes, depending on the extent to which their pension increases are based on RPI or CPI, or their investments comprise RPI-linked instruments such as bonds.

"It seems likely, however, that DB schemes will need to keep to the effective dates of their actuarial valuations."

DLA Piper partner, Tamara Calvert, advises trustees to "make sure benefits are paid, prioritising retirements and deaths over options like transfers, ensure DC contributions are invested promptly, consider strengthening scam warnings and keep great minutes – they will be key to setting the context for decisions made in these unusual times".

Planning for the long term

Although it may be difficult to plan for the long term with such immediate risks, it could be important for trustees to do so in order to not be caught out once normal service resumes.

"The delays in consultation periods, such as for the funding code, mean that the later stages will also be delayed," says Whitney. "The eventual implementation for the funding code is now more likely to be from the start of 2022.

"The delay has the advantage of enabling current valuations in stressed scenarios to occur under the existing more flexible code, but this also continues to put more responsibility on the trustees to agree valuations in the best interests of their members."

Calvert adds that actions taken now as a result of delays and regulatory easements, such as suspended transfers, deficit recovery contributions and finalising valuations, may have to be "unravelled".

"Consider whether there should be a right for furloughed members to make up missed DC contributions on their return to work, restoring pre-furlough processes and contribution levels if they were temporarily reduced, and take time to reflect on any lessons that can be learned from this period."

Written by Jack Gray

A pragmatic approach to policy

The Pensions Regulator (TPR) head of policy, Fiona Frobisher, speaks to Francesca Fabrizi about the steps TPR has taken towards helping schemes in this time of unprecedented uncertainty

We are living in unprecedented times and TPR has worked hard to guide employers and trustees through the challenges they are facing. How has your role as head of policy at TPR changed in the past few months, given the environment we find ourselves in?
Although what I do hasn't changed, how I do it and what the team and I are focusing on has changed significantly. I lead a team of 25 people, so much of the initial focus was ensuring they had the flexibilities and infrastructure they needed to work effectively from home. Luckily, TPR already had established working from home systems in place, so the technology side has not been so difficult but the logistics and emotional aspects of adjusting to this situation cannot be overestimated.

One positive aspect of dealing with this crisis, considering new risks and policy responses, has been the need to work collaboratively both within TPR and across government and industry stakeholders. So, I have found myself spending the majority of my time in the past few weeks checking in with my colleagues across TPR, government and my industry contacts to develop policy that is aligned and answers the real challenges schemes are facing.

What key policy initiatives are you working on and has your focus had to change given the uncertainty?
All our policy resource has been temporarily diverted to consider the ways we can best support savers, trustees and employers in the current crisis. Most of this has meant revisiting ongoing policy initiatives and asking the team to think about what risks have emerged and how we help trustees, providers and others mitigate them. So, for teams working on DB funding, it has been what should trustees do if employers want to reduce deficit recovery contributions (DRCs) or they get requests for cash-equivalent transfer values (CETVs); for automatic enrolment (AE) teams there have been questions about how the government's job retention scheme interacts with AE duties; for teams looking at governance and administration issues, it has been what are the most important issues we need to ensure are happening and where can we offer any easements for schemes that are struggling with compliance.

We have been really pleased with the positive responses to the guidance we have put out, and the acknowledgement that our increasing focus on governance, administration and contingency planning over the past few years has put schemes in a better place to weather the crisis than they might otherwise have been.

TPR recently launched its defined benefit funding code of practice consultation. What do you hope to come out of this?
We have already done a significant amount of development work, including with external stakeholders in thinking about how we can make the funding requirements clearer and more objective whilst preserving the advantages of a scheme specific approach. We have

suggested a twin track approach: A fast track with clear benchmarks for those who want to know that their valuation will fit with our expectations and a bespoke approach where those who want to do something different will be able to do so as long as they provide evidence to explain why their approach fits requirements. Both approaches are guided by the same set of principles for how to address the risks and uncertainties in DB funding.

We are looking for industry's input and ideas and in particular are seeking views on whether the proposed framework delivers our aims to improve the clarity, objectivity, transparency and enforceability of the funding regime while preserving scheme-specific flexibility and any potential implementation challenges for trustees, employers and advisers and risks of unintended consequences.

Does the proposed approach in the draft code remain appropriate given the current crisis?

The Covid-19 crisis is taking up much of trustees', employers' and advisers' time. So, we have extended the deadline for response by three months to 2 September (subject to review) to make sure all interested parties are able to give the consultation their full attention and have the time and capacity to formulate their response.

Although pension schemes are in the grip of an unprecedented crisis, we think that there is sufficient flexibility in the funding regime for trustees and employers to be able to deal with the impacts on their schemes.

And the approach we are setting out in the code preserves that flexibility and its focus on long-term planning and risk management and affordability-driven recovery plans remains relevant for the Covid-19 and post-Covid-19 world.

We are not yet at the stage where we firm up the quantitative guidelines in the code – this will be the focus of our second consultation, but we will develop them in view of the responses to our first consultation, an assessment of impacts and, importantly, prevailing market conditions. They will be regularly reviewed and updated as necessary.

You have spoken before about the importance of employers fully supporting their pension schemes. What would be your message to employers who will be finding this more challenging than ever in the current environment?

With the current uncertainty, it is vital that savers are still able to rely on their pensions in the future, therefore it remains important that employers support their pension schemes and the trustees who run them. Where employers are finding it challenging to make the contributions they have promised, there may be some help from the government's coronavirus job retention scheme or some flexibility from providers. We have produced some guidance on this on our website.

Issues such as ESG and diversity were, rightly so, getting heightened attention before the coronavirus outbreak. Is there a danger that issues such will be given less consideration while pension funds are worrying about funding and trying to manage the economic uncertainty?

I am aware this is a danger. However, the reason these issues were getting heightened attention is that they are not 'nice to haves'. While they may appear less immediate right now as trustees focus on the crisis, they are no less important, because better decision-making and governance from diverse input and a full understanding of the long-term risks ensure better outcomes.

We are part of the Pensions Climate Risk Industry Group, which is continuing with a consultation on climate risk guidance for pension schemes, as the risks that schemes face from climate change are not going away and so we want to support trustees in developing scheme preparedness. Similarly, stewardship remains important to us, as resilience relies on strong, long-term relationships between asset owners, asset managers and investee companies. One interesting question is: will trustees draw on their experience of current uncertainty to build resilience to future disruptions, such as those likely to arise from climate change?

We expect there will be some learnings schemes can take from how they have been able to deal with the unexpected changes in the economic outlook to how they may consider ESG effect on schemes on investment portfolios. We will certainly be looking to help people make that connection.

Looking to the future, which new policy initiatives can pension schemes look forward to from TPR?

For everyone tackling the coronavirus crisis, the situation is very dynamic and so predicting the future is challenging. We hope our work to fully consider the initial risks will be complete in May, but this will of course be an ongoing process in the months ahead.

Many of our current areas of Covid-19 guidance and easements are due for a three-month review in June and we will update where necessary, including to address any new risks that do emerge.

However, we hope to get back to the work that continues to be important, as well as tackling risks throughout this uncertain period, as soon as possible. This will include developing new expectations in our code for DB funding; looking at improving trusteeship, re-visiting the concept of trustee knowledge and understanding; looking at how we communicate standards and expectations including consulting on presenting all our codes in a cohesive, modular fashion and helping schemes understand and account for ESG and climate risk.

Written by Francesca Fabrizi

Dashboard update crash course

Summary

- The Pension Dashboards Programme (PDP) views focused data and broad coverage as in line with the public interest for an initial dashboard, but deeper data will be a future target.
- While the update seems to have cleared up a great deal of industry confusion, the scale of the project is still daunting to many.
- The coronavirus crisis has increased the digitisation of pensions, but many schemes are still likely to work hard on preparing data for the project.

Duncan Ferris examines April's update on the development of a pensions dashboard, laying out some of the key plans and challenges, as well as how the industry reacted and how schemes can prepare

Background

When you consider it, a great deal has happened since the Financial Conduct Authority endorsed the creation of pensions dashboards in March 2016. In the intervening years, three Prime Ministers have called Downing Street their home, the England men's football team won a World Cup penalty shootout for the first time and hundreds of internet users hatched an ultimately underwhelming plan to break into Area 51.

Now, April 2020 has yielded the first progress report on the Pension Dashboards Programme (PDP) from the Money and Pensions Service in the form of an update and two working papers that detail the potential scope and definition for data standards in an 'initial dashboard'. Let's take a look at what this all means.

Update highlights

Firstly, it's important to consider what has actually been outlined in this update.

The data scope working paper identified a "focused data, broad coverage" approach as most likely to achieve an initial dashboard that "functions in the interest of the public", with 'find and view' data mandatory for nearly all schemes and sectors, and deeper data requirements remaining a future target.

The PDP argued that this option was easily communicable to all relevant stakeholders, placing minimum burden on pension providers, and facilitating onboarding in a reasonable timeframe.

The second working paper, which delved into data definitions, categorised data as either optional or mandatory, acknowledging the complexities that can occur when developing data standards in the pensions landscape.

It also presented the concept of different 'levels' of dashboard data, which the PDP stated was "a helpful way to introduce the different types of data relevant to dashboards" for those who had no previous involvement with the initiative.

The top levels, which will be used to show individuals basic information via a 'find and view' function, were broken down into matching data, used to match individuals with their pension entitlements, and administrative data, or the details of each pension arrangement which confirms they have a pension entitlement for the individual who has been matched.

Meanwhile, the three other levels of data, intended to help individuals understand their pension and make informed choices, are estimated retirement income, accrued entitlements and additional personal information.

The paper stated: "When the time is right, we will be exploring with all interested parties whether the data definitions set out in this paper strike the right balance between simplicity (for individuals) and complexity (of different pensions)."

Timescales for the actual release of the dashboard remain hazy, with the report stating the ambition to establish a detailed timeline "before the end of the year".

However, the report did specify that the dashboard would likely become available for use when between 40 per cent and 90 per cent of the UK's pension entitlements are available to be displayed to individuals.

This could mean that large pension providers and schemes are likely to be at the front of the queue to provide information to the project, as the report said that this tactic would ensure a "significant portion" of entitlements make it to the dashboard "relatively quickly".

Some other highlights include the PDP's confirmation that it will establish a user needs working group with potential dashboard providers and consumer organisations to ensure they are able to "input into and benefit from the coordination of user testing".

The update also outlined several current challenges faced by the programme, including the establishment of a sufficiently secure identity verification process, working out how to match people accurately to their savings, and addressing the varying types, and quality, of data held by different providers.

What's the goss?

The pension industry's reaction to the update's ambition appears to have been largely positive, although concerns remain about the practicality of a project with such major scope.

Aon partner, Gary Cowler, comments that the report provided "much-needed clarity about the likely next steps" and welcomes the recognition of different groups of schemes' varied circumstances and differentiation of data sets as "a positive step".

PensionBee head of corporate development, Clare Reilly, says: "Until now there has been much confusion about the aims and scope of the dashboard. Confirmation that the dashboard will prioritise maximum coverage over rich data is an important step forward in understanding that the single use case is to reunite a minority of UK savers with lost pensions."

Aegon head of pensions, Kate Smith, expresses concern as she points out that the progress report has revealed "just what a mammoth task this is" and adds that "the Covid-19 crisis has further added to the challenges".

She continues: "The programme is dependent on the government, regulators, employers and the pension industry, as well as new service providers, all working together, all of whom have other more immediate priorities just now. The harsh reality is that the delivery challenges are enormous, and everything needs to be in place before pension dashboards can be implemented."

What now?

While nothing is set in stone yet, the update indicates the PDP's current focus and means that the industry can now familiarise itself with what might be required to contribute to the dashboard's construction.

Larger schemes and providers appear to be under the most pressure to prepare themselves as they are likely to be the initial focus.

On the one hand, this might not be too major a concern as Smith argues that the industry's response to the coronavirus crisis has demonstrated that "many pension providers and schemes are already able to interact with their customers digitally", adding that accelerated digitisation progress "will be helpful once the pension dashboard programme restarts engaging with the pension industry".

However, the industry's ability to provide the necessary data remains a major difficulty when there is still so much other work and the small matter of a pandemic still to deal with.

For example, Cowler states: "The biggest challenge we see with the proposals is in providing – within the first phase – estimated retirement benefits at a current date for DB schemes. This will be a crucial area of consideration as, although the data exists to calculate this for each member, most schemes do not hold their data in a way that could currently support this.

"It is also the case in many schemes that the concept of a single pension due from a single date is not sufficient to describe individual members' benefits. To make that one item available for every DB member in a meaningful way would be a major exercise."

This could be problematic at present, as Cowler notes: "Administration teams are already busy finalising GMP reconciliation and starting GMP equalisation, and both schemes and sponsors are under financial pressure due to the Covid-19 pandemic.

"It is therefore important that the industry debates whether a challenging project of providing estimated retirement benefits for all members of DB schemes is both a priority in the short term and as phase one of the dashboard."

This debate is in fact a key contribution that the industry can make towards the creation of the dashboard, with stakeholders now having ample time to look over the current state of the dashboard programme and develop feedback due to delays to planned consultation.

To this end, PDP principal, Chris Curry, said at the time of publication: "We are not asking you to take any action now, but we will engage with stakeholders when the time is right. In the meantime, we will continue with our work to make pensions dashboards a reality."

Written by Duncan Ferris

Something's gotta give

Summary
- The impact on individual pension scheme savings varies greatly based on factors such as age and scheme type – but all have been impacted by Covid-19.
- How members will react is still yet to be seen, although it seems likely that more may turn to their pension to supplement income where possible.
- Prioritisations must take place, and auto-enrolment is likely to be hit, but the industry can support members in rebuilding their funds after the pandemic.

As Covid-19 sends the markets into flux, Sophie Smith looks at what impact it has had on pension scheme savings, and whether pensions should be a priority for savers in the current crisis

"Good pensions depend fundamentally on a strong economy," highlights Lane Clark and Peacock partner and former Pensions Minister, Steve Webb, "so there is no doubt that the current crisis will have a significant impact on pension outcomes". He clarifies, however, that what that impact is will differ vastly depending on a range of factors, such as age or pension type, and on the actions taken by members themselves.

"The volatility and market falls we've witnessed lately will have unnerved many savers," adds Canada Life technical director, Andrew Tully, stressing that "anyone tempted to look at the value of their pension today is likely to be in for a shock". And while those in DB schemes will be pleased to learn that they have been somewhat protected by the headline-grabbing market falls, those in the DC space may not have the same reassurances, stresses Pensions and Lifetime Savings Association (PLSA) head of DC, master trust and lifetime savings, Lizzy Holliday.

"For those in DC schemes, information about falling pot values will be worrying, and so it is important that the industry gets the message out that pensions are about the long term," she explains. The regulator itself has also stressed the importance of getting member messaging right, most recently calling on trustees to issue a letter to any DB scheme members who wish to transfer to DC, in order to warn them of the potential risks.

Falling on deaf ears?

But whether members will genuinely hear this message is yet to be seen, as Tully emphasises that "it's simply too early to call how scheme members are going to react to the global pandemic". Echoing this, Nest director of strategy and corporate affairs, Zoe Alexander, confirms that member activity hasn't been out of the ordinary for the scheme, clarifying that despite a peak at the end of February, member website visits and pot access have remained steady, or even slightly lower, than that seen at the start of the year.

However, there are suggestions that trends are beginning to emerge, with Intelligent Pensions technical director, Fiona Tait, pointing out that there has been discussion with clients about delaying access to their pension plan or reducing their current levels of withdrawal and using other deposit-based assets to fund current income needs. She highlights that while this is a "tax-efficient strategy", other anecdotal evidence has pointed towards more concerning trends amongst members.

Digging a hole

"We have heard anecdotally that some older individuals have chosen to withdraw all of their pension savings as a result of the crash in order to invest 'safely' in cash," Tait explains, "this not only consolidates their losses but is also likely to result in a considerable tax bill,

as well as the loss of tax-free growth on the invested funds".

Recent research from AJ Bell also suggests that savers may be beginning to approach their retirement funds to supplement their income, with 11 per cent of over-55s with a pension having either already accessed, or planning to access, their retirement pot earlier than anticipated, due to the pandemic.

It is not only those who are approaching retirement who will be feeling the strain during the current crisis though, and as Alexander notes, these are "difficult and uncertain times across the board", with many people struggling financially.

"If household budgets come under strain as a result of the economic effects of Covid-19, there is certainly a risk that some people may choose to cut their contributions or even choose to opt out of auto-enrolment (AE)," states Holliday, stressing that savers who choose to do so will not only miss out on the traditional incentives, such as employer contributions, but also any investment growth that could occur as the markets recover.

And whilst Nest data could seem reassuring, showing no marked increase in opt outs or cessation, Alexander emphasises that this could yet change as the situation progresses. Tully however, argues that a dip in contributions is already well under way thanks to the government's job retention scheme.

"One of the unintended but clearly acknowledged consequences of how the scheme operates is a reduction in member contributions as a result of individuals' pay decreasing", he explains, adding that many employers use salary sacrifice for pension arrangements with furlough potentially altering this also.

Considering the circumstances though, it seems likely that members may not even notice such changes, and while industry experts such as Holliday are quick to highlight key incentives such as tax relief and employer contributions, many savers may still be wary of prioritising their pension when they may be unsure of whether their employer will even exist in a year.

A mountain out of a molehill?

"Any break in paying contributions has a clear impact on the final result," argues Tully however, noting that longer savings time horizons are in fact particularly worse hit because of two factors.

"The power of interest compounding has a greater effect the longer you have to save, and by not buying into equity markets now means people will miss out on any recovery," he explains. Agreeing, Holliday notes that ideally a person would opt out for as short a period as possible, especially if they are quite young and therefore potentially missing out on years of investment growth.

Webb however, highlights that younger workers will have more time to recover, provided that they stay in work, and therefore should be in a better position to weather the current crisis in the long term. But even those who are fortunate enough to gain back financial stability after the crisis could face obstacles when trying to rebuild their pension, with Webb highlighting the Money Purchase Annual Allowance (MPAA) as a "real barrier".

The journey to recovery

"The MPAA has long been viewed by many as an unreasonable restriction," agrees Tully. "People being able to take some of their pension in this unprecedented situation can be hugely beneficial. In future members may want to make up for those withdrawals by paying in more to their pension, so it seems bizarre the rules may restrict their ability to do so."

Indeed, the removal of the MPAA is not a new ask, and as Tait emphasises, was already viewed as somewhat of an anachronism within the context of pension freedoms. However, while industry experts seem united against the MPAA, just what to do to best ease its effects is a slightly more divisive issue. For example, while Tait and Webb acknowledge the benefits of an easement or relaxation of the allowance, others have argued more staunchly for its complete removal, and even for those willing to consider easements, there is a difference in approach. Webb, for instance, has previously suggested that the limit be increased to £10,000, meanwhile Tait suggests a relaxation of the rules that would allow people who have withdrawn funds during the coronavirus window to make contributions up to the normal annual allowance until their fund reaches pre-crisis levels.

One thing that is for sure though, is that this is an area that the industry seems keen for change in, especially to support those members worst hit by the pandemic. Tully emphasises that while the government may have been reluctant in the past to make changes to the MPAA, "lately we have seen dramatic changes to many rules", which should make the scrapping or amending of MPAA "minor in comparison, but nonetheless a change the government should make".

One step at a time

These issues are not necessarily the top priority for many savers currently however, and as Tully notes, pensions are, quite rightly, playing second fiddle to overall family health.

"We all have a role to play in proactively communicating with members, whether that be advisers, schemes or providers," he adds, and ensuring there are not obstacles working against members who try to do the right thing in rebuilding their savings is just a part of this. But it is this almost invisible support that will allow the industry to protect members, supporting them when cuts must be made, and encouraging them back once the time is right.

Written by Sophie Smith

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Coronavirus communication essentials

Summary
• While staying in touch is important, it can be equally vital to avoid drowning members in a sea of unnecessary information.
• Member communication is not a 'one size fits all' problem; strategies might need to be different depending on the type of scheme and the type of member.
• Simplicity and reassurance can be used to help savers avoid panicking and making investment decisions that they might later regret.

Duncan Ferris tackles the issue of communication in the Covid-19 crisis, looking at the appropriate frequency, content and format of messages to scheme members

The American linguist and philosopher Noam Chomsky theorised that humans developed language around 100,000 years ago as a consequence of a random genetic mutation forming the language faculty of the human brain. At the time, essential communication probably involved arguing over food, water and who was the top caveman.

Many centuries later, we have matured a little as a species and expanded our vernacular with the help of luminaries such as Cicero, Shakespeare and Dan Brown. Now we can use language to convey complex ideas, such as how retirement savings might be faring in a crisis. So that begs the question, just how can schemes deploy communication to members during a worldwide pandemic?

Frequency

One key facet of establishing a strategy for member communication is working out just how often contact should be made. While there might be a temptation to inundate members with long strings of reassuring emails or letters, this might not be the wisest course of action.

Pensions Administration Standards Association (Pasa) chair, Kim Gubler, agrees, stating: "It's a fine line between enough and overload. If the scheme already has a communication plan in place and understands the needs of their members in 'normal' times, they'll be better prepared on how to message them now."

Pensions and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime savings, Lizzie Holliday, goes further when considering the logistics of communications, stating that schemes should seek to balance "the volume, channels and targeting of communications", particularly for savers who are facing pressure.

"We know some schemes are adding messages to out-of-office or automatic email responses, or providing additional information on scheme websites for those who want to know more. Some are adding additional prompts to interactive transaction functions and targeting specific messages around certain activities," she says.

Of course, communication with members is not simply a one-way street, as any situation where global markets drop by double figures could lead anxious savers to worry that their savings are not secure.

However, Holliday states: "The PLSA's own polling of our members showed that half of schemes have experienced no change in the number of incoming member queries and 15 per cent have actually experienced a fall in the typical number of queries.

"This suggests to us that most people have confidence that their pension is well-managed or they have more pressing short-term worries than their pension."

Even so, there remains the possibility that member queries could start to rise the longer the coronavirus crisis continues to drag on, especially if the economy shows further signs of struggling. Because of this, it's also a good idea for schemes to identify a strategy to deal with an increase in queries before this becomes a problem.

Equiniti CEO EQPaymaster, Duncan Watson, says: "To help keep call response times as low as we can, we've been encouraging non-urgent enquiries to go through email."

Transmission content

Perhaps the most important aspect of communication strategy at this time of crisis is what information needs to be passed on to members to reassure them.

Many schemes have already attempted to keep members cool, with 50 per cent of respondents to an Aon poll stating that they had reassured members and a further 21 per cent confirming that they planned to do so.

But Holliday explains that giving information to members can be "a double-edged sword" as being too keen can lead to handing over material that "isn't useful, or worse, prompts people to act in ways that are not in their long-term financial interest – such as switching investments and locking in losses."

Premier Pensions head of administration services, Girish Menezes, says: "Trustees need to consider scheme, demographic and psychographic specific member issues and the most appropriate communication. It should be constructive, reassuring and valuable, rather than creating concerns and queries where there are none."

According to Holliday, the key messages of reassurance that providers and schemes should be sending to members are "that pension savings are well protected by the Pension Protection Fund and the Financial Services Compensation Scheme, that their investments are well diversified to defend against these kind of shocks, and the best course of action for the vast majority of workplace pension savers is to stay the course".

She adds that schemes should also inform members nearing retirement if they are "protected by either secured income promises or lifestyling investment strategies".

However, Holliday explains that schemes "might need to communicate that it may be a good idea to delay or reduce the amount savers take out if they can afford to", adding that directing savers to the PLSA's Retirement Living Standards could be a useful measure.

DB and DC

There is also the issue that a scheme's approach might need to be different depending on whether it is a defined benefit (DB) scheme or a defined contribution (DC) scheme.

When it comes to DB schemes, Menezes, comments: "Many of our clients are sending out targeted communication to their members reassuring them about the security of the scheme and stability of the sponsor."

Gubler says: "Many DB members are deferred or pensioners, so they need to know their trustees are looking after the scheme, it can pay pensions, any benefits on retirement or death and any agreed transfer settlements. I don't believe they need to know the granular detail. It's about reassurance."

DC schemes are "a bit more complex, especially to members who are nearing retirement", says Menezes, adding that "trustees are still assessing the likely impact, prior to making a decision on the appropriate way forward".

He suggests that members of DC schemes might appreciate some level of "financial education or IFA support" in order to have a greater understanding of their pension pot.

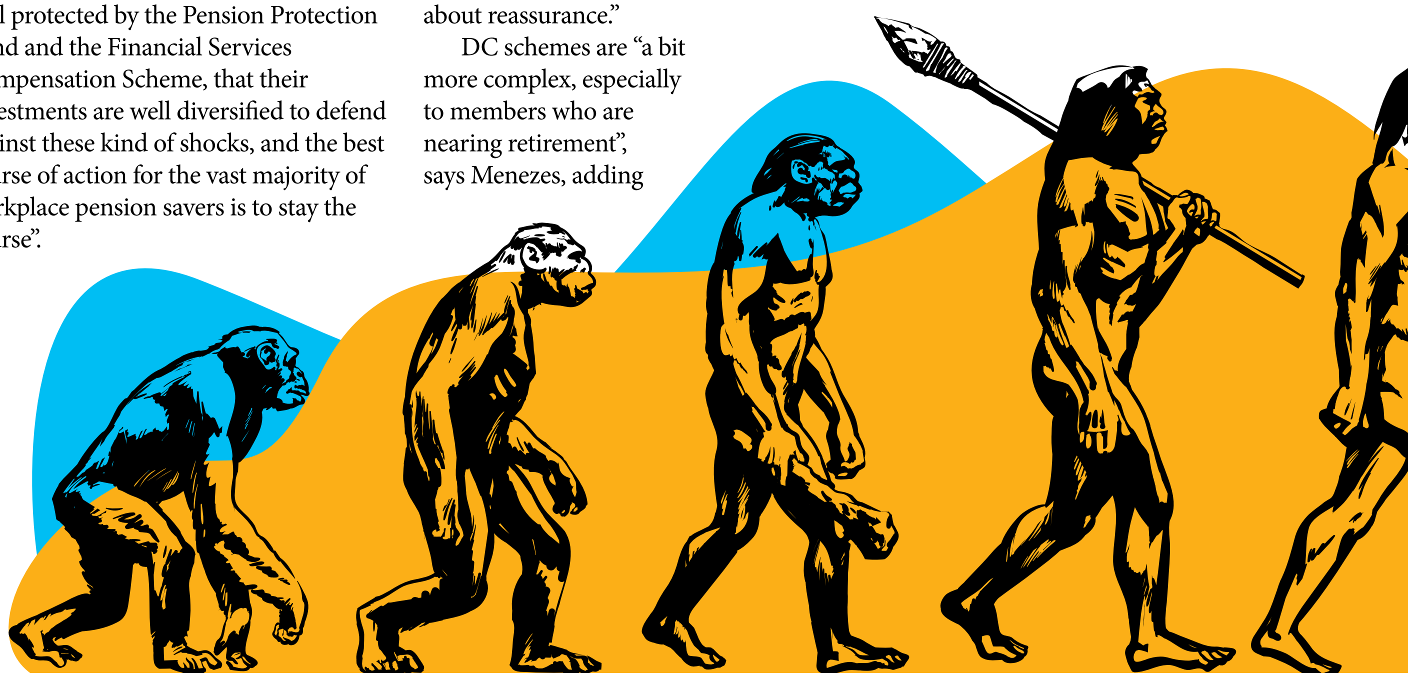
These savers might be distressed about their pensions amid struggles to keep up with contributions due to furlough or unemployment if they have a career in an industry that has been particularly affected by the coronavirus pandemic.

Gubler says: "Here is where segmentation can really help a scheme target its messaging, so people can feel it applies to them. So, if they're contributing, deferred or in drawdown, the message needs to be factual but, again, reassuring.

"The most important thing is not to act rashly and crystallise losses if they can help it – to keep calm and to understand the governance body is monitoring their investments."

Scams

While on the one hand frantic members could act rashly through unwisely crystallising their savings, they could also



be at risk of exploitation at the hands of those looking to pilfer their retirement savings.

The issue is a growing concern in the industry, with The Pensions Regulator being worried enough about scammers running rife during the coronavirus crisis to have instructed trustees to warn DB scheme members looking to transfer to DC schemes against doing so for the time being. Trustees have the chance to go further than this to protect their members through communication.

Gubler says: "Research has shown it doesn't matter what socio-economic classification they come under, sadly everyone is vulnerable to scammers. But pensioners who may be self-isolating are particularly at risk. If a scheme can insert a message on a payslip or website advising them to watch out for unsolicited calls, visits or emails that can help. But it needs to be done with tact."

She states that it is worth taking simple steps such as setting up "a scam awareness page or message on the website", or reminding members to watch out for "big promises or free reviews".

Holliday comments: "Messages should focus on what to look out for – such as illegal cold calls or promises of unrealistic returns or exotic sounding investments. Providers should explain how to spot a genuine communication from them and direct people to the FCA's Scam Smart tool if they are suspicious."

As well as engaging with members, Aon partner, Gary Cowler, states that it is a good idea for schemes to communicate with administrators to "refamiliarise themselves" with processes that might be in place to protect against scams in order to "stay ahead of the would-be fraudsters".

Format

As well as the frequency of messages and what details are included, the manner in which schemes choose to interact with their members during the coronavirus crisis is also a key consideration.

Watson says: "Simplicity and concentrating on the key messages to help people through these difficult times are crucial. The format of member communications should be clear, easy to understand and concise to avoid members wading through pages of complexities that may confuse rather than help."

Holliday agrees, stating that communications need to be "in plain English" and "easy to understand", while she also urges the avoidance of barraging members with "too many confusing messages at once".

The duo also concurs that these simple to understand messages should be accompanied by materials to help confused members receive information.

Holliday says: "It is also a good idea to encourage members to seek financial guidance or advice if they have questions or are unsure what to do and to point them to government services like The Pension Advisory Service and Pension Wise for more information. In short: reassure and signpost avenues for further information."

Watson argues: "All communications should include advice about how to contact the scheme or other sources of information and guidance, so that members don't feel that communication ends with generic mail-outs."

Gubler also points out that it's probably best to avoid using online means to contact pensioners who might not be "tech savvy", adding that "for non-pensioners, web is probably best".

The round up

While strategies might vary between DC and DB schemes, the overriding message remains the same. The purpose of communications in crisis situations is to ensure that members stop short of panicking and running right into a decision they could regret. While a number of different measures have been suggested, the key seems to be keeping in regular contact and using simple, concise language.

Worried savers need their schemes to offer an arm around the shoulder, rather than the chirping of tumbleweed or a daily face-full of confusing jargon. The wrong measures could send them hurtling into the arms of risky investments or scams that will rob them of their retirement income, so it is essential to consider communication strategies seriously.

It might be a challenging balance to strike, but, considering the 100,000-year period in which we have honed our communication skills, I'm sure we can work it out.

Written by Duncan Ferris

Meeting the challenges of this new world

The Environment Agency Pension Fund (EAPF) pensions administration manager, David Williams, tells *Pensions Age* how the fund is working hard to help its members through the current crisis

What is the current set-up of the Environment Agency Pension Fund (EAPF)?
The EAPF is part of the Local Government Pension Scheme (LGPS) and we have around £4 billion of assets and over 39,500 members across both our active and closed pension funds, providing pension benefits for employees and former employees of the Environment Agency, Natural Resources Wales and Shared Services Connected Limited. We have a 97 per cent participation rate in our fund, and a funding ratio of 103 per cent at our last valuation. The fund also participates in the Brunel Pension Partnership asset pool.

How long have you been in your role as pensions administration manager and what are your duties?
I have worked for the EAPF for seven years and have been in my current role for three. My current duties mainly cover the oversight and day-to-day operations of the administration and benefits of our members, and this includes member engagement and communications. The fund works with a third-party administrator, Capita, so much of my work covers a broad spectrum from reporting, managing projects to oversight of the day-to-day work in tandem with our administrators on GMPs, transfers, pension taxation, implementing new legislation as well as working on process changes and improvements.

We are all living and working in unprecedented times. What challenges have you faced in your role given the current environment and how have you worked to overcome them?
Initially my time was taken up with working through our contingencies, so prioritising payments to pensioners, death cases, retirements and implementing pensions increase (PI).

I also needed to work with our administrators on the impact to casework, so looking at resourcing in a number of scenarios and moving largely office-based staff to working from home, and then the telephony, scanning and indexing of post and all the required, supporting infrastructure.

It became quickly evident that our biggest challenge was how we could transact with members digitally. Much of the casework requires sight of original certificates and wet signatures.

The fund has made great strides over recent years in engaging with members electronically through the use of segmentation, targeted messaging and a member portal, but fully digital transactional services are a way off yet so this meant we needed to work hard with our administrators to overcome this by introducing electronic verification.

This has meant changing processes so that we can accept coloured images of forms and certificates from members' smartphones or tablets, and we've changed our forms so that they are PDFs with editable fields so members can return them to us in an email. We are using supporting software as part of proof of identity and evidence gathering.

We have also liaised with our employers to identify existing pipeline cases that we could work through the new process.

We are currently assessing the impact the pandemic will have on our fund employers' ability to provide timely pay data for our year-end work and the production and delivery of our annual benefit statements within the 31 August statutory deadline.

There could be potential delays for members retiring now with additional voluntary contributions (AVC). Some AVC providers may be delayed in providing fund values for estimates, and there could be a knock-on impact to the disinvestment of the fund – this can delay the payment of benefits to members from the main scheme so to overcome this we're paying 90 per cent of the lump sum on the day of retirement and are also looking at an exceptional hardship payment in some individual cases to help overcome (what we hope will be) short-term uncertainty and delays.

None of this would have happened without our contractor's hard work and support.

How have members of the EAPF reacted to the uncertainty and what has the EAPF done to assist and reassure its members through this challenging time?

It is still early days but, to date, we have mainly had contact from members who are at a key life stage wanting to establish the position on their respective case, particularly those approaching their retirement date.

We have kept all our members updated on how we are prioritising work and, if they need to get in touch, we are asking them to email in the first instance; but we are maintaining our telephony offering if needed.

In addition, we have provided instructions on how to complete forms electronically on our website, a FAQ, and a tailored *Bereavement Guide*, which has been adapted for the current pandemic. Our fund employers have supported this by linking to these pension resources through their own respective intranets.

We will be following up our initial communication with messaging around stockmarket volatility reminding members that the LGPS is a defined benefit pension scheme. We will also beef up our pension scammers messaging.

The timing of this will depend on several factors – member concerns/feedback, press coverage and when we feel we can update on our service levels confidently.

What would you like to see in terms of legislative or policy developments in the future to improve the pensions industry?

We see the EAPF as a flagship fund for responsible investment so anything that puts this front and centre is a good thing.

We are keen to get clarity on the impact of the McCloud/Sergeant judgment on the LGPS.

The recent Budget announcement on tapering was most welcome and supporting higher earners on pension taxation issues is becoming more and more challenging so this has helped.

Finally, we welcome The Pensions Regulator's clarification on valuations and regulatory easement.

Written by Francesca Fabrizi

A slower spin

Summary
• Due to the economic ramifications of the coronavirus pandemic, 45 per cent of UK companies have already cut or cancelled their dividend payments, with an estimated £25.4 billion of dividend cuts occurring this year.
• Pension funds that rely on dividends to fund cashflow needs are likely to suffer most from this suspension.
• Investors are encouraged not to be too concerned, as these dividend cuts are mainly a result of external factors, not due to weaknesses within the companies.

A significant number of companies have cut, suspended, or cancelled their dividend payments in response to the coronavirus pandemic. Laura Blows explores what this means for pension fund investors

If money makes the world go round, it is companies' dividend payments that do the spinning. These payments to equity holders have a significant role in generating wealth growth for pension funds, Isas and beyond.

Last year saw dividends paid by British companies hit an all-time high of £110 billion – an increase of 10.7 per cent on 2018, according to GraniteShares founder and CEO, Will Rhind. There will be no such highs this year; the economic impact of the coronavirus pandemic has made sure of that.

"Dividend payments have been cut across the globe as companies look to protect the strength of their balance sheets and provide some respite to negative cashflow issues," Redington senior vice president, manager research, Oliver Wayne, says.

Costs

According to Link Groups' *UK Dividend Monitor Q1 2020,* 45 per cent of UK companies have already scrapped payouts to shareholders, and ETF provider GraniteShares' review of dividend announcements from UK listed companies for the period 19 March to 20 April 2020 finds that 92 per cent involved cancelling or suspending payments.

Link predicts £25.4 billion of dividend cuts will definitely occur this year, equivalent to one third of the dividends Link had expected (before the crisis struck) UK plc to pay between April and December. It reckons that a further £23.9 billion in dividends are also at risk, but £31.1 billion are likely to be safe.

In a best-case scenario, Link expects dividends to fall 27 per cent to £71.9 billion in 2020, and in the worst scenario, to fall by 51 per cent to £48 billion. It places its 'realistic' upper bound at a 32 per cent fall to £67.3 billion, and realistic lower bound at 39 per cent to £60 billion.

Reasons

The reasons for suspending dividend payments or cancelling buybacks are varied. For instance, Link states that the biggest dividend cuts will come from banks, slashing by £13.6 billion. However, this is largely due to regulatory pressure. For example, following a letter from the Prudential Regulatory Authority (PRA), large UK banks have suspended dividends and share buybacks to the end of 2020 and cancelled any outstanding dividends from 2019.

Aviva's statement when announcing its decision to withdraw planned dividend payments bears this out. It said: "The board has taken this decision in the wake of the unprecedented challenges Covid-19 presents for businesses, households and customers, and the adverse and highly uncertain impact on the global economy. Regulatory authorities, including EIOPA, the PRA and supervisors of other Aviva subsidiaries, have responded by publicly urging restraint on dividend payments by insurers to shareholders. In light of the significant uncertainties presented by Covid-19, the board agrees with our regulators that it is prudent to suspend dividend payments at this time."

The Investment Association has also lent its weight, writing a letter on behalf of the UK's investment management industry to the chairs of all FTSE 350 companies.

"Dividends are an important income stream for many savers, pensioners and institutional investors, including pension funds and charities," the letter says. "Shareholders ask companies to take into account the suitability and sustainability of a dividend payment in light of current uncertainties. Shareholders expect companies who do decide to suspend dividend payments to restart them as soon as it is prudent to do so. Ultimately, shareholders expect companies to be transparent about their approach to dividends, particularly, if they are seeking additional capital."

Even companies deciding to continue paying dividends is not without controversy at this time. For instance, Tesco pledged to pay a £900 million total dividend, despite receiving £585 million in tax relief, generating criticism. Shell recently announced that it would still pay a dividend at 16c per share, from a previous level of 47c. This is a reduction in its divided for the first time since the Second World War, generating some concern from those adhering to the 'never sell Shell' adage.

The impact of Covid-19 on supermarkets' financial performance is yet to be played out, but other retail arms, such as high-street shops, along with travel and energy companies (due to oil price falls) are having to stop dividend payments in response to reduced revenues.

With many firms also postponing pension deficit recovery contributions *[see page 30]*, "they could hardly then pay dividends", Buck head of knowledge resource centre, Gary Crockford, says.

"Many companies are taking a defensive stance and while hoping for the best are preparing for the worst, and suspending payments such as dividends and deficit recovery contributions is part of the bigger picture of ensuring they have sufficient cashflow to weather the storm," he adds.

Past experience

However, this not the first time there's been a dividend storm. Crockford states that dividend cuts occurred following the global financial crisis (GFC) in 2008. "However, current dynamics are quite different to the GFC and we would not be surprised to see more cuts to dividends this time round," he warns.

"In sterling terms, aggregated broker estimates suggest that dividends paid out by FTSE All Share companies may fall 21.6 per cent year-on-year as a result of Covid-19 related dividend cuts," Stamford Associates head of manager research, Duncan Burden, says. "This compares to an approximate fall of 21.7 per cent between 2008 and 2009 as a result of the GFC."

Concern

So if we have (somewhat) been in this scenario before, just how concerned should pension fund investors really be?

For Crockford, the level of concern will depend on whether money is simply being retained within a strong business or if the dividends that would have been paid are lost as a result of the company ultimately folding.

"For pension schemes, the implications *[of dividends not being paid]* will be different depending on whether dividends are purely reinvested, or are used to meet scheme cash needs, such as paying pensions. In the latter case, cashflow contingency planning will be important to allay concerns," he adds.

Wayne agrees that funds with 'hard' yield requirements will be most materially impacted, as they are forced to search for income in an increasingly narrow range of companies.

Those pension schemes that rely on dividends for cashflow could simply be compensated for by selling down some of the equity holdings, Crockford suggests.

"However, even allowing for the recent rally in equity markets, the heightened volatility of the markets leaves us feeling nervous over using equity allocations as a source of funding. We would be looking to cover any shortfall in cashflow needs from low volatile assets that have seen limited drawdowns," he recommends.

Burden warns that some companies will have welcomed the opportunity to cut their dividend, having already been over-distributing from a position of balance sheet weakness before the advent of the Covid-19 crisis. In such instances, dividend suspension acts as a capital preservative and may position management to allocate capital more productively as the crisis relents.

"The challenge will be to distinguish true stock selection errors, where dividends were arguably already at risk, from those companies that have been a victim of improbable circumstance."

Despite this, investors with genuinely long-term horizons should not overestimate the significance of shorter-term cuts to dividends, Burden states.

"The cuts do not necessarily reflect lasting impacts on companies' business models," he says. "In several cases, dividend cuts or suspensions are anticipated to be transient, to allow companies to bridge a period of depressed earnings without overstretching their balance sheets. In this sense, we would not be surprised to see truly long-term investors, who seek fundamentally resilient, unleveraged businesses to look beyond dividend cuts in the near term."

His colleague, Stamford Associates senior investment consultant, Stuart Grant, agrees.

"Trustees should remember that the adoption of a carefully considered and robust investment strategy populated with talented investment management professionals should be able to weather the inevitable pitfalls that beset a long-term investment journey," he says. "If they have done this, they shouldn't be unduly concerned."

In fact, if the Covid-19 crisis is short and sharp, "we may look back on this moment as a historic buying opportunity", Link Group *UK Dividend Monitor* author and Global Corporate Markets CEO, Susan Ring, says.

It may have slowed down for now, but it seems dividend payments are expected to return to full speed once the threat of coronavirus diminishes and the world starts turning again.

Written by Laura Blows

Silver linings

Economic disruption is just one of the many consequences of the coronavirus pandemic, sparking fears of a major recession on the horizon. *Pensions Age* finds out where the best investment opportunities may lie within the credit and equity markets during this challenging time

Credit

Credit markets will be key. Spreads have reached attractive levels for both investment-grade credit and high-yield debt. However, the right pockets need to be identified to avoid further losses. Examples of attractive pockets lie in strategies that invest in rising stars and fallen angels, i.e. credit that can rise higher in the rating spectrum over time and USD-denominated Asian investment-grade credit. Another area is convertible bonds currently offering higher yield than straight credit for the same risk and higher returns akin to equities if markets recover.

Lombard Odier Investment Managers head of UK and Ireland institutional clients and solutions, Ritesh Bamania

Investment-grade credit yields, particularly in the US, look attractive. Central Bank buying of debt helps put a floor under investment-grade debt prices. We do not expect default rates in this area to rise in the same way they could in high-yield debt. As such, opportunities exist in active credit strategies that can participate in new issuance.

Catastrophe bond (insurance-linked securities) spreads are wide versus recent history and should be somewhat immune to Covid-19. They continue to offer a strong diversification effect in portfolios.

BMO Global Asset Management head of UK fiduciary solutions, David Hickey

Credit spreads across the board have increased, which isn't surprising given the unprecedented nature of the crisis and how it is being managed globally. There is a lot of uncertainty, which means more return is required to compensate investors. As long-term investors, pension schemes can take advantage of this based on their situation. We have already seen some pension scheme clients top-up their allocations to buy and maintain credit, as well as enquire about opportunities in areas such as the high yield and private loans markets. The range of these is a clear indication that each client has been impacted slightly differently.

AXA IM senior consultant solutions, Herschel Pant

We see selective value in investment-grade bonds at spreads 100-150bps wider on the year. Even shocking these for twice or three times the level of historical defaults, they can still provide an attractive income and the possibility of some capital gain via spread tightening.

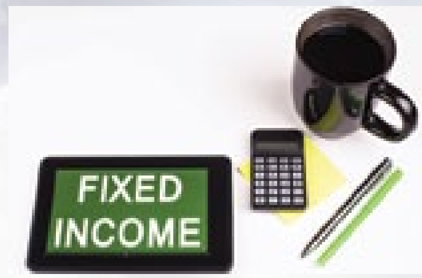
We are less convinced by sub-investment grade following the big rally, but again there are likely to be opportunities for those who take a very benchmark agnostic approach.

Asset-backed securities have lagged the broad-based rally in corporate credit. We think that higher-rated securities in this area look interesting, especially if it's possible to benefit from certain Fed initiatives to support this part of the market.

Redington CIO, global assets, Pete Drewienkiewicz

We currently view the global credit sector as splitting into three different buckets, all of which will present winners and losers, meaning that security selection will remain crucial.

Firstly, defensive businesses that have limited impact from the current



economic environment, but in an absolute sense are now priced attractively versus history because of the broad credit market selloff, such as utilities and telecoms. Cyclical businesses that, through second order impacts of the virus, are hurting, but we believe can weather the storm and will be survivors through strong balance sheet liquidity, eg pipelines and banks. And lastly, first order impacts from the virus containment measures where we have limited insight into the evolution of the lockdowns, and as such we continue to be cautious on, such as airlines and hospitality.

Insight Investment senior portfolio manager, Adam Whiteley

The most attractive asset class right now is high-quality credit assets (eg corporates, structured credit), which offer investors significant value supported by strong fundamentals and structural protections. Over the medium term, opportunities in real estate secondaries and distressed debt are likely to come to the fore as we have more clarity on the full impact of the crisis.

Isio partner, Nick Evans

Equities

Institutional investors may wish to play the short-term trading cycles, in which case we warn of better buying opportunities ahead as the markets start to differentiate more between the winners and losers at company, sector or country level. The next phase of this crisis should lead to more granular investment calls and differentiation of outcomes. Long-term valuations certainly do suggest equities have considerable value. The premium offered by risk assets over government bonds is attractive. However, a quality bias, for example in terms of balance sheet strength and ability to resist dividend cuts, makes sense in the next phase. In terms of styles, then given the very low bond yields, equity income from quality stocks is, and we suspect will become, more valuable.

Aberdeen Standard Investments head of multi-asset research, Richard Dunbar

When the world eventually recovers from the Covid-19 induced recession then equities will be a sensible asset class for investors seeking returns that exceed the yield on high-quality bonds.

A consequence of the Covid-19 crisis is that investors and will focus much more on important issues such as business resilience, in terms of supply chains and balance sheet strength; and management's ability to demonstrate strong leadership and culture during challenging conditions. This is likely to further push investors towards companies with strong sustainability characteristic, further strengthening a shift that was clearly occurring prior to this crisis.

We believe that there is a strong investment rationale for focusing on businesses with strong sustainability characteristics.

A company's 'strategic positioning' is strongly related to the sustainability of its products or services. Strong or poor

environmental, social and governance (ESG) practices are a good proxy for 'management effectiveness'.

Investing in such entities should have positive risk and return characteristics. From a return perspective investors should benefit from many of the sustainability-related shifts that are taking place globally. From a risk perspective this should reduce the likelihood that they suffer from unintended ESG-related events and risks.

Kames diversified growth fund co-manager, Colin Dryburgh

The natural response to this crisis is to panic and sell. However, we are actively allocating to, and recommend our clients invest in, low volatility equities – maintaining equity allocation close to target, while limiting downside risk.

We believe this approach gives the best risk/return trade-off over the medium term because equity markets can reverse direction very quickly, and being out of the market on big 'up' days can be more harmful than staying the course through volatility. At the same time, the arithmetic of drawdowns means that a 50 per cent drop needs a 100 per cent rebound to recover, whereas a 30 per cent drawdown is made whole through a 43 per cent bounce. Low volatility equities give some exposure to the up days, while limiting drawdowns on down days.

You can't have it both ways, so such a portfolio will naturally lag the market on the way up but should protect more on down days. To express this quantitatively, the portfolio's beta on up days might average 80 per cent, but 60 per cent on down. Given the arithmetic of drawdowns, it will 'win by not losing'.

Over the medium term, such portfolios have proven their ability to deliver close to market returns with lower than market volatility. We don't think we're out of the crisis yet, but over time a low-volatility approach will prove prudent but proactive.

State Street Global Advisors EMEA head of investment strategy and research, Altaf Kassam

A relatively quick 'V-shaped' recovery in an economy could see assets at the higher end of the risk spectrum, for example equities, perform relatively well. Longer-term return expectations for equities are attractive, as valuations across markets are currently depressed, but significant risks remain. During these uncertain times, cashflow becomes a critical component for any company. Higher-quality value stocks offer investors potential to rely on persistent financial strength and stability, providing the potential for outperformance. Furthermore, given the relative weakening of sterling versus major currencies, currency-hedged equities may also be favoured.

Quantum senior investment analyst, Stefano Carnevale

One particular asset class pensions schemes should explore is synthetic equity. Using synthetic equity has two key benefits for pension schemes today. It enables schemes to efficiently capture the potential upside from equity markets with explicit downside protection from near-term falls. Secondly the scheme can still hang onto their collateral assets, i.e. cash and gilt, to support liability hedging and short-term liquidity needs.

River and Mercantile Solutions co-head, Ajeet Manjrekar

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DC roundtable

PANEL

Andy Cheseldine, Professional Trustee, CCTL
Andy joined Capital Cranfield in 2017. Before joining Capital Cranfield, Andy acted as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pension arrangements and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013 and often speaks at industry events.

Huw Evans, Director, BESTrustees
Huw Evans joined BESTrustees in 2014 and represents the firm as trustee to nine pension schemes and chairs eight of these trustee bodies, three as sole trustee. His experience as a trustee includes guiding schemes to the closing stages of wind-up, the appointment of new suppliers, the implementation of LDI, fiduciary management and buy-in transactions as well as routine projects such as actuarial valuations. Huw holds the Pensions Management Institute's award in pensions trusteeship for both defined benefit and defined contribution pension schemes.

John Foster, Principal Consultant, Aon
John joined Aon's DC team in 2006, and has more than 35 years' experience advising employers and trustees on issues relating to the DC pensions market. John is working with some of Aon's largest occupational and contract-based DC clients on a range of projects, in addition to providing ongoing advice and support. He has extensive experience in the design, governance, investment strategy, member engagement, and ongoing management issues relating to DC schemes, and leads Aon's development of consulting services to DC employer and trustee clients.

Jerry Gandhi, Pensions Manager UK & Ireland, Schneider Electric and Trustee Director, 2020 Trustees
Jerry has been involved in the pensions industry for more than 40 years. In 1999 he established his own consultancy to provide support to businesses/pension schemes on a contract or consultancy basis. He is currently working on a contract (part-time) with Schneider Electric as the pensions manager for UK & Ireland. He joined 2020 Trustees in mid-2019, to transfer his operational, strategic and delivery skills to supporting boards.

Richard Parkin, Retirement and Pensions Consultant & Non-Executive Director, Financial Services Compensation Scheme
Richard is a self-described pensions and retirement geek with 30 years' experience in senior leadership roles across consulting, product development and policy. He set up his own consulting business in 2018 to work with firms and organisations on strategy, regulatory change and proposition development in the pensions and retirement space, having held a number of senior leadership positions at Fidelity International.

Matthew Swynnerton, Partner, DLA Piper
Matthew is a partner at global law firm DLA Piper. He advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation, and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the *Combatting Pension Scams Code of Practice,* which received widespread praise from TPR, the Pensions Ombudsman and Pensions Minister.

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DC roundtable

DC roundtable: Scaling new heights

Our panel of DC experts reflects on how the DC world has coped with the Covid-19 pandemic; how investment and administration challenges have been overcome; and what the industry can learn from all of this for the future

What is the current sentiment among DC pension schemes given the unprecedented situation we find ourselves in? Confusion, panic or are schemes generally approaching things in a pragmatic way?

Foster: Most schemes are responding to the situation in a balanced way and trustees and employers are working together to address the issues that are impacting on the employer, employees and scheme members in various ways simultaneously.

All involved, I think, realise that it is in everyone's interests to mutually agree a way forward to minimise the long-term impact of the current crisis.

At the same time, there is a real focus on the business continuity plans of scheme service providers and their response to the crisis in order for trustees and sponsors to identify and manage risks arising from the current situation.

Cheseldine: I agree – we are certainly not seeing confusion. The DC market, and pensions in general, has seen significant challenges in the past 20 years – two global market crashes, auto-enrolment (AE), low interest rates, enormous increases in retirement longevity and ever greater regulation – so we are used to dealing with curveballs. That doesn't mean we have all the answers, but there seems to be a great deal of pragmatism and sharing of ideas across the industry; a genuine feeling that we are in this together and that means that providers, advisers and trustees are sharing insights and solutions rather than seeking competitive advantage.

Evans: I also see no evidence of confusion or indeed panic and I have

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seen surprisingly few member queries. Schemes are working their way through the actions suggested by The Pensions Regulator (TPR) and advisers in a methodical way. In general, the only hiccoughs have arisen as a result of the suspension of various property funds.

What is the employer's view on this?
Gandhi: In my corporate role at Schneider I would comment that although many of the members are worried over the value reduction in their pension pots, for now the trend for any form of panic reactions have been limited and immediate actions to adjust investments few and far between. Efforts to communicate the need for calm have been positive, but this needs to be linked to a reminder to members to ensure what they invest in meets their needs. So far, it has been relatively 'quiet' on the member activity/enquiry front but, for many employees, the wider issues and impact on a personal front have been at the forefront. When business as usual (BAU) returns, there will be a need to step up the focus on members re-visiting their investment choices, so they are investing to balance the need between risk, return and security.

Job Retention Scheme (JRS)

What have been the regulatory implications of the JRS on DC schemes and the related issues arising?
Swynnerton: Where an employer has furloughed an employee, it can claim under the JRS the minimum AE employer pension contribution up to 3 per cent of qualifying earnings within the furlough pay. If an employer is paying more than the statutory minimum, the excess would not be funded by the JRS. Therefore, if the employer wished to continue paying a contribution in excess of the statutory minimum, it would need to fund it.

However, employers may be able to decrease their employer contributions to the statutory minimum during the furlough period so that only contributions that can be claimed under the JRS will be payable. In this case, the employer would need to consider the scheme's rules, employment contracts, trade union agreements and the relevant pensions legislation and TPR guidance. Ordinarily, legislation requires employers with at least 50 employees to consult with members for at least 60 days if they are looking to decrease employer contributions. However, TPR has issued guidance stating that, until 30 June, it will not initiate regulatory action in respect of a failure to consult if certain conditions are met.

What if an employer offers a salary sacrifice scheme?
Swynnerton: Well, that introduces a further layer of complexity. Reimbursements under the JRS are calculated on post-sacrifice salary, which means the reimbursements received for an employee who is part of a salary sacrifice arrangement may be less than that received for one who is not. Also, the employer would only be able to claim the minimum AE employer pension contribution under the JRS and would, therefore, remain liable to pay the further 5 per cent, which is usually paid by way of salary sacrifice, together with any other salary sacrifice benefits under the scheme.

Employees cannot normally leave salary sacrifice schemes unless there has been a life event. However, HMRC has confirmed that Covid-19 is a life event, which means employees can now switch out. As a result, employers may wish to consider whether it would be appropriate to cease their salary sacrifice arrangements and reduce their employer pension contributions to the statutory minimum. This however would require the employee to agree to pay the remaining 5 per cent employee contribution out of net furlough pay.

It is also worth bearing in mind that employers may be able to reduce pay and employer contribution rates outside the JRS provided certain requirements are met.

TPR guidance

Do we feel that the TPR's guidance has offered enough clarity on the implications of the Job Retention Scheme?
Foster: TPR has responded to questions that have arisen by clarifying some of the most common issues and, as mentioned above, is taking a pragmatic approach to the 60-day consultation that would normally be required for a 'listed change' for any reduction in employer

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contributions.

As Matthew *[Swynnerton]* also explained, HMRC has confirmed that opting out of salary sacrifice linked to the current crisis would be recognised as a 'life event', which has also been helpful due to the specific challenges of making the system fair between those having regular contributions deducted from pay and those through salary sacrifice.

Evans: Whilst I agree that TPR guidance has been helpful, I feel it has still been necessary to consult with advisers: i.e. TPR guidance has been fine at a high level but help has been required with the practicalities.

Cheseldine: I agree that TPR's guidance has been very helpful although, of course, as Huw *[Evans]* has highlighted, there will always be times when further queries arise. Remember that furloughing of staff is a completely new concept from a pension perspective. But the regulator has been quick to respond to major concerns.

There are bound to be future anomalies too – what happens if circumstances change, furloughed employees were due to go on maternity/paternity leave, interaction with long-term disability claims or with pension sharing arrangements? But these are mostly second level issues that are unlikely to be long-term concerns.

Gandhi: As Schneider is in an industry deemed 'critical', much of what they do continues, subject to the need for PPE and care in the environments they work. As such there is lesser impact for Schneider Electric from the government support in this area. It is, however, an evolving issue to be managed and to continue to support employees protect the good work they have done to save for retirement through what is undoubtedly a difficult financial scenario for many.

Contribution changes

Are company requests to reduce, delay or suspend contributions a common theme? What other trends are you seeing?

Foster: A large proportion of employers are taking advantage of the JRS to a greater or lesser extent. We are seeing quite a variation in the approach being taken by employers. This varies by sector, as does the number of employees potentially impacted. We are not, however, seeing a large number asking to suspend or delay contributions at this stage.

The approach to contributions for furloughed employees also varies. Some employers are topping up pay to pre-furlough levels and maintaining contributions at the full level, which means no change for employer or employee. Others are not topping up pay but they are maintaining pension contributions at the same percentage rate as before rather than reducing to the AE minimum. Others of course are looking to have a fully-funded situation reducing contributions to the statutory minimum. One complication of this is if it results in the employee paying a higher percentage than they were pre-furlough. The payroll complexities of changing pensionable pay calculations should also not be underestimated.

Evans: I agree that sponsors wanting to reduce, delay or suspend contributions while not unusual are probably in the minority. There seem to be two groups: sponsors who were already in some difficulty (eg high street retailers) and sponsors who were doing fine but have found their business models to be incompatible with lockdown.

Swynnerton: We have also not seen many requests to reduce, delay or suspend contributions in relation to DC schemes. Employers must continue to pay the contributions required under the scheme (irrespective of whether members are furloughed or working normally) at the correct time unless a member opts out of the scheme.

However, as I previously mentioned, employers who are paying more than the statutory minimum may be able to reduce their contributions provided certain requirements are met. It's also worth noting that the legal duty to report late contributions if they have remained unpaid has been extended to 150 days from the 90-day period pre-Covid-19.

In terms of other trends, we have seen some schemes reviewing their internal processes and those of their administrators to try to mitigate possible interruptions or delays to the death notification process given surviving dependants of a deceased member may not be able to produce a death certificate as quickly. Another trend is the preparation of Covid-19 specific risk registers covering, for example, sponsor, investor, member and benefit, actuarial, and compliance and governance risks.

Cheseldine: We also haven't seen many requests, particularly in stand-alone DC schemes; at least not yet. There has been some stopping of direct debits by employers in master trusts, but after follow-up calls, explaining flexibility and legal requirements, most have been reinstated. There may need to be flexibility in contribution timing where employers need to wait for government support payments to arrive.

It is too early to say what the medium-term effect will be on auto-enrolment levels – few employers are taking on new staff and those that are, typically are applying a postponement period. So, the numbers of members in auto-enrolment are naturally dropping as well as average contribution rates falling

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in line with reduced earnings.

Gandhi: From a trustee perspective it is not surprising that some employers will seek to retain as much cash as possible within the business to be able to support an orderly return to BAU. In this area I would argue that requests for deferral on DB schemes are more common but there has also been some desire to look at scaling back employer DC payments to a lower level at or above the AE minimum.

This is however fraught with legal and contractual issues. For many companies the reduction or deferral of some of the cost makes sense and for those companies that have, to date, been more generous in this area the desire to continue this into the future may be less desirable at least on a contractual basis.

But this is a constantly changing, very challenging environment for many businesses and trustees should be willing and able to work with the sponsor to ensure companies come out the other side as viable entities. This will ultimately benefit their members with continued employment and options to restore payments into DC schemes in the future.

Investment challenges

What are the investment challenges for DC schemes in the current situation and what can schemes do about them?

Parkin: The challenge for DC schemes is the same as that facing many investors. How do we protect against ongoing downside risk while making sure we are positioned to capitalise on the upswing as and when life starts getting back to normal?

DC schemes should be looking hard at their diversification approaches and asking whether the limited downside protection many have achieved has been worth the cost of the missed opportunity over the past decade. I'm not sure it has been for many schemes. In the aftermath of the financial crisis, many schemes chose to move to more diversified approaches, which meant members missed out on a lot of upside as markets recovered. Of course, one can argue diversified portfolios haven't fallen as much as equity markets overall but, in the context of their long-term performance, many have significantly underperformed. The diversified growth funds' promise of equity-like returns with lower volatility has simply not been delivered in a lot of cases.

Foster: Well the markets have certainly been extremely volatile and many members will have seen the value of their pension savings fall significantly since the beginning of March, though some of the initial dip has been recovered at the time of writing.

For members invested in lifestyle strategies of target date funds that are in the pre-retirement glidepath, this downturn has been lower as the result of the diversification inherent in that phase of the strategy.

One consequence is that equity levels have fallen below target weights relative to other assets, prompting a rebalancing (sale of other assets to buy equities).We do not see this as a bad thing, as equities are being bought at lower than previous peak prices.

Gandhi: I would argue that, if set up well from the outset, DC schemes should not have any need to take any immediate action with regard to the investment options available or the DC default fund on offer. The main challenge will be to ensure members understand how they are invested to suit their own personal circumstances. Clarity of what risks exist in each fund choice and how any "into" retirement glidepath works must be the focus of ongoing communications.

Cheseldine: There is nothing we can do about the 'gating' (that is the closure to redemptions) of property funds. That represents fund managers looking to be fair to all members while fund prices can only be estimated on an artificial basis. Trustees and insured pension providers are looking at allowing partial transfers or payments where necessary.

Trustees are also concerned about the risk of wider market closures, although that risk seems to have diminished since the extended break in Chinese market closures over their New Year in late January this year. We have been looking at 'Plan Bs and Cs' to see what options we have if individual markets are suspended. These plans cover what to do with new contributions (so as to ensure continued FSCS cover), and how to deal with priority claims (eg on death).

Evans: At this stage I would say that the main challenges are operational: eg getting documents signed. In the short-term it is easy to simply defer activities for which face-to-face meetings are desirable (eg beauty parades). We haven't seen an increase in member transactions but we are on the alert for scammers and fraudsters trying to take advantage of the changes we have made to accommodate providers' staff working from home working. Providers tell us that there has been an increase in cyber-attacks.

Swynnerton: Looking ahead, I believe that the current market turmoil could expose schemes to both short and long-term risks. Falls in fund values and the current financially challenging environment may encourage members to switch investments or opt out. As previously mentioned, members may also be more susceptible to scams promising better returns. Furthermore, if organisations fail to trade or longer-term business models are compromised, this could have further reaching impacts on value.

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Trustees should consider therefore whether a review of the scheme's investment strategy is required. The regulator has issued guidance that may be helpful for trustees to consider when discussing investment issues. There may be a limited ability to exit certain investments in times of market uncertainty and this may be something that trustees first want to check with their investment consultants.

Parkin: Market corrections can present very practical challenges to DC de-risking strategies. Default strategies that move members into less risky investments as retirement approaches may now be crystallising losses in equity markets and directing assets to highly valued bond markets. On top of this, some schemes will also be looking to implement investment pathways later this year for members accessing drawdown. Schemes will need to consider carefully whether these approaches are delivering the right outcomes for members.

Gandhi: Best outcomes for DC members come from careful planning for a suitable level of benefit at a pre-determined age with assets carefully risk managed as the time to draw benefits gets closer. Trustees must devote as much time on the planning for retirement as they do on deciding what investment options they offer. Less glamorous maybe but the old adage 'if you fail to plan, you plan to fail' is so relevant in these turbulent times when chasing high returns has been a pastime for many scheme members.

Administration

What has been the administration fallout from the virus? Have schemes struggled to make payments on time due to staff shortages/administrators having to work from home etc? Or has DC administration stepped up to the plate?

Foster: We have not yet seen any significant issues arising from administration having to adapt to homeworking. Shorter hours for helplines has been a typical response. Most have responded well to the requirement to post messages on member sites around impacts on investments and in particular where property funds have suspended trading in the current climate.

Fund platform administration has seen some challenges around the timeliness of price feeds from underlying managers impacting on the currency of pricing that members are seeing in some cases. This is less an issue with the platforms themselves, rather an issue of the increase in volatility that can make setting a price by a particular time in the trading day particularly difficult.

Cheseldine: I personally wouldn't necessarily say there have been no problems, but yes, administration teams have stepped up to the plate. I have been tremendously impressed with, and grateful to, administrators who have kept the work moving. Mostly working from home, they have still kept service standards up and answered helplines for those members with understandable concerns.

Gandhi: The fallout for all has been material in many differing ways however, as business continuity was part of the risk evaluation, most of the mainstream admin service providers have managed to continue to provide full services in all areas. Some slippage in SLAs during the initial period was expected but overall there does not appear to have been much of an impact to date. Members continue to be serviced as needed – the availability of a website for access has been a boon for those schemes who had this in place. For others I expect this will become an item higher up to the agenda as normal service is resumed. The important thing is to have a regular dialogue with one's provider to understand any operational issues they may face.

Evans: I think the providers have responded admirably, having implemented substantial changes to the way they work at short notice. As mentioned, most administration staff are now working from home and so are relying on a skeleton staff to deal with physical post etc. Most correspondence is now electronic, but this presents some challenges when in the past original documents would have been required.

There have also been some network capacity issues, particularly for telephony, but these seem to have been resolved and I am not aware of any schemes that have struggled to make payments. Most schemes are holding more cash in their bank accounts than usual as a safeguard against being unable to liquidate assets to make payments. Some project work has, quite naturally, been deferred. I have

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yet to observe providers suffering staff shortages because even staff who are self-isolating can do pensions admin work from home. However, we do recognise that despite the high number of excess deaths only a small part of the population has been ill with Covid-19 and so staff shortages may yet become a problem.

Swynnerton: We should remember that it's not just administrators that will be working from home. Remote working means that trustees are also having to contend with numerous logistical and legal issues in relation to remote execution and witnessing of documents, quorum and delegation.

Whilst many in-person meetings are now being held virtually online, there may be times when trustees are unable to attend even these due to illness or self-isolation. As a result, trustees should ensure they are familiar with the provisions in relation to quorum, delegation, chair and holding trustee meetings in the scheme rules/trustee company articles.

Trustees should consider how they are going to protect confidential information and be GDPR-compliant in circumstances where they are likely to be performing their trustee duties from home, in particular, use of personal emails/data storage and protection of any printed documents.

Evans: It would be interesting to know the extent to which trustees to have decided to accept electronic copies of, for example, marriage certificates but mean to obtain original documents once the restrictions have been lifted.

Similarly, it would be interesting to know whether trustees have decided in advance how their administrators should prioritise work in the event of staff shortages making it impossible to keep up: for example, deaths before retirements before transfers.

Communication

How can schemes best communicate/offer updates to their members on what is happening?

Swynnerton: Effective and regular communication with members is arguably more important than ever at this time. Members (especially those close to retirement) may be concerned that market volatility will have affected their fund values and appropriateness of lifestyle design, and may seek to transfer or, where possible, 'cash out' their benefits. Active members may also be concerned about the impact that changing work patterns could have on their benefits.

Trustees and employers may wish to pre-empt member concerns by issuing a communication highlighting the key aspects of their approach to maintaining business as usual during the outbreak and warning of the risks of pension scams and hasty transfer decisions. Consideration should also be given to bespoke communications for certain highly-impacted groups (such as those within a year of retirement).

Trustees should also consider liaising with their administrators to consider the most appropriate method of communication. Post may no longer be feasible given remote working and alternatives such as uploading information to a website might reach a target audience more effectively.

Trustees should also bear in mind their statutory disclosure obligations. This is particularly important given the number of member queries and requests for documents may increase during this time of uncertainty. This could lead to a capacity crunch at administrators, in-house pensions function or other scheme service providers affecting their ability to deal with these requests. Trustees

should liaise with their service providers to understand their contingency arrangements.

A regulatory easement introduced by the regulator provides some comfort: until 30 June 2020, the regulator has said it will adopt a more flexible approach to what it expects to be reported and when enforcement action would be appropriate.

Foster: Interestingly, many schemes have chosen not to send information out to members regarding the market correction and increased volatility, as they are concerned that this may promote concern and lead to members taking action without considering all of the key factors.

What we have seen most schemes doing is adding information to their member websites so that members who are engaging and seeking information can find some high-level messaging online about the impact this has had on fund values, but also that pension savings are for most a long-term investment, but for those closer to retirement this may have more of an impact on their plans.

Most schemes are stressing how important is for members to explore their options and to speak to a financial adviser before making any decision about changing their investment choices.

Parkin: Following on from that, I would re-iterate that the focus of communication has to be aimed at limiting members taking precipitate action as a result of the market falls. This is the first significant correction since pension freedoms was introduced so we now have to deal with the challenge that some may decide to cash in their pension in response to the crisis. Clear, directional messaging emphasising the long-term nature of pension investment is important. Messaging will need to be scheme-wide but also explicitly targeted at those making decisions on investment and ongoing membership. Of course, schemes will want to avoid giving advice, but it is essential that members understand the potential consequences of their actions.

Evans: In my experience, most communication has been relatively low key – just reassuring members that the trustees are actively managing the implications for their schemes of Covid-19 and, typically, explaining that most members are not fully exposed to the volatility in the equity markets. More detailed explanations are being sent to members who are invested in suspended property funds.

Gandhi: Where a web portal exists regular and timely information uploaded with e-mail pointers to staff is the ideal way forward. If that is not an option using traditional mail needs to be used economically – remembering the lead time involved. If messages are 'landing' that are out of date and conflict with the status of the environment on delivery it possible to do more harm than good. A helpline or dedicated support process may be a better option to stabilise the member concerns.

Cheseldine: Someone wise once said 'the biggest problem with communication is the illusion that it has happened'. Sending a letter or an email isn't communication if the message isn't read and understood.

In these circumstances the best way to communicate is frequently and by multiple channels. There is a lot of 'noise' and, while we don't want to add to it just for the sake of being able to say 'we communicated', we do want to get our important messages through, including the key points that markets have been volatile, but lifestyling is working: if you're young you get to buy cheap, if you're near retirement, fund values have been protected. Another key message would be don't disinvest at a market low if you don't have to. Also, now would be a good time to check members have completed an up-to-date expression of wish form. Finally, watch out for scams.

Foster: Just picking up on that point, as has been mentioned a number of times, we have seen a concerning increase in the targeting of pension savings by scammers, who are taking advantage of people who may find themselves either out of work or furloughed where access to pensions may seem attractive. Sponsors and trustees are keen to ensure that they are issuing messages to members to ensure they are aware of these risks.

What final comments would you give to DC schemes?

Gandhi: Pensions investing is for the long term and a narrower but more secure delivery of the desired outcome can only be achieved via long-term journey planning. Trustees and members need to focus more on objectives and the route to the end destination versus the current trend to focus on the wide range of investment options that many DC schemes seem to be provide.

Parkin: The circumstances of this crisis are unique but the investment and communication challenges they present for DC schemes are not. By its nature, DC does expose members to investment risk and they need to understand the consequences of this. Those schemes that have invested in ensuring members have a better understanding of how DC schemes function will be better placed to help members through these times. The importance of investment strategy in DC has, in some cases, been overlooked in recent years. I hope this will change and that we have a more balanced debate about what strategies are delivering and not just what they cost.

Evans: DC schemes whose sponsors usually pay all the expenses are particularly exposed to their sponsor running short of cash. I suggest trustees of such schemes plan for that eventuality as a matter of urgency.

Cheseldine: As providers and trustees, this is our shop window, an opportunity to show how seriously we take our commitment to safeguarding members' benefits and helping those members in difficult times. Members will remember how we deal with these events. Were we pro-active and helpful or did we just hide away and hope the problems would go away in time? I know which way I would prefer to be remembered.

Positive actions

Sophie Smith looks at some of the pensions organisations going above and beyond to assist those struggling in the fight against Covid-19

With the lockdown now expected to last well into the summer season, it's important to remember that there is good news, even in the midst of a pandemic.

Pensions organisations are not immune to the impact of the current crisis, with funding levels hit and administrators facing huge pressures, but that hasn't stopped some from going above and beyond to help in the fight against the Covid-19.

Whether it is supporting the brilliant carers and key workers who are on the front line every day, or going one step further to make sure that others simply feel safe and secure. This is an unprecedented time, but it's important to remember that help is out there.

Just Group – Helping key workers to weather the storm

Focusing their attentions on supporting key workers, Just Group has announced plans to support GPs and care advisers in the midst of the pandemic. The measures include removing the requirement for hard-copy written reports, combining information gathering with other providers, and suspending the need to obtain a full GP report before providing guaranteed quotes.

The group also called on providers to work together during this time, having already teamed up with Morgan Ash, who work with Legal & General.

Commenting on the initiative, Just Group group communications director, Stephen Lowe, says: "It is important that we do what we can to help the health professionals dealing with the full impact of coronavirus.

"We believe it is important for all providers to adapt their approach to ensure guaranteed quotations are available as quickly as possible. These steps will minimise the call being made on family doctors to supply information while still making sure customers can receive the reassurance that care fees will be covered for as long as necessary."

Mercer – Employers supporting employers

Mercer has launched a complimentary financial wellbeing resources hub to assist employers and their staff through the Covid-19 pandemic. The site provides practical information for employers to help their employees maintain financial wellbeing, with toolkits aimed at individuals and company resources alike. The site will be posting information around the evolving government and industry measures through videos, podcasts, and articles.

Mercer UK CEO, Sylvia Pozezanac, adds: "As an employer we can clearly see the impact Covid-19 is having on our own people and their families, and as a trusted adviser we see the impact on our clients and their people. Drawing on our own approach to financial wellbeing, as well as the personal experience and expertise of our colleagues across our business, we have created this hub of information to support and give back to our clients and their people."

Aviva – A global effort

Aviva has done a lot of work across its various businesses to support people in the current crisis around the world, ranging from free life insurance for medical workers in Wuhan, China, to extended motor, breakdown and home cover for NHS workers in the UK.

They have also made a £10 million increase to their funding with long-standing partners, the British Red Cross, while its Italian business has donated £100,000 to the Milan municipality.

Many Aviva staff are going above and beyond too, and the company is fully supporting this, backing colleagues who previously worked in healthcare if they want to volunteer with the NHS.

Aviva CEO, Maurice Tulloch, adds: "Our people live and work in the same neighbourhoods as our customers around the world. As our employees juggle with demands at home and at work, we are committed to helping them."

AJ Bell – Wage War

AJ Bell have launched a Wage War under the umbrella of the AJ Bell Trust, with all proceeds to be distributed to charities supporting the Covid-19 efforts or directly to those in need as a result of the virus. The trust has already kick-started the fund with £50,000.

Plus, AJ Bell CEO, Andy Bell, revealed that he, and other board directors and senior management, have already donated their April, May and June wages to this fund, with many more staff signalling their intent to donate part of their wages to the fund.

Bell says: "Anyone who wants to join me in waiving or donating part of their wages to charity in their fight against Covid-19 can join us on social media #wagewaronCOVID. The AJ Bell Wage War on Covid Fund is open to anyone who wants to make a donation and be assured that it is used to support a Covid-19 cause."

Secor Asset Management – Keeping it local

Secor Asset Management will be making donations of £1,000 on behalf of every employee in an effort to do their bit in the fight against Covid-19.

Staff have chosen to make the most of the initiative to help support their own local communities, with many choosing to support local relief initiatives, such as purchasing medical supplies and supporting local businesses.

Some have even partnered with local restaurants to deliver hot meals to hospital staff on the front line, supporting both small business and key workers.

In addition, Secor has also been donating equipment such as iPads, to allow those in hospital a crucial lifeline to their loved ones in their time of need.

Secor Asset Management managing partner, Tony Kao, comments: "This small gesture enables each and every one of our employees to help some of those most in need at a time when we all need to pull together."

MNOPF – A supporting voice for members

Meanwhile, the Merchant Navy Officer Pension Fund (MNOPF) has focused on going above and beyond to support their individual members during the pandemic.

The scheme will be running a series of webinar programmes to over 30,000 members and their close families, in association with Wellbeing People, to support them with issues around self-isolation, nutrition, and mental health during this difficult time.

Thirteen live webinars have been scheduled, with topics ranging from coping with social distancing to mental fitness, the scheme is going above and beyond to ensure that no member feels abandoned during this time. The programme is hoped to be a potential source of "continuous information and support" for members.

Hymans Robertson – A Hardship Fund for the charities on the frontline

Hymans Robertson has launched a charity Hardship Fund to meet the growing and urgent needs of the UK's most vulnerable communities and people. The fund opened to applications on 6 April, with the foundation meeting weekly to make funding decisions. The firm has again opened the initiative up to the industry, calling on other LLPs and professional services firms who may be interested in joining the initiative.

Commenting on the launch, Foundation chair, Clive Fortes, states: "We are living in unprecedented times, which has been particularly tough for the charity and voluntary sector.

"The Hardship Fund offers our existing partners access to additional funding and remote volunteering support to the most vulnerable in our community. I hope that other firms will join our initiative to make a positive impact in these uncertain times."

WEALTH at Work – Sharing the knowledge

WEALTH at Work has announced a new webcast to help employees' knowledge and understanding of their finances during these difficult times. The webcast was designed at a household level and covers a number of initiatives, ranging from what to do if your partner is self-employed to what impact being furloughed has on household finances. It will be supplied free of charge to all corporate clients to distribute to their employees.

Written by Sophie Smith

A sense of self

The self-employed may be struggling through particularly challenging times right now, but prior to the lockdown, the Pensions Minister, and others, felt more could be done to help the self-employed save for retirement. *Pensions Age* asks: What can the pensions industry and the government do to encourage retirement saving among the self-employed, while being sensitive to the extra financial hardship they may currently be experiencing?

For the self-employed, access to cash is extremely important so many are reluctant to lock away significant sums if they are restricted from accessing it for a long period of time. Coronavirus and the associated lockdown will surely only reaffirm this mentality, with many self-employed having to rely on their savings during this period when work may be more sporadic or have stopped altogether. This means it's likely that this cohort will favour shorter-term options such as Isas where cash is not locked away for a length of time and still has some tax benefits.

If the government is serious about supporting self-employed individuals to save into pensions then they need to make it easier for them to access part of their pension prior to 55 if needs be. One option could be for the government to enable a facility to leverage funds in the pension. Being able to automatically borrow against 25 per cent of the pension value or even just be able to draw down 25 per cent of the fund prior to turning 55 and offset this against the tax-free cash element in certain circumstances could be a significant incentive for the self-employed to actively save into pensions, as well as offering much needed piece of mind that there's a safety net there if required.

Moneyhub CEO, Samantha Seaton

Self-employed people are a diverse and growing population who are much less likely to be saving for retirement than traditionally-employed people. But, in our research, we have found that the majority would like to be saving more, and would welcome help to do so. Variability and uncertainty of income create particular barriers to retirement saving for self-employed people – and this will unfortunately be the case more so than ever in the context of Covid-19. There are lots of opportunities to do more to help self-employed people to build financial security for their later lives – for example providing simple ways to save regularly that are more flexible to changing income patterns, making it easier for people to keep saving into a pension when they move from employment to self-employment, or thinking about product design that could meet the need for greater liquidity in case of financial shocks alongside long-term saving.

Nest Insight director of research and innovation, Jo Phillips

The success of auto-enrolment has largely been due to an acknowledgement that the fundamental issue in pension saving in the UK centres on engagement. There's a real opportunity to take the learnings of auto-enrolment to inform how we best engage the self-employed, helping them build up their life savings for when they come to retire. Without regulatory intervention we believe the challenge of initial take up is unlikely to be addressed.

Standard Life head of UK propositions, Neil Hugh

The current Covid-19 situation is likely to put more pressure on the finances of self-employed as demand for work falls and the support from government isn't as generous as it is for employees.

Putting in place some form of automatic enrolment may be one way of trying to help. However self-employed people don't receive an employer's pension payment, which is one of the huge benefits of auto-enrolment – if an employed person saves 4 per cent of their salary, tax relief and the employer payment double that to 8 per cent. For a self-employed person the 4 per cent contribution only increases to 5 per cent, which is much less enticing.

There is no simple answer and we may have to think outside the box. Giving self-employed greater incentives to save in a pension, or allowing them to access their funds in certain circumstances to help their business, may be worth considering.

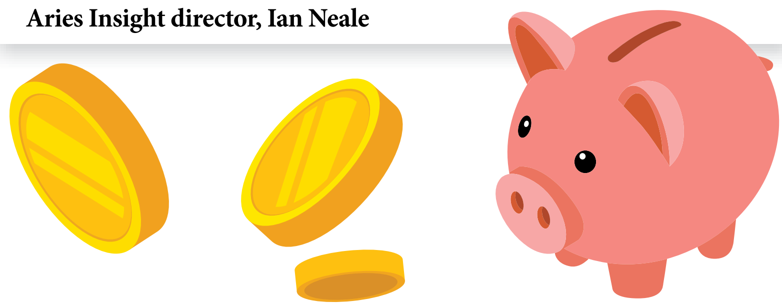
Canada Life technical director, Andrew Tully

I have always felt the key to successful saving is 'what you've never had, you don't miss'. It works very well for employees whose pension contributions are paid along with income tax and NICs before they receive their pay. The point at which the self-employed are required to pay tax of course arises via self-assessment, and alongside this they pay what is labelled 'Class 4 NICs' (but is of course a further tax). It is open to parliament to alter the thresholds and percentages such that money is paid at this point into a pension scheme.

This is not a novel suggestion but I've not seen any convincing argument against it. Compulsion of this kind, on the same level as the obligation to pay tax and NICs, cannot be avoided, although as with current minimum contributions under auto-enrolment, it would be merely a starting point.

The always-fuzzy distinction between employed and self-employed, which HMRC struggles to maintain, is becoming increasingly unstable. We need to agree, as a society, on providing for later life.

Aries Insight director, Ian Neale



The midst of the Covid-19 crisis might not seem an obvious time to focus on pension provision for those working in the gig economy, but this has been a long-term concern for many within the pensions industry. Two years ago, former Pensions Minister Steve Webb wrote in *Pensions Age* to record his disappointment to the government's response to the Taylor Review, and little progress has been made since then.

With a government now committed to provide stimulus funding to struggling employers, it is only fair to consider how the self-employed might also benefit. The government has an opportunity to incentivise the self-employed and perhaps a lump-sum pension contribution from HMRC might prove a constructive step. Guidance on finding a suitable registered scheme – perhaps involving Safe Harbour provisions – would make the selection of a scheme simpler and cheaper. Over the longer-term, collecting contributions via the National Insurance system (as suggested in the Taylor Review) would simplify the routine administration of a scheme.

Rebuilding the economy as the nation emerges from the current crisis will prove a major challenge. The government should not overlook the part that a growing number of self-employed workers will play. Ensuring that such workers have adequate pension coverage will be crucial and some creative thinking in government will be necessary to achieve a satisfactory outcome.

Pensions Management Institute head of technical, Tim Middleton

Pensions history

The docker's tanner

This month saw the 60th anniversary on 11 May of the Dock Workers (Pensions) Bill introduced by the then Minister of Labour, Edward Heath, to the House of Commons. It was designed to facilitate the introduction of a pension scheme for dock workers.

"I warmly welcome this scheme. It is a most important development in the process of improving the security and status of the dock worker, a process which has been going on since before the last war. Over 70,000 dock workers will have an option of joining the scheme, not only 'the men with a hook' but lightermen, crane drivers and clerks," he said.

There were about 1,100 employers involved with the scheme, which gave an indication of its size and also the complexity of reaching agreement about it.

He pointed out that it was a far cry from the introduction of this pension scheme to the London Dock Strike of 1889, which had involved dock workers from the port of London seeking improved terms and conditions. Most dock workers in those days were employed on a casual basis, which quite often only involved a few hours work being allocated. Having formed a union the dock workers main demand was an increase in pay to sixpence an hour, which became known as 'the docker's tanner'. The first register of dock workers was set up in Liverpool in 1912. By the time of the Second World War registers had been established on a voluntary basis by all the large ports. 1940 saw the statutory registration of dock workers and the introduction of a guaranteed wage.

The introduction of a pension scheme was a demonstration of the extent to which the work of the dock worker had become regular and assured.

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

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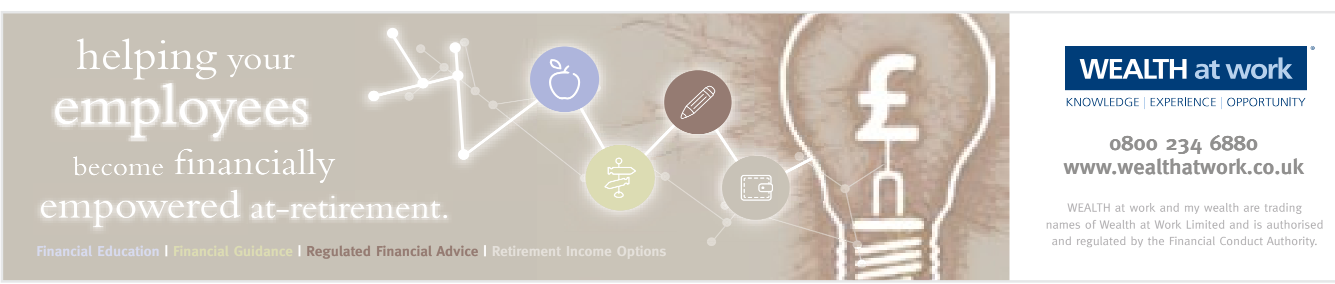

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