Regulation
The impact of The Pensions Regulator's proposed single code of practice

Climate change
How pension schemes can manage ever-increasing climate change investment requirements

Transfers
What the FCA's finalised guidance may mean for the future of DB transfers

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May 2021

PENSIONS Age

The leading pensions magazine

State pensions: *The UK's state pension provides the lowest average earnings replacement in the developed world, but is there a bigger picture to consider?*

The Pensions Ombudsman: *After 30 years in operation, what has been the ombudsman's impact on the industry?*

Driving forward

The recent Uber court ruling's impact on the gig economy's workplace pension saving

INSIDE: CDI Guide 2021

Editorial Comment

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

It seems like we've turned a corner. Touch wood, the government's roadmap out of lockdown is still going forward as planned, as the vaccination programme is hurtling ahead and more freedoms are regularly opening up to us. I certainly know I've enjoyed getting to sit in a pub garden with five friends again – the variable spring weather, and not just Boris, permitting, of course.

But what are the rules again? Six individuals can meet up outside, or two households – can the two households meeting total a group of any size, or do they have to add to no more than six as well? And do we still have to buy a substantial meal, such as a scotch egg, to drink at a pub, and is it all out by 10pm?

No, thank goodness, as delicious as scotch eggs are, these nuances from when we last had some 'freedom' were deemed to be too jumbled a message this time around.

It does get confusing when rules are adapted in a piecemeal approach, or added onto each other, layer upon layer.

It's the same issue that's been plaguing The Pensions Regulator. It has found that its 15 existing codes of practice "did not meet the current needs of schemes", with several codes out of date, difficult to navigate and duplicated between the codes and the regulator's guidance.

That is why, as our feature on page 40 explores, it is planning to blend all its 15 codes into one 'super code', providing all the information those managing pension schemes need in one succinct document (well, relatively succinct – the first draft of the code, combining 10 of the 15 codes, comes in at almost 150 pages).

"To meet the needs of schemes and their advisers, our codes of practice must be easier to access, understand, and act upon," the document states.

It is not just achieving this through the information contained within the code, but also with how the new code is accessed; the plan is for it to be web-based.

Just as how accessing information has long since shifted from predominately paper to web-based, so has the concept of reaching retirement changed. The old 'cliff edge' analogy of full-time work, straight into retirement has eroded to more of a gentle slope, gradually easing from work into retirement.

Long before they reach that incline, many are also seeing the ground shift beneath them with the way they work.

The growth of the so-called gig economy has been rapid, but the significant number of people with these types of jobs have been unable to access many rights typically enjoyed by the employed, such as saving into a workplace pension.

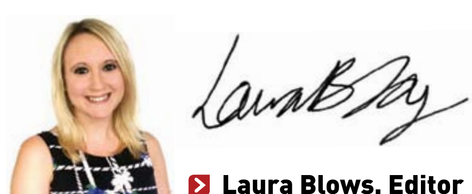
That may be about to change. Our cover feature on page 44 considers the impact of the recent Supreme Court ruling that ride-hailing app Uber's drivers were not self-employed and therefore have the right to be offered pensions, along with other workplace benefits.

So, Uber drivers who meet the auto-enrolment minimum earnings threshold of £10,000 per annum can now save into a pension through their work. But potentially not just Uber drivers. The ruling is likely to have a ripple effect across all those in the gig economy, rising up to affect the pensions sector too.

For there is a large swell of people previously locked out of workplace pension saving now able to do so. A whole new group of people who possibly have never saved into a pension before, and for us an opportunity to make a good 'first impression' through auto-enrolment.

The pensions sector must make the most of this chance while the ground is still settling from the court case to highlight to gig economy workers the importance of staying auto-enrolled, the benefits of putting away a little now for their later years.

You could say it's exciting times for both those employed in the gig economy and the pensions industry right now. Uber exciting in fact (sorry).



Laura Blows, Editor

COVER FEATURE

Theme: Playing by the rules

Highlighted features

PENSIONS AND LIFETIME SAVINGS ASSOCIATION — By agreement, Pensions Age is distributed free to all PLSA members as part of its package of member benefits

Pensions Management Institute — By agreement, Pensions Age is distributed free to The Pensions Management Institute (PMI) members as part of its package of member benefits

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Features & columns

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NEW circulation figures

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

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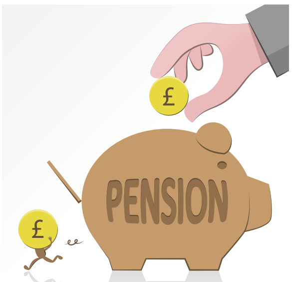
Dateline - April 2021

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



1 April The **Pensions Scams Industry Group** announces the publication of version 2.2 of its *Code of Good Practice on Combating Pension Scams*. The organisation says the updates to the latest version of the code reflect recent regulatory and legislative changes, as well as the evolving nature of pension scams, while further changes are made to improve usability.

1 April New statistics from the **Office for National Statistics (ONS)** on workplace pensions prompt calls for further action on minimum contribution levels and widening auto-enrolment. The ONS reveals that 86.4 per cent of people in full-time work are enrolled in a pension scheme, compared to 57.8 per cent of those in part-time work.

6 April The **Pension Protection Fund (PPF)** increases the 2021/22 fraud compensation levy on pension schemes to 75 pence per member, the maximum level allowed under current regulations. Compensation levy rates for master trusts are lower than that of traditional schemes, at 30 pence per member.

7 April The Pensions Regulator (TPR) sets out its plans to support trustees through upcoming changes in climate change-related regulations and outlines how it will enforce new requirements. Its newly-published *Climate Change Strategy* details what guidance it will be issuing to help trustees adjust, and reveals the regulator's aims and objectives for the role of pensions in the fight against climate change. TPR is aiming to create better retirement outcomes for savers by driving trustee action on the risks and opportunities from climate change, to influence debates around pensions and climate change, and to take part in the transition to net zero as a business. The strategy comes as a swath of new regulations around climate change relevant to pension schemes are coming into force, including climate risk reporting requirements and the government's *Green Finance Strategy*.

7 April Universities UK launches a consultation with participating employers of the Universities Superannuation Scheme (USS), proposing an alternative path to the 2020 USS valuation that it argues could help bring headline costs down. The consultation, which will run for seven weeks, seeks employer views on ways of creating a "valuable, affordable, inclusive and sustainable" scheme for the long term. The group has been working with its actuarial adviser, Aon, to explore a potential alternative path for the valuation that could help meet its broader objectives.

9 April Trustees of the **BT, Ford and Marks & Spencer** pension schemes are seeking a judicial review of the government's recent decision to align the Retail Prices Index (RPI) with the Consumer Prices Index including owner occupiers' housing costs (CPIH). The government previously confirmed its plans to align inflation measures as of February 2030 in November 2020, following an industry consultation. However, the trustees of the three schemes, representing £83bn of assets and nearly 450,000 members, argue that the "far-reaching implications" of the change have not been "fully considered". In particular, the consortium warns that over 10 million pensioners, "through no fault of their own", will be poorer in retirement as a result of smaller payments of lower transfer values.

13 April The combined surplus of UK defined benefit (DB) pension schemes in **the PPF** 7800 index is estimated to have more than doubled to £34.2bn in March. The surplus rises from its previous month's reading of £14.6bn as total assets increase from £1,740.2bn to £1,757.3bn and total liabilities decline from £1,725.6bn to £1,723.1bn. The schemes' funding ratio also increases from 100.8 per cent at the end of February 2021 to 102.0 per cent.

19 April The pensions industry issues a mixed response to the **Department for Work and Pensions' (DWP)** proposals for changes to the defined contribution (DC) charge cap, raising concerns that

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

they could prohibit access to value-enhancing markets. The consultation was launched in March and outlined proposed measures to allow occupational DC schemes to smooth performance fees within the charge cap over a longer period as part of an effort to encourage investment into a more diverse range of assets.

20 April UK DB pension schemes may need to top up historic transfers by an estimated £1.5bn due to guaranteed minimum pension (GMP) equalisation, analysis from **Buck** reveals. The group estimates that there are over 40,000 past transfers, representing a total of £40bn in transfer payments, which will need to be equalised.

21 April Savers lost £1.8m to pension fraud in the first three months of 2021, data from **Action Fraud** reveals. According to its figures, there has been an increase in reporting this year so far, with 107 reports of pension scams being received by the organisation in Q1. This represents an increase of nearly 45 per cent in comparison to the first three months of 2020.

22 April The **government** confirms that it will be consulting on the role advertising can play in enabling online pension scams later in 2021. Secretary of State for Digital, Culture, Media and Sport, Caroline Dinenage, says that her department is considering solutions to address the issue in "a cohesive and robust way". "The growth and scale of online pensions scams, and online fraud more broadly, is deeply concerning," Dinenage states. "The government is working tirelessly with industry, regulators and consumer groups to tackle fraud. We are also considering additional legislative and non-legislative solutions to effectively address the harms posed by all elements of online fraud."

22 April The government is urged to resolve the "apparent contradiction" surrounding the integration of sustainable investments into DC default funds in a report from the **Treasury Select Committee**, with increased reporting also suggested. The report, *Net zero and the future of green finance*, notes that there is a "high level of inertia" amongst DC savers, with most (96 per cent) members remaining in the default fund.

Editorial credit: chrisdorney / Shutterstock.com

27 April Chair's statements do not work as intended in achieving multiple policy goals as a single instrument, the **DWP** says. In a review of The Occupational Pension Schemes (Scheme Administration) Regulations 1996, the government notes that policy objectives are being achieved in relation to "the vast majority of provisions". However, policy objectives in relation to the chair's statement are not being achieved within the current approach, particularly as a single instrument trying to achieve multiple policy goals around governance and engagement.

28 April The PPF confirms changes to the actuarial assumptions used in section 143 and section 179 valuations following a consultation. The majority of the changes will be in line with the proposals set out in the PPF's consultation, with a slight amendment to the mortality assumptions for s143 valuations.

29 April TPR and **the PPF** publish a joint consultation on proposals to update the way asset information is collected from DB pension schemes. The consultation proposes taking a "proportionate approach" to the data collected, which aims to reflect that smaller schemes may have more limited resources and simpler investment strategies. TPR uses the information to help measure investment risk, while the PPF uses it to help calculate the PPF levy. A new tiered approach has been suggested, whereby TPR and the PPF will base the information they ask for on scheme size. Schemes will be able to 'trade up' tiers if they want to provide more information.

News focus

TPR outlines support for trustees on new regulations in *Climate Change Strategy*

The Pensions Regulator (TPR) has published its *Climate Change Strategy* to help scheme trustees navigate the incoming requirements on climate risk reporting

TPR has set out its plans to support trustees through upcoming changes in climate change-related regulations and how it will enforce new requirements.

Its newly published *Climate Change Strategy* outlines what guidance it will be issuing to help trustees adjust, and reveals the regulator's aims and objectives for the role of pensions in the fight against climate change.

TPR is aiming to create better retirement outcomes for savers by driving trustee action on the risks and opportunities from climate change, to influence debates around pensions and climate change, and to take part in the transition to net zero as a business.

The strategy comes as a swath of new regulations around climate change relevant to pension schemes are coming into force, including climate risk reporting requirements and the government's Green Finance Strategy.

Pensions Minister, Guy Opperman, welcomed TPR's strategy, stating: "By increasing oversight of climate change and giving it the weight it deserves they can provide better protection for pension savers from significant financial risk.

"In particular, I applaud the commitment to update the Trustee Toolkit, and to properly enforce compliance with the basics."

TPR said it expects schemes to publish their relevant statements and reports, and it will launch guidance on its approach to the new Taskforce on Climate-related Financial Disclosures (TCFD) requirements and take enforcement action against those not meeting their legal duties.

It also plans to use its communications to 'nudge' schemes to comply with legislation and use its guidance, and will work with the government, key stakeholders and other financial regulators to influence debate.

The regulator announced it will publish a climate adaptation report before COP26 in November, which will outline its plans towards using the recommendations of the TCFD, where applicable, as a framework for its own management of climate risk.

Furthermore, it has set a net-zero carbon emissions target of 2030 for itself and will set out its plans to achieve this by 2024.

For its regulatory approach, TPR said it will focus on four areas: Setting clear expectations, identifying risk early, driving compliance through supervision and enforcement, and working with others.

To set clear expectations, TPR said it will publish guidance on regulations outlined in the Pension Schemes Act 2021, share best practice TCFD reports, and set out a climate risk management plan for superfunds.

It will also update its modular code of practice to include modules on climate change and stewardship, and update the content on climate change in its Trustee Toolkit.

Commenting on the launch, TPR executive director of regulatory policy, analysis and advice, David Fairs, said: "Driving trustee action on the risks and opportunities from climate change will create better outcomes in later life for workplace savers.

"Our strategy outlines how we will help trustees comply with the new rules for larger schemes, but it signals work on climate change needs to happen right across the pensions landscape – climate change is a risk for schemes whatever the size or investment strategy. It is clear that all schemes need to build their capacity in this area if they haven't already.

"This should include devoting more board time to climate change, considering specific training, and, most importantly, integrating consideration of climate change right across decision-making.

"Building capacity means trustees will be better placed to understand what climate-related issues mean for their scheme – and better able to make decisions that contribute to good saver outcomes."

Later in the month, TPR and the Pension Protection Fund (PPF) published a joint consultation on proposals to update the way asset information is collected from defined benefit (DB) pension schemes.

The consultation proposes taking a "proportionate approach" to the data collected, which aims to reflect that smaller schemes may have more limited resources and simpler investment strategies.

TPR uses the information to help measure investment risk, while the PPF uses it to help calculate the PPF levy.

A new tiered approach has been suggested, whereby TPR and the PPF will base the information they ask for on scheme size.

Smaller schemes will be in tier one and "will only see minor changes", according to the consultation, while larger schemes will be placed in tier two, with TPR and the PPF asking these schemes to provide more 'granular' data.

Tier three will house the largest schemes, which will be asked to continue to carry out the bespoke stress calculation, as required under the PPF levy rules.

The boundary between tier one and tier two will be set at £20m, based on s179 liabilities, while the boundary between tier two and three will be set at £1.5bn.

Under the proposals, schemes will be able to 'trade up' tiers if they want to voluntarily provide more information.

"Our proposals are largely derived from the more granular set of asset categories used in the bespoke stress calculation for the PPF levy," the consultation stated.

"Therefore, this will be familiar to the one in seven schemes that currently submit this information for levy purposes – and the advisers and investment managers who support them."

TPR and the PPF said that the changes have been proposed due to the increased scheme allocation to bonds over the past 10 years, which means it is "increasingly important" to be able to assess the investment risks within schemes' bond allocations by maturity, credit quality and currency, rather than simply to distinguish them from growth assets, such as equities.

Furthermore, the consultation noted there had been a change within growth assets, with schemes moving away from traditional equities and increasing their use of diversified growth funds, particularly among smaller schemes.

TPR added that a "key component" of its approach to best practice in scheme management is that the amount of investment risk taken should reflect the maturity of the scheme's obligations and strength of the employer covenant, and it wanted schemes to have a clearer picture of their investment risk in preparation for new DB funding requirements.

The PPF also has an interest in better assessment of investment risk for the charging of a risk-reflective levy.

The consultation will run for six weeks and will close on 10 June 2021.

In other news, the pension industry has again called for further clarity from TPR regarding its new criminal sanction powers, arguing that the policy will create "very problematic consequences".

The reaction comes on the final day of the regulator's consultation on its draft policy outlining how it will use its new criminal sanction powers introduced by the Pension Schemes Act 2021, which commenced in March and has already seen other corners of the industry complain that it could criminalise "normal corporate behaviour".

Similarly, those reacting to the policy now largely stated that they supported the principles behind it but had issues with the broad scope and vagueness indicated.

PLSA director of policy and advocacy, Nigel Peaple, commented: "While the PLSA is supportive of the underlying objectives of the criminal sanctions regime we believe that the current wording of the policy intent is still too vague and will create very problematic consequences for the pensions community.

"We continue to be concerned that these criminal offences powers will not enable TPR to take timely and meaningful action but will impede normal corporate behaviours and transactions. We are calling on TPR to review and adopt some or all of the principles used by the Financial Conduct Authority in their approach to prosecution of criminal cases."

Written by Duncan Ferris and Jack Gray

UUK launches consultation on alternative route to USS valuation

Universities UK (UUK) has published a consultation for Universities Superannuation Scheme (USS) employers, seeking views on an alternative route to the 2020 valuation to try and make it more affordable and sustainable. Included in the proposals were changes to the defined benefit (DB) element to the scheme, which have prompted a negative reaction from the University and College Union (UCU)

UUK has launched a consultation with participating employers of the USS, proposing an alternative path to the 2020 USS valuation which it has argued could help bring headline costs down.

The consultation, which will run for seven weeks, will seek employer views on ways of creating a "valuable, affordable, inclusive and sustainable" scheme for the long term.

The group has been working with its actuarial adviser, Aon, to explore a potential alternative path for the valuation, which could help meet its broader objectives.

These include an aim to maintain a DB element of the scheme and "affordable" contribution levels for both members and employers, as well as a reduction in the number of people being "priced out" of the scheme, and the inclusion of "fair" valuation assumptions.

As part of this effort, employers will be asked if they can offer additional financial backing, or covenant support, to lessen the rise in contributions.

UUK president, Professor Julia Buckingham, argued that this potential increased support, alongside other reforms, could enable a "significant DB element" to be preserved at current contribution levels.

Further proposals included decreasing the salary cap for the scheme from £60,000 a year to £40,000 a year, capping indexation at 2.5 per cent a year, and reducing the rate members' pensions accrue from 1/75th of salary to 1/85th of salary.

The consultation will also explore whether employers would support the introduction of a new, short-term flexible option for the "growing number" of early career staff who are currently priced out of the scheme.

This option would see lower earners save in a "flexible" defined contribution (DC) scheme, in which they would be able to contribute 4 per cent of salary.

She argued that the proposed optional lower cost flexible DC pension could be introduced to help people at different stages of their lives, to ensure they still benefit from "valuable" employer contributions.

The consultation will also ask employers to share concerns on governance, and to suggest areas for consideration in a post valuation governance review.

In addition to this, UUK has confirmed that it will continue to press the trustee to review valuation assumptions, despite the USS's recent rejection of a review of the valuation approach.

Instead of a review, the USS trustee suggested that "the most productive way forward" would be working with UUK on developing alternative packages, highlighting UUK's newly-launched consultation as a key part of this.

However, UCU has called on its members to prepare for more industrial action in response to the consultation.

The union said the changes being consulted on were very similar to measures proposed by employers and then rejected by USS scheme members during 2018 industrial action.

Specifically, they highlighted concerns around the decreasing of the DB salary cap, capping indexation at 2.5 per cent a year, and reducing the rate members' pensions accrue.

To demonstrate how the proposed changes might affect scheme members, UCU explained that it will launch a modelling tool in the coming weeks, which will show USS savers how their benefits will be affected by the changes.

Written by Sophie Smith and Duncan Ferris

Chair's statement 'does not work' as single instrument for multiple policy goals

In a review of The Occupational Pension Schemes (Scheme Administration) Regulations 1996, the government has conceded that chair's statements do not work as intended in achieving multiple policy goals as a single instrument. The review also found that the statement was not working as a document intended for multiple audiences, and encouraged the government and regulators to provide clarity to the industry

Chair's statements do not work as intended in achieving multiple policy goals as a single instrument, the Department for Work and Pensions (DWP) has said.

In a review of The Occupational Pension Schemes (Scheme Administration) Regulations 1996, the government noted that policy objectives were being achieved in relation to "the vast majority of provisions".

However, policy objectives in relation to the chair's statement were not being achieved within the current approach, particularly as a single instrument trying to achieve multiple policy goals around governance and engagement.

It also noted that the statement was not working as a document intended for multiple audiences.

The review called for the statements to be re-focused to deliver their intended goals, suggesting that the government and The Pensions Regulator (TPR) consider the intended audience and provide clarity to the pensions industry "to remove collective confusion and ambiguity".

Once the intended audience has been clarified, the report stated that further work was required between the DWP, TPR and the industry to ensure that common content is agreed upon to address the statement's issue of being too long, complex and costly.

"This would enable the chair's statement to be shorter and more focused than the way it is implemented under current requirements," the government said.

"An area to explore is the balance between whether this should be in a single document which members have sight of or whether there is a need to divide the requirements into different documents."

The report also noted that some contributors felt that completing chair's statements was a tick-box exercise, which it said could be an unintended consequence of legislation leading to a rigid interpretation of TPR's focus on compliance due to the mandatory nature of the penalty.

Although it was not within the scope of the review, the report suggested that consideration should be given to the legislative requirement for TPR to issue mandatory fines in relation to chair's statements.

Written by Jack Gray

VIEW FROM TPR

Being a victim can be isolating. Victims have said that isolation, and a sense of shame, stopped them seeking help or reporting a crime. This should never be the case. Our corporate strategy is clear that pension savers are at the heart of everything we do.

We will help enhance the quality of savers' retirement outcomes, protect the pots they have built and support them when things go wrong. The new Victims' Code, which came into force on 1 April, focuses on victims' rights and sets minimum standards organisations involved in prosecuting crimes, such as TPR, must meet.

Victims can expect to be treated in a respectful, sensitive, and professional way.

If someone believes they've suffered a loss through a pension-related crime, they should call our whistleblowing line 0345 600 7060 or email wb@tpr.gov.uk. For legal reasons, we may not always be able to give feedback on an assessment or investigation's outcome to avoid jeopardising a potential prosecution. But, if a case goes to court, and a victim is asked to give evidence, TPR will support them, explaining:

- the investigation and prosecution process
- how it may affect them
- what to expect from us

We will give as much notice of dates as reasonably possible to allow for preparation. Giving evidence can be stressful and for vulnerable witnesses we can take measures so they can give their best evidence. Find out more about the support we offer if the worst happens on TPR's website.

TPR executive director of frontline regulation, Nicola Parish

The Pensions Regulator
Making workplace pensions work

VIEW FROM AMNT

I have often written about the 'social contract' in my articles referring to the implied contract between the government and the people. This 'agreement' has been placed into sharp focus by the restrictions due to Covid-19 and the introduction of a criminal public order bill covering the right to protest.

In the main, people have accepted, albeit temporarily, restrictions imposed on their lives by the government due to the pandemic. However, with these impositions come great responsibility to ensure such restrictions are fair; otherwise the trust of the people is lost and the contract broken.

Pension trustees bear a similar responsibility, as the foundation of a trustee's work is built on trust supported by a legal framework.

The implicit nature of that trust is under scrutiny, specifically around ESG factors in investment decision-making. The Pensions Minister has recently launched a call for evidence to seek views on trustees' approach to social factors and to understand whether the government needs to do anything to ensure trustees are better able to meet their legal obligations.

Trustees have to adjust to the growing concern from their members that their monies are not only being invested wisely but also in an environmental and social manner in tune with members' interests. The AMNT, with its Red Line Voting initiative, is at the forefront of helping MNTs to retain that trust.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

£1.8m lost to pension scams in Q1 2021

Figures from Action Fraud have revealed that pension savers lost £1.8m to scams in the first three months of 2021, with the organisation launching a national awareness campaign to try and address the issue. The proliferation of pension fraud has led to calls from across the pensions industry for the government to include financial harms in the upcoming Online Safety Bill

Savers lost £1.8m to pension fraud in the first three months of 2021, data from Action Fraud has revealed.

According to its figures, there has been an increase in reporting this year so far, with 107 reports of pension scams being received by the organisation in Q1.

This represents an increase of nearly 45 per cent in comparison to the first three months of 2020.

Prior to this year, Action Fraud had observed a steady decline in pension scam reports, from 1,788 in 2014 to 358 in 2020.

Action Fraud has now launched a national awareness campaign, encouraging savers to remain vigilant and do research before making changes to pension arrangements.

"Criminals are malicious and unapologetic when it comes to committing pension fraud," stated Action Fraud head, Pauline Smith.

"They are motivated by their own financial gain and lack any kind of empathy for their victims, who can often lose their whole life savings.

"It's incredibly important that instances of pension fraud, and attempted scams, are reported to Action Fraud. Every report helps police get that bit closer to the people committing these awful crimes."

The Pensions Regulator (TPR) executive director of frontline regulation, Nicola Parish, said that pension

scams were "devastating", with victims potentially losing "life-changing" amounts of money.

She urged savers to visit The Pensions Advisory Service before making decisions about their pensions and called on the industry to sign up to TPR's Pledge to Combat Pension Scams.

Meanwhile, Quilter has written to Prime Minister, Boris Johnson, and Minister for Digital and Culture, Caroline Dinenage, calling on the government to include scams and other financial harms in the upcoming Online Safety Bill.

In the letter, Quilter CEO, Paul Feeney, stated that failing to include scams in the new legislation, which is due to be introduced to parliament later this year, risked missing a "crucial" opportunity to take action against online scams.

Although it has not said financial harms will be included in the bill, the government has confirmed that it will be consulting on the role advertising can play in enabling online pension scams later in 2021.

Written by Jack Gray

PPF pushes ahead with actuarial assumption changes

The Pension Protection Fund (PPF) has confirmed it will be enacting proposals outlined in its consultation on making changes to the actuarial assumptions used in section 143 and section 179 valuations. Earlier in the month, the pensions lifeboat increased the fraud compensation levy to the maximum level allowed under current regulations

The PPF has confirmed changes to the actuarial assumptions used in section 143 and section 179 valuations following a consultation.

The majority of the changes will be in line with the proposals set out in the PPF's consultation, which received 13 responses and was open from 4 February to 18 March, with a slight amendment to the mortality assumptions for s143 valuations.

The primary objectives of the initial proposals included intentions to adopt the S3 mortality series and S3 tables for mortality assumptions, amending the components of the post-retirement post-97 discount rates to better reflect current consumer price index pricing, and changing the formula for calculating wind-up expenses resulting in a cap at £3m.

Due to concerns raised in the responses, the PPF said it had decided to amend the mortality assumptions for the s143 valuations to better reflect the original construction of the S3 tables, opting to use light tables for all males with pensions above £22,500 and females with pensions higher than £9,000.

The PPF said this change would "only impact schemes with very high earners and these schemes can request bespoke scheme specific mortality assumptions if necessary".

The pensions lifeboat has increased the 2021/22 fraud compensation levy on pension schemes to 75 pence per member, the maximum level allowed under current regulations.

Compensation levy rates for master trusts are lower than that of traditional schemes, at 30 pence per member.

The pensions lifeboat that there was "no other option" to increasing the levy, following the November court ruling that clarified that occupational pension schemes set up as part of a scam were eligible to claim on the Fraud Compensation Fund (FCF).

Although the PPF said that the ruling was "excellent news" for victims of these scams, it has now received fraud compensation claims totalling over £40m and expects to receive more claims from schemes that are eligible.

The PPF's *2019/20 Annual Report and Accounts* showed that the FCF had assets of £21.5m.

With the claims already nearly double the value of the FCF's total assets, the PPF said it needed to increase the levy to raise the additional funding required.

Written by Duncan Ferris

VIEW FROM THE PLSA

While automatic enrolment has been a resounding success, helping more than 10 million new people saving towards their pension; contributions at the minimum rate of 8 per cent of band earnings are unlikely to provide most people with the level of retirement income they expect.

This is one of reasons the PLSA has campaigned for many years for minimum pension contributions to be increased to 12 per cent, with half of the contribution coming from the employer. That's, in part, where the industry-standard Pension Quality Mark (PQM) comes to the fore. Currently, around 125 pension schemes hold either PQM or PQM Plus, with over 650,000 employees actively saving in these schemes.

The PQM Standards recognise employers – such as BMW, Heineken, Manchester United, Nationwide and UK Power Networks – that are committed to supporting employees to save for retirement by providing pension contributions above the minimum automatic enrolment contributions required by regulation.

To meet the PQM Standards, an employer must commit to offer all employees a contribution of 12 per cent (with at least 6 per cent from the employer). In addition, schemes must be well-run, understand their members and act in the best interests of those members.

PQM highlights those schemes that are really pushing to boost contributions and help savers achieve a good level of income in retirement and encourages others to join them.

PLSA deputy director policy, Joe Dabrowski

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

VIEW FROM THE PMI

One of the many reforms introduced by the Pension Schemes Act 2021 (PSA 2021) was provision for the establishment of the UK's first collective defined contribution (CDC) scheme.

Such schemes form a pivotal role in retirement provision in the Netherlands and Denmark – two countries that regularly occupy the highest positions in the Mercer CFA Institute index of the world's major pension systems. The potential for revolutionary change in the UK would appear to be compelling.

PSA 2021 will only allow CDC schemes to be established as single employer trusts within the private sector. This would confine their use to large employers such as the Royal Mail – the organisation whose industrial dispute over pensions provision was resolved by a commitment to establish a CDC scheme. However, it is intriguing to consider how CDC might evolve over time. The design could easily be adopted to suit the multi-employer model, and could ultimately be considered as an alternative for some of the larger funded public-sector schemes. However, perhaps its most attractive potential lies in the master trust sector, where the absence of a need for decumulation would allow automatic enrolment to operate through a system of defaults at all stages of the membership journey.

Whilst CDC has its detractors – and it would be unwise to consider CDC to be a panacea until it has been extensively tested in the UK – it remains an exciting alternative to existing systems of pension scheme. We are perhaps at the beginning of an exciting new phase in workplace pension provision.

PMI head of policy, Tim Middleton

Pension schemes seeking RPI/CPIH judicial review

Trustees from three large pension schemes are seeking a judicial review of the government's decision to align the Retail Prices Index (RPI) with the Consumer Prices Index including owner occupiers' housing costs (CPIH) from February 2030. They argued that over 10 million pensioners would end up worse off in retirement through no fault of their own and that the implications of the change have not been fully considered

Trustees of the BT, Ford and Marks & Spencer pension schemes are seeking a judicial review of the government's recent decision to align RPI with CPIH.

The government previously confirmed its plans to align inflation measures as of February 2030 in November 2020, following an industry consultation.

However, the trustees of the three schemes, representing £83bn of assets and nearly 450,000 members, have argued that the "far-reaching implications" of the change have not been "fully considered".

In particular, the consortium highlighted Insight Investment's estimation that over 10 million pensioners, "through no fault of their own", will be poorer in retirement as a result of lower payments of lower transfer values in light of the change, with women suffering the most as a result of the change as they typically live longer.

The trustees have also warned that the reform "significantly reduces" the value of RPI-linked assets held to meet pension promises to members, in turn weakening schemes' funding positions and placing further pressure on sponsoring employees of these schemes.

The group emphasised that whilst the decision to pursue action was not taken lightly, the trustees believe that a judicial review is "necessary" to protect scheme members and scheme assets from the "detrimental effects" of the decision.

The companies had been considering a judicial review since the plans were announced in November 2020.

However, due to the complex nature of the case, the government needed time to prepare its defence and therefore asked the scheme trustees to request a six-week extension before bringing any claim for a judicial review. This was subsequently granted, with the consortium now confirming its intent to pursue action.

Industry experts had also raised concerns over the change prior to this, however, with research suggesting that the reforms could cost savers and investors up to £122bn, and a number of unions also issuing a joint statement to urge the government not to scrap RPI.

A HM Treasury spokesperson commented: "As this matter is now before the courts it would not be appropriate to comment."

Written by Sophie Smith

Appointments, moves and mandates


Sarah Smart

Sarah Smart has been appointed non-executive chair of The Pensions Regulator (TPR).
Smart is an experienced non-executive director and independent trustee, as well as a qualified accountant. She is also TPR Audit Committee's chair and senior independent director, and is an independent member of the Unilever Pension Scheme Investment and Funding Committee. Prior to her appointment, Smart faced a hearing with the Work and Pensions Committee (WPC), which concluded that she had the personal independence for the role, after concerns over a potential conflict of interest arising from her husband's role as British Airways chief executive were assuaged by the assertion that he was planning to leave this role by 2021. WPC chair, Stephen Timms, said: "We wish Mrs Smart every success in her new position and look forward to working with her. We are satisfied with the steps that she is taking to guard against any potential conflicts of interest and we also welcome her commitment to urgently improving transparency at TPR."


Rob Barker

Aviva has named Rob Barker as managing director, UK savings and retirement, with immediate effect.
Barker, who previously served as managing director of Aviva's Health and Protection business, will report to Aviva UK and Ireland Life chief executive, Doug Brown. He has also previously held senior roles at Regent Insurance, Standard Bank Group and Hollard Insurance.


Philip Pearson

Hymans Robertson has named Philip Pearson as head of LGPS investment.
Pearson, a senior investment consultant, brings almost 25 years' experience to the role, and initially joined Hymans Robertson in 2020. Prior to this, he was AgFe head of asset management, having previously been Aviva Investors head of alternative investments. His new role will see him lead the firm's advice to a range of LGPS funds across its investment services.


Grant Stanley

Intellica has appointed Grant Stanley as director.
Stanley has over 30 years of experience in the pensions and wider financial services industries, and has held senior roles in third-party pension administration and data businesses. He was also one of the founders of ITM. At Intellica, Stanley will be working with the existing senior management team on the internal and external development of the business.


Gillie Tomlinson

Cardano has named Gillie Tomlinson as head of trustee engagement.
Tomlinson joins the team from LCP, where she was a director, and brings 30 years of experience in the investment industry to the role, including a 12-year stint at BlackRock. She will be responsible for maintaining and developing relations with trustees and other stakeholders at UK DB schemes, and will step into the new role on 1 July.


Huw Davies

Make My Money Matter has named Huw Davies as senior finance adviser.
Davies joins the campaign from Triodos, where he held the role of head of retail banking in the UK, providing him with in-depth knowledge of sustainable finance. The newly created role will see Davies work to help the campaign better engage with pension schemes and financial institutions on their journey towards net zero and sustainable investment.


Emma Douglas

Aviva has named Emma Douglas as managing director, workplace savings.
In her new role, Douglas will report to Aviva managing director, UK savings and retirement, Rob Barker, who was appointed last month. She brings over 20 years' experience to the role, having previously held roles with both Mercer and BlackRock, and joins the team after a seven-year stint with Legal & General Investment Management (LGIM), where she was head of defined contribution (DC). LGIM is currently looking to appoint a successor to head the DC business. In the meantime, LGIM head of DC sales, Rita Butler-Jones and LGIM head of DC client management, Stuart Murphy, will assume Douglas's responsibilities.
Commenting on the appointment, Barker said: "I am delighted that Emma is joining Aviva to lead our highly-successful workplace savings business. We see big opportunities to continue to grow our business and Emma's knowledge and experience in the market will further strengthen our team."

VIEW FROM THE SPP

The SPP has been considering the HM Treasury consultation on raising the normal minimum pension age from 55 to 57 in 2028.

Under the proposals, members would still be able to take benefits from a scheme from age 55 if its rules gave them an unqualified right on 11 February 2021 (the consultation publication date). That right would generally be lost if the member transfers out, except as part of a 'block transfer'.

Our views on these proposals as they stand:

· At times there is a 'rules lottery'. For example, many DC schemes require consent to early retirement but that is rarely, if ever, withheld. Members of such schemes would be adversely affected compared with those in schemes with no such potential restriction. Similar issues with personal pensions could lead to market distortion.

· Members transferring now might be losing a right to draw their benefits from age 55. If trustees are expected to warn them, this is fraught with difficulty as key details are still subject to consultation.

· Penalising individual transfers seems inconsistent with 'freedom and choice': a member may need to transfer out if their scheme does not offer the flexible benefit option they want. This is also relevant to existing 'protected pension age' rules.

We await the outcome with interest.

SPP Legislation Committee member, Nick White

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

Soapbox: Levelling up, not down

Recent research from PensionBee has suggested that younger savers are the most 'clued up' on pensions, as well as highlighting an optimism for an earlier retirement age, with both Gen Zers and Millennials agreeing that the ideal retirement age was 58.

However, the findings suggested that younger savers are keen to bring this age even further forward, with 11 per cent of Gen Z savers considering not having children so they can retire earlier, compared to 4 per cent of Millennials.

Savers are not shy about their want to avoid working later in life more broadly either, with research from Hargreaves Lansdown revealing that the number of people between the age of 50 and state pension age who wanted to give up work had more than doubled from 4 per cent to 10 per cent between 2019 and 2020.

When justifying increasing retirement ages, many are quick to point to rising life expectancies, glossing over the many issues that so many people face in their older age, which could sadly limit them from fulfilling their retirement dreams and ticking off their bucket list.

After all, wanting a retirement whilst you are young enough to enjoy it, and wanting to use that retirement to enjoy time with your children or grandchildren shouldn't have to be a modern-day Sophie's Choice, and for many savers it simply is.

With housing deposit anxieties, massive student loans and the, at times overwhelming, pressure of a pandemic, it can be hard to make it all add up. And this issue seems (unsurprisingly) particularly acute for young women, with research from Scottish Widows revealing that even women saving adequately on the median wage are saving £1,300 a year less than men, and would have to work an extra 37 years to match men's savings. The situation worsens even further for those who take time off for caring responsibilities, with a woman taking two 12-month career breaks in her early thirties retiring with 10 per cent less than a woman who takes no career breaks, according to analysis from Barnett Waddingham.

Industry figures have repeatedly emphasised the need for more to be done to support working mothers, carers, and the many more who are under pensioned due to no fault of their own, whether this be through the provision of affordable childcare or efforts to address various pay gaps. Yet the issues have not only persisted, but worsened, with the number of single mums 'locked out' of AE increasing by a third amid the pandemic.

Change is happening though, with the introduction of greater shared parental leave initiatives for example, alongside awareness campaigns that have helped to flag the potential impact on women as well as steps that people can take themselves to mitigate the impact of taking time off. Recent analysis from LCP has also suggested that there may finally be some progress around the gender pensions gap, but not due to an increase in the savings of women, rather, through a dramatic 20 per cent fall in men's pensions.

But progress cannot be at the detriment of others. It's important that as we look to make progress on key issues, addressing vulnerabilities and inequalities in all areas, that we are looking to level up those who have fallen behind, not levelling down others. Choosing not to have children is a perfectly valid decision, of course, but young people deserve choice; if they have other options, such as increasing their contributions, they need to be communicated better and early enough for them to take action while it can still make a difference.

Written by Sophie Smith

How do pension schemes meet TCFD obligations?

Climate-adjusted analytics are key to mapping pension schemes' climate risk exposures

As momentum behind action on climate change and the journey to net zero builds into COP26 this autumn, UK pension funds have a critical role to play in driving long-term sustainability across the investment value chain.

Across the pensions industry, the focus on climate risk mitigation – and the approach to environmental, social and governance factors more broadly – has ramped up in line with increasing demand from stakeholders and rising regulatory obligations for trustees and fiduciaries of UK schemes.

Since October 2019 ESG factors have been in scope to be considered financially material considerations in scheme statements of investment principles. From October 2021 the bar will be raised again as trustees of plans with more than £5 billion in assets will be required to report on the financial risks of climate change within their portfolios in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). From October 2022, this requirement will be extended beyond the very largest schemes to all pension funds with more than £1 billion in assets. In time, this could also be extended to smaller schemes too.

Climate risk manifests in two ways: physical risk – the first-order risks arising from weather-related events and secondly, transition risk – the risks associated with the transition to a lower-carbon economy. Physical manifestations of our changing climate give rise to more extreme weather, higher average temperatures and rising sea levels, all of which drive short- and long-term investment implications. Advances in climate and data science enable investors to gauge the likely economic impact of climate-related risks on a localised basis and assess the knock-on impacts on portfolios.

The mitigation of physical risks demands action by global governments, regulators and investors, in turn driving 'transitional' risks and opportunities across the global economy and markets, through increasing regulatory action and technological innovation.

It is near inevitable that climate change risk and transition impacts will lead to re-pricing in financial markets and long-term portfolios.

Today, many defined benefit schemes are building strategic endgames to delivering pension payments over the next 10, 20 or 30 years, and trustees must factor in both major structural shifts and the more idiosyncratic factors that may impact asset values and, ultimately, threaten the sustainability of pension promises.

As such, it is necessary for schemes to account for both physical and transitional risks in building a holistic picture of their portfolio's climate risk exposures. The task of collating information across portfolios and extrapolating climate risk across asset allocation, duration and sector exposures demands complex modelling and data analysis. We will also be re-optimising our strategic asset allocations using our new climate aware capital market assumptions. This means that our assumptions, and therefore strategic asset allocation, will now explicitly incorporate the impact of climate change.

Across portfolios, investment and risk managers require climate-adjusted analytics to compare and contrast against standard datasets to support their decision-making. By bringing together climate science with asset-specific modelling, asset owners can derive a set of climate-adjusted security valuations and risk metrics, which can then instruct ongoing progress towards reducing the carbon intensity of portfolios. The powerful combination of climate science and asset specific modelling, coupled with the benefits of delegating responsibility to a fiduciary manager to help manage risks and adjust asset allocation accordingly, can revolutionise the way trustees assess risk across portfolios today – and limit the risks of tomorrow.

Written by BlackRock head of UK fiduciary management, Sion Cole

In association with BLACKROCK®

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VIEW FROM THE PPI

New benefit rates came into effect in April; the state pension has increased by 2.5 per cent in line with the triple lock, which increases the new state pension (NSP) and basic state pensions (BSP) by the greater of CPI growth, earnings growth or 2.5 per cent.

Since its introduction, the triple lock has increased the state pension in line with growth in earnings three times, price inflation four times, and the 2.5 per cent factor four times. The BSP (pre-2016 retirees) and the NSP (post-2016 retirees) now stand at around 19 per cent and 24.8 per cent of average earnings respectively. At £137.60, the 2021/22 rate of BSP is approximately £5 higher than it would have been if the pension had been double-locked (prices and earnings) from 2011 rather than triple-locked.

The triple lock has regularly been subject to questions over whether it should continue. Arguments against the triple lock refer to whether it is fair for today's workers to pay for an increasing state pension and also the costs of the ratcheting 2.5 per cent. State pensions are a significant cost to the government, projected to increase from around 4.9 per cent of GDP in 2020/21 to 6.9 per cent of GDP by 2069/70, however, that growth arises from several factors, including, significantly, demographic change. It is also highlighted by proponents of the triple lock that the true beneficiaries are today's workers who will benefit from the higher state pension when they retire.

PPI senior policy analyst, John Adams

PENSIONS POLICY INSTITUTE
PPI

Market commentary: Back to reality

With Covid-19 restrictions now starting to be lifted and people pouring back into pubs, restaurants and brick-and-mortar shops, perhaps it should be expected that we will now see the nation shaking off some of the economic effects of the pandemic. But we still don't know exactly what sort of shape any recovery might take, and it would be foolish to pretend that there is any certainty that we are powering back to a seamless revival.

However, this continued uncertainty does not mean that there are not reasons to be positive.

Kingswood chief investment officer, Rupert Thompson, explained: "UK retail sales bounced 5.4 per cent in March ahead of the relaxation of lockdown restrictions, considerably more than expected. This encouraging news was reinforced by business confidence also beating expectations in April, with the composite Purchasing Managers Index moving up to 60.0, the highest level since 2013.

"These numbers will bolster hopes that the economy should now recovery rapidly on the back of the fast vaccine roll-out and lockdown easing. The good news was cemented by data showing government borrowing in 2020/21 of £303bn. While this amounted to a massive 14.5 per cent of GDP, the highest level since World War Two, the deficit was rather smaller than the official forecast back in March."

Despite this, Quilter Investors portfolio manager, Paul Craig, argued that the record-breaking sales secured by some high street names "won't be sustained forever", adding that "the next stage of the roadmap on 17 May is key to getting hospitality going again".

He continued: "Arguably, this is the easy stage. The difficult work begins once the stimulus is withdrawn and the economy has to stand on its own two feet. Not to mention the risk that mutant variants throw a spanner in the works for the vaccine rollout. This is the situation that investors need to monitor very closely."

When it comes to equities, the market is showing some evidence of reversing some trends seen when the nation was first hit with lockdowns in March 2020.

AJ Bell financial analyst, Laith Khalaf, explained that stocks that had been worst hit found themselves in demand as the vaccine rollout kicked into gear as "investors looked forward to the grand reopening that vaccines promised", while "the crowded havens investors had flocked to over the course of 2020 began to see performance dip".

However, not all stocks which were hit hard are on the way to recovery.

Hargreaves Lansdown senior investments and markets analyst, Susannah Streeter, said: "The pattern of two steps forward, one step back is likely to continue for some time as an uneven recovery unfolds. Stocks linked to the travel sector continue to be the laggards in this economic revival."

She pointed out that airlines IAG and EasyJet "are still well below pre-pandemic levels", while exhibitions giant Informa is still suffering amid "fears international business travel won't bounce back any time soon".

She concluded: "However, as the UK inches along the re-opening road map, with social distancing measures on track to be lifted by the end of June, clients are hopeful that UK companies will bounce back strongly during the second half of the year."

Written by Duncan Ferris

For professional clients only

Capital at risk. This information should not be relied upon as investment advice, or a recommendation regarding any products, strategies. The environmental, social and governance ("ESG") considerations discussed herein may affect an investment team's decision to invest in certain companies or industries from time to time. Results may differ from portfolios that do not apply similar ESG considerations to their investment process.

Five reasons to choose indexing for sustainable

Here are the five reasons why we believe sustainable indexing gives investors the clarity they need to build more sustainable portfolios

1. Indexing puts you in control of what type of sustainable investor you want to be.
Sustainable investing is not one size fits all and means different things to different investors. The broad range of indices available, and the transparency they offer, allow you to pick the approach that's appropriate for your portfolio.

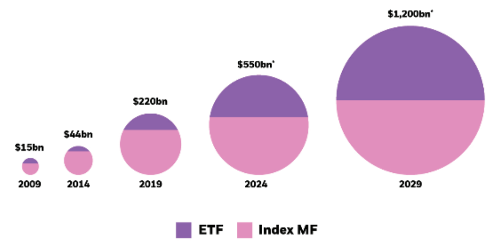
2. Sustainable indexing can help provide a consistent approach across a portfolio.
As investors transition to sustainable investing, an indexing approach may help to ensure sustainability is expressed in a consistent way across the entire portfolio. Indices are inherently rules-based, so the screens and ESG integration they deploy are repeatable, regardless of asset class or exposure.

3. Sustainable indexing drives industry standardisation, promotes disclosure and can help motivate better corporate behaviour.
We believe that indexing is bringing clarity to the sustainable investing space by providing transparency and accelerating the adoption of new market standards. This is one of many reasons why we believe investors will choose to put an extra US$1 trillion into sustainable index assets in the next decade.

4. Sustainable indices have shown resilience in difficult times.
During last year's market dislocation, a majority of sustainable indices exhibited resilience relative to broad market benchmarks.* We believe this is because sustainable indices are generally comprised of companies with higher profitability and lower levels of leverage than the broader market.

**Source: BlackRock with Q1 2020 data from Bloomberg and Morningstar as of May 7, 2020. Over 90% of sustainable indices outperformed their parent benchmark during this period of the heightened market uncertainty and drawdown.*

Past and predicted growth of sustainable index assets (2009 -2029)



*Projected growth. BlackRock projection, April 2020, based on Morningstar data, as of March 2020.

Subject to change. The figures are for illustrative purposes only and there is no guarantee the projections will come to pass.

5. Index fund asset managers with active investment stewardship seek to drive long-term change.
Indexing amplifies the impact of company engagements because index investors typically take a long-term view. Those who are sustainability-minded can exercise influence with companies through engagements across environmental, social and governance topics.

Ways to align investment goals with iShares sustainable strategies

Screened	ESG Enhanced	SRI	Thematic	Impact
Clients looking to exclude companies based on controversial business practices	Clients investing to pursue similar returns to a particular benchmark and maximise ESG scores	Clients seeking to achieve concentrated ESG holdings by rewarding top ESG performers	Clients pursuing specific sustainable themes based on a company's operations or sources of revenue	Clients investing for a measurable sustainable outcome alongside financial returns

Source: BlackRock, as at 31 March 2020

To learn more about investing in sustainable ETFs visit iShares.com/uk

In association with iShares by BlackRock®

VIEW FROM THE ABI

The Work & Pensions Committee's report on pension scams was hard-hitting and thorough.

Pension scams have caused untold misery for tens of thousands of people but have been notoriously under-reported because of the lack of a consistent definition.

Money in dubious investments which many would recognise as scams could be as much as £1.75bn a year according to the Pension Scams Industry Group.

The committee's report makes many important recommendations including better intelligence sharing; the role of social media companies; improved reporting and recording of pension scams; better support for victims of scams and for financial scams to be included in the upcoming Online Safety Bill.

Online financial scams are rapidly on the rise as the tactics of fraudsters evolve. It has been two years since the cold-calling ban was introduced, but scammers have diversified, and now use online channels to attract their victims.

It is our view that including financial scams in the Online Safety Bill will help to prevent vulnerable customers losing their lifelong savings.

Legal obligations must be put in place to compel social media companies and search engines to design systems and processes to prevent scam content from appearing on their sites and to move quickly to take down dubious websites and content.

ABI policy adviser, Evey Tang

ABI

In my opinion

On Action Fraud figures that show savers lost £1.8m to pension fraud in Q1 2021

"The pandemic has massively increased our reliance on all things digital. While this is great for keeping us connected, there is a dark side, which can compromise our safety. We know scammers are lurking and employ a whole host of tactics to try and part people with their hard-earned savings. There's increasing evidence to show that scammers create convincing websites or another online presence, which people can inadvertently fall prey to when searching online. This issue isn't going away. Decisive action needs to be taken to protect people against online scams."

Aegon head of pensions, Kate Smith

On defined benefit (DB) scheme trustees' lack of understanding of sponsors' environmental, social and governance (ESG) strategies

"The ESG agenda has moved the goalposts and created a ticking time bomb for some DB pension schemes in the future. Where most of the focus has been on carbon-neutral and ethical investments; the need to consider the longer-term viability of a sponsor through an ESG lens is becoming more crucial in understanding the strength of the sponsor covenant and affordability of deficit recovery contributions. If a business doesn't transition well to a net carbon zero business model then future legislation and reputational issues could impact profitability, cashflow and in turn, the value in the pension scheme."

RSM covenant assessment partner, Donald Fleming

On Pensions Minister Guy Opperman's acknowledgement that action is needed to narrow the gender pensions gap

"It's very encouraging to hear the minister say the government is committed to lowering the threshold for automatic enrolment and making contributions count from the first pound earned. However, these welcome changes won't close the gap on their own. The government needs to ensure that more women have access to more affordable, quality childcare if they are serious about closing the gap."

The People's Pension director of policy, Phil Brown

On research that shows savers are struggling with even basic pension knowledge

"There should be alarm bells ringing about the fact that 90 per cent of Brits lack confidence with their pensions. With advances in medical technology and increased life expectancies we're likely to live longer in retirement than ever before. But a massive gap in our understanding of how to invest for our third age, or even how to access those investments suitably later on, means we really aren't prepared for a sizable portion of our lives."

Freetrade senior analyst, Dan Lane

On using digital solutions to improve member engagement

"In the last year, many members have moved into a more physically isolated environment, meaning the quality of member communications is more important than ever. And effective technology has been the lynchpin in enabling employers to continue to deliver on the social contract. Digital solutions that involve members and 'nudge' them towards interacting with their pension are a huge step forward in engaging individuals, both at the day-to-day level and in conjunction with any specific exercises schemes may aim to undertake."

Buck UK head of outsourcing, Lee Cook

Clean energy: The giants have awoken

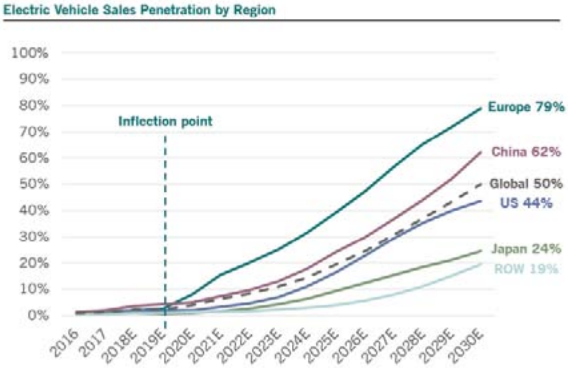
Major car manufacturers pledge to "go electric"

There's a lot to unpack recently in the e-mobility space, especially since mid-March when Volkswagen presented its ambitions to become the global leader in electric vehicles (EVs) by 2025. It seems like the traditional auto-makers have finally woken up to the future of electrification, and will now be joining the electric vehicle ecosystem. In the same week as Volkswagen's presentation (which aims for battery electric vehicles to exceed 70 per cent of European and 50 per cent of Chinese and US sales by 2030), BMW also announced a targeted steep rise in EV sales by the end of the decade – planning for 50 per cent of global sales to be fully electric by 2030. These announcements follow similar commitments from the likes of General Motors, Ford, and Volvo earlier this year. General Motors has announced plans to end production of all diesel-and gasoline-powered cars, trucks and SUVs by 2035 and shift its entire new fleet to electric vehicles as part of a broader plan to become carbon neutral by 2040.

This broader shift towards electric vehicles from traditional car OEMs (Original Equipment Manufacturer) shows how, after years of slow evolution, e-mobility has finally reached an inflection point and will be going mainstream. In fact, UBS estimates that almost 80 per cent of all passenger vehicle sales in Europe will be electric by 2030 (ie less than 10 years from now), compared to only 8 per cent last year. China and the US follow suit, with respective estimates for 62 per cent and 44 per cent of EV sales penetration by 2030.

To meet this accelerated increase in EV penetration, car OEMs are now also investing heavily into battery plants as well as charging infrastructure to remove any remaining barriers for the mass adoption of EVs. For example, Volkswagen is looking to build six new battery plants in Europe to meet its revised EV sales targets – with the first two plants located in Sweden and Germany. They have also announced collaborations to build fast public charging infrastructure in Europe and China, which will support their target to halve EV charging times by 2030. In Europe, Volkswagen aims to add 18,000 fast charging points by 2025 – representing a five-fold expansion of the existing fast-charging network. Such build-out will be done via partnerships with European utilities such as Enel (Italy) or Iberdrola (Spain), but also with BP (Britain and Germany) and Ionity (a JV between BMW, Daimler, VW, Ford and Hyundai). In China, Volkswagen announced they would roll out 6,000 chargers by end of 2021 and 17,000 chargers by 2025 through their joint venture with Chinese partners JAC, FAW and Star Charge. This is similar in scale to the roll-out we are seeing from Tesla and other manufacturers such as Nio and XPeng in China.

Electric Vehicle Sales Penetration by Region



Source : UBS Q-Series March 2021: EVs shifting into overdrive

Furthermore, the transition to low-carbon transport is receiving widespread support from governments. For instance, Biden announced a $2.25 trillion Infrastructure Plan on 31 March, which would direct $174 billion to electric vehicles, including sale rebates and tax incentives. It would also provide grants to state and local governments and the private sector for 500,000 EV charging stations by 2030, and includes funds to electrify school buses and federal vehicles such as Postal Service trucks. On a similar note, the UK has banned sales of petrol and diesel cars by 2030 and has earmarked £2.8 billion for the UK car manufacturing industry to make this transition (with approximately £1.3 billion used for accelerating the roll out of charging infrastructure).

With continuing cost reductions, supportive regulatory frameworks, and now firm commitments from some of the world's largest car companies, the secular growth drivers for e-mobility are firmly in place with an accelerated transition underway. For Pictet-Clean Energy, this will have resounding positive effects across the whole value chain of e-mobility, where the portfolio has >30 per cent exposure. Investment opportunities are not only limited to car OEMS and auto parts suppliers, but also in various upstream and downstream segments such as semiconductor companies and charging infrastructure.

Written by Jennifer Boscardin-Ching, client portfolio manager, Clean Energy strategy, Pictet Asset Management

VIEW FROM THE ACA

In our response to The Pensions Regulator's (TPR) consultation on the investigation and prosecution of the new criminal offences guidance, we accept the high-level policy intent to protect pension schemes, but we feel more clarity is needed in TPR's policy to limit the risk of adverse unintended consequences, given the very significant penalties involved and the wide range of individuals potentially in scope of the new powers.

Our response says it is the association's view that:

· The criteria for selecting cases for investigation is too widely drafted,

· The "reasonable excuse" guidance casts doubt on whether many typical business activities – such as payment of dividends – would satisfy the statutory exemption; and

· Building on the existing material detriment guidance is helpful, but this needs to be tightened to reflect the more significant penalties and increased scope of the new powers.

To the extent that it is not possible to provide clarity now, it would be helpful if the guidance could be updated regularly, to provide additional clarity as regulatory experience develops.

We encourage the regulator to work with the other authorities who have powers to prosecute these offences, to reassure industry that prosecution will not take place in circumstances other than those set out in TPR's policy. The ACA has written a joint letter with other industry bodies, making this point to the Minister for Pensions and Financial Inclusion.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Diary: May 2021 and beyond

PLSA Local Authority Conference 2021

18-19 May 2021
Online

The Local Authority Conference is the largest of its kind dedicated to the Local Government Pension Scheme. Speakers in 2021 will include senior policy makers and influencers, high-profile industry figures and people with something to teach us from outside pensions. The varied programme will feature keynotes, interactive roundtables and lightning rounds.

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

Asset Management Awards 2021

20 May 2021
Online

The Asset Management Awards are designed to recognise outstanding achievement in the UK/European institutional and retail asset management spaces. The awards' objective is to honour outstanding professionals and firms, to recognise, celebrate, and promote best practice, to support continuing development, contribute towards raising standards of asset management and to provide recognition.

For more information, visit:
moneyage.co.uk/assetmanagementawards/

PLSA ESG Conference 2021

30 June - 2 July 2021
Online

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

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

Pensions Age Awards 2021

15 July 2021
London Marriott Hotel, Grosvenor Square

The Pensions Age Awards, which are now in their eighth year, aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The awards are open to any UK pension scheme or provider firm which serves pension schemes in the UK. Two new categories have also been added this year, including the Pensions Age thought-leadership award.

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

Visit www.pensionsage.com for more diary listings

Month in numbers

44%

Research from Barnett Waddingham has revealed that nearly half (44 per cent) of working age women with an occupational or private pension took action after hearing about the gender pensions gap. The most common course of action was upping contributions, with 14 per cent of the women surveyed having done this already, while the next most common measures were talking to a partner about retirement savings or seeking financial advice to improve their pension pot.

1.43 million

A freedom of information request by the Unite trade union has revealed that 1.43 million construction workers are not saving into a pension, amounting to 64 per cent of the nation's construction workforce.

£1.8m

The total amount savers lost to pension fraud in the first quarter of 2021 was £1.8m, according to data from Action Fraud.

Communicating the gender pensions gap

Stella Beale considers the reasons for the gender pensions income gap and how policymakers and the industry can better engage with women to encourage retirement saving

The gender pensions income gap is twice as big as the gender pay gap. At 39.5 per cent[1], it's bigger than the 18.4 per cent[2] disparity between male and female pay.

The problem is many women don't know about this until it hits them in retirement. No-one tells them[3].

According to our analysis the gender pension income gap is caused by four things.

The first, most significant contributor, is women tend to take career breaks to care for children. Childcare in the UK is expensive – more than anywhere else in Europe[4]. So, many women in the UK can't afford to go back to work.

The second reason is that they're also paid less on average. The gender pay gap feeds into pension contributions – and income in retirement.

Thirdly, too few women are in auto-enrolled pensions. They only make up a third[5] of eligible job holders. That's because many either have multiple lower paid jobs, each individually paying less than £10,000 a year, or earn below this minimum and so are not automatically enrolled into a qualifying pension scheme.

Lastly, a significant number of low paid workers miss out on much needed tax relief on their workplace pensions due to the way their employer claims the relief – this is the well-publicised net pay anomaly, which affects up to 1.75 million people[6], most of them women. The People's Pension has long called for this fault to be fixed.

The wider problem is compounded by the fact that all savers in general tend to have very little awareness of whether they'll have enough money to last through their retirement. Our research shows that financial planning for retirement is left very late – if it's done at all[7].

Our recently published *New Choices, Big Decision*[7] report recommends that the pension industry (ourselves included) could do more to engage with women in their mid-40s and beyond who work part time.

We believe that providers are best placed to ensure that women have the right information available to support making their own informed decisions. Taking on an extra two days a week may ultimately boost their pension pot and this could benefit them greatly in the long run.

But better engagement can't solve these problems alone. We need the government to do more. First, they can support women who might want to return to their roles or work more hours once they have children, by awarding more generous grants for local authorities to fund pre-school childcare provision.

Second, they could abolish the net pay anomaly, to help those 1.75 million low earners receive much-needed tax relief they currently miss out on.

Third, cutting the auto-enrolment earnings trigger to £6,240 a year would bring 1.3 million new savers[8] into workplace pensions – three-quarters of whom are women. It would be reasonable for the government to wait until the recovery is complete before this is introduced.

Fourth, they could extend the existing system of state pension carer credits to auto-enrolment. This would also act to reduce the gender pensions gap in auto-enrolment savings.

The gender pensions gap will only be bridged if decisive action is taken by both policy makers and the industry.

For further information and to read our full report go to www.thepeoplespension.co.uk/new-choices-big-decisions/PA-1 or call us on 0333 230 1310.

Written by The People's Pension group director of marketing, Stella Beale

[1] https://library.prospect.org.uk/documents/201801522_tackling_the_gender_pension_gap (page 4)
[2] https://library.prospect.org.uk/documents/201801522_tackling_the_gender_pension_gap (page 9)
[3] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf
[4] https://ec.europa.eu/info/sites/info/files/european-semester_thematic-factsheet_labour-force-participation-women_en.pdf
[5] https://thepeoplespension.co.uk/wp-content/uploads/Media_gender-pensions-gap_media-brief_20200915_vf.pdf
[6] https://thepeoplespension.co.uk/wp-content/uploads/Media_gender-pensions-gap_media-brief_20200915_vf.pdf
[7] https://thepeoplespension.co.uk/wp-content/uploads/New-choices-big-decisions-5-years-on.pdf
[8] https://thepeoplespension.co.uk/wp-content/uploads/Media_gender-pensions-gap_media-brief_20200915_vf.pdf

The benefit of hindsight

PLSA director of policy and advocacy, Nigel Peaple, chats to Sophie Smith about The Beatles, *The Crown*, and what he thinks would be the worst job in the world

What's your employment history (including jobs outside of pensions)?
For the past 20 years I have worked in public policy roles related to pensions at the Pensions and Lifetime Savings Association, The Pensions Regulator, the Department of Work and Pensions, and the Association of British Insurers. Before that I worked on environmental policy at the Environment Agency, the Department of the Environment, the European Commission and in a Brussels-based public affairs agency. The current focus on ESG investing is now bringing these two areas together.

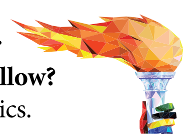
What's your favourite memory of working in the pensions sector?
My favourite moment was seeing Emma Douglas, PLSA Policy Board chair, doing the first public presentation of a new online video tool to help people plan for retirement using the PLSA's Retirement Living Standards. It gives me confidence that the standards will help people plan and save for retirement.

If you did not work in pensions, what sector do you think you would be in instead?
That's a tricky one. I am interested in many areas of public policy. There are probably three that interest more than others: actions to make the UK a more prosperous society; measures to enhance social mobility and equal opportunities; and environmental action to save the planet. There are plenty of challenges in all three of these areas to keep me busy.

What was your dream job as a child?
As someone who is fascinated by government and politics, when I was very young and foolish, I wanted to be Prime Minister. However, now I am old and wise, I regard that role as the worst job in the world.

What do you like to do in your spare time?
Endless consumption of current affairs, newspapers, and Radio 4.

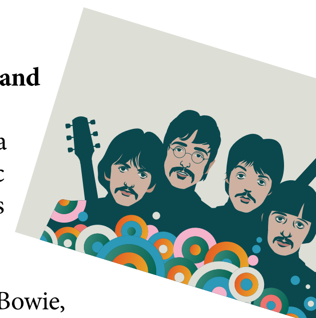
Do you have any hidden skills or talents?
I am very good at not getting lost. I seem to have a GPS in my brain.



Is there a particular sport/team that you follow?
Team GB in the Olympics.

If you had to choose one favourite book, which would you recommend people read?
Crime and Punishment by Fyodor Dostoevesky.

And what film/boxset should people see?
I tend to be about five years behind when it comes to popular (or any) culture so right now I am watching *The Crown.* I enjoy the period detail and politics. I am up to about 1966 and I will probably watch up until about 1975 when, at that point, my personal memories will take over.



Editorial credit: Anita Ponne / Shutterstock.com

Is there any particular music/band that you enjoy?
I have always liked a wide range of music but at various stages of my life I have particularly liked The Beatles, David Bowie, Bob Dylan, The Jam, Coldplay, and many more….

Who would be your dream dinner party guests?
Andrew Marr. He is not only a brilliant commentator on British politics but he also has an enormously rounded set of interests which, fortunately, we can all get to enjoy by watching his programmes on TV or listening to him on the radio.

Is there an inspirational quote/saying you particularly like?
"If you can meet with triumph and disaster and treat these two imposters just the same," Rudyard Kipling.

Written by Sophie Smith

Journey to settlement

Aon partner, John Baines, and associate partner, Michael Walker, consider how to optimise outcomes for members, trustees and sponsors

New legislation, the latest investment ideas, GMP equalisation and ESG reporting are just some of the day-to-day items on any defined benefit trustee board's agenda. Trusteeship can feel like constant firefighting, making it difficult to take a step back and plan for the long-term scheme strategy.

Planning for settlement, whether buyout or consolidation, requires a streamlined journey plan. Dedicating time to preparation work will help trustees to understand the scale of work involved and identify key processes that will equip them to respond quickly, if they should have the opportunity to carry out a settlement transaction earlier than expected.

Grouping actions into five key workstreams provides a structured, manageable approach that matches the priorities of the scheme and its members, identifies any risks to the funding position and leads to the best price for settlement. This also avoids rushing crucial stages of preparation immediately before a transaction. This can add significant cost and introduce errors.

Strategy: Schemes need to decide what their settlement goal will be, and the actions needed to achieve it over the course of five or more years. For example, buyout could involve a single transaction, or a series of phased buy-ins. So potential opportunities are not missed, the strategy should also identify how trustees will react if the scheme reaches full funding sooner than expected and is in a strong position to transact.

Member experience: Trustees have a wealth of knowledge about their scheme members, which shines through in bespoke communication strategies and any additional member options services, such as 'at retirement' financial advice. An insurer will operate a less tailored approach and taking a staged approach to transitioning any added services or options will help ensure a smooth member experience.

Investment strategy: With a clear plan towards settlement, trustees can give timely thought to the assets they hold and build a portfolio that will match insurers' requirements for buyout. Planning an exit strategy for illiquid holdings and moving into assets such as bonds that will be easier to transfer to a provider, can be a long-term process that may need to start five to 10 years before buyout.

Data and benefits (two workstreams): All schemes need clean data and clear documentation of member benefits ahead of buyout or consolidation, in order to provide certainty over the ultimate target. Trustees may decide to carry out data cleansing early to help with other activities, such as GMP equalisation, alongside settlement preparation.

Every trustee board will need to address all five workstreams in parallel, but the emphasis for each scheme will be different. With careful planning, it should be possible to complete all the workstreams over a five to 10 year period at a comfortable pace, alongside the day-to-day work involved in running a scheme.

Even with a plan in place, trustees must be flexible about their timescales for settlement. Financial markets, supply and demand, and legislation may change over time, affecting buyout or consolidation costs and a scheme's ability to transact. While trustees might have a five-year timeframe in mind, thinking about how they would react to opportunities between, say, two and eight years should be a part of their planning. That includes prioritising essential tasks to enable early settlement, as well as considering how the scheme's strategy will change if transacting takes years longer than expected.

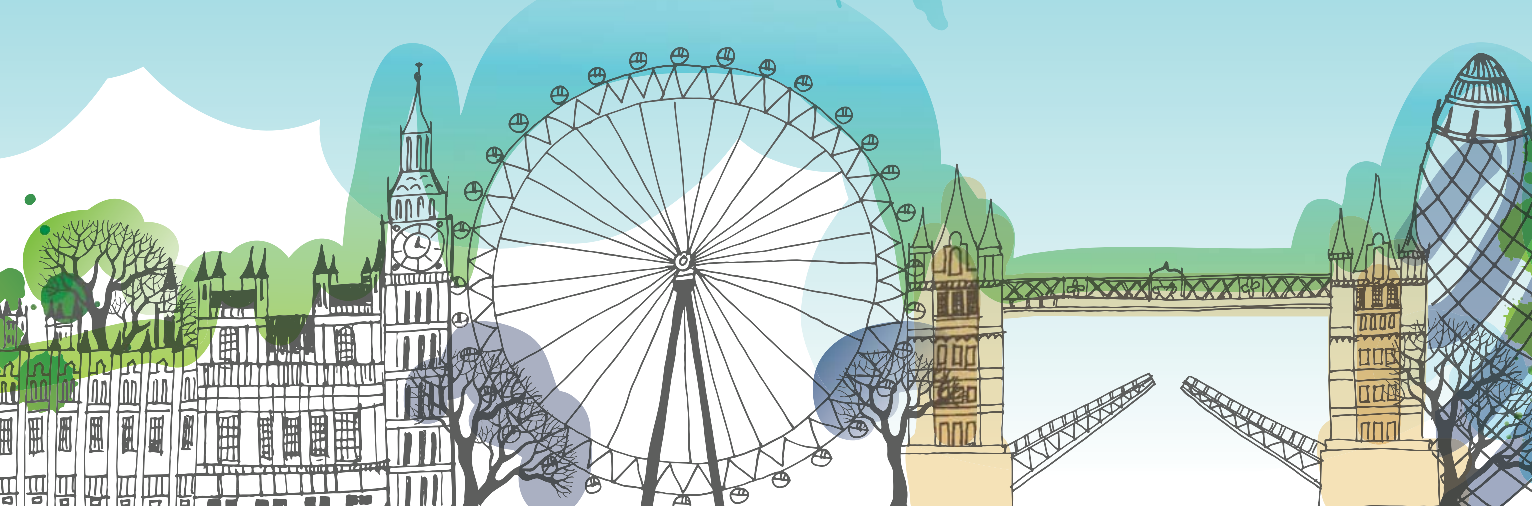
Consolidation into a superfund is another option for scheme settlement. It is lower-cost than buyout, so many schemes may be able to consider it sooner. Some activities, such as GMP equalisation, can continue after consolidation, which can also be factored into trustees' workstream planning.

Having a structured plan helps trustees and companies work through settlement preparation while also managing the intense workload of running their scheme. By taking a staged approach, schemes can fit preparation into their everyday workflow, be ready to transact quickly, offer a better member experience and enable a comfortable, confident journey towards a clear end-goal.


Written by Aon partner, John Baines, and associate partner, Michael Walker

Pensions Age Spring Conference 2021: Full steam ahead

Looking to the future of pension fund management



It is hard to fathom that a year has already passed since we first had to go virtual with our *Pensions Age* conferences; and it's no secret that the *Pensions Age* team misses catching up with industry friends. But while the government restrictions on large gatherings still stand, we are lucky to be able to connect with the pensions world through our online events, and our Spring Conference was a great example of how this can be achieved with technology today.

Subjects tackled by the speakers throughout the day were relevant, topical and intellectually stimulating, with much reflection on how much pension schemes have achieved in the past 12 months, how they can best approach the challenges they face today, as well as what's needed in the future to help them achieve the best possible outcomes for their members.

Pensions Age editor, Laura Blows, chaired the event, channelling live questions from hundreds of delegates to our expert presenters, addressing topics ranging from regulatory change, scheme design – both in the accumulation and decumulation phases – and investment trends, to diversity and inclusion, being more dynamic with our member communication, and the merits of volunteering in the pensions space.

The Pensions Regulator (TPR) head of policy, Fiona Frobisher, opened proceedings with an update on the key areas of focus for TPR in the current climate, highlighting the main elements of its Corporate Plan 2021-22, which sets out the regulator's direction for the next year. She talked about what scheme contact there might be going forward and why; the work that is being done on the implementation of the Pension Schemes Act 2021; as well as focusing on some areas where we all, as an industry, can make a real difference, such as diversity, financial technology and innovation.

"Over past few years we have talked about being clearer, quicker and tougher, and TPR has changed in order to achieve that – we are using our powers more than ever before; we have tried to be clearer in what we are saying; as well as quicker. For example, last year we put out guidance relating to the coronavirus quite quickly, and that was well received.

"This year, however, we will be talking about being tough on those who flout the law, and supportive of those who are struggling. These may seem contradictory and very separate – and sometimes they will be. For example, where we are looking at criminal powers, those are big powers that are related to the most egregious acts where people are flouting the law; are deliberately trying to disadvantage pensions scheme in some

way. Then there is the other side, where we know employers and companies are going to be struggling. For example, once the job support processes that are in place are withdrawn, we will need to think about how we will support those schemes, those trustees that are going to be in a very difficult situation. But quite often our focus will be somewhere in the middle of those two parameters. We will be looking at how we make the boundaries clear for people, so they know what they can do – that's how we are supportive; but where they don't do what we need them to do, then we are going to be tough.

"So it is about flexibility; being clear on what outcomes we want; and trying to be transparent and engaged. We want to be a lot more user-led in our design too, so thinking about how we communicate with people and the regulatory actions we take – how do we make as them as easy as possible for people to comply with? And really clear on what we want to do? Alongside that, we plan to have a wider regulatory grip while also having a deeper understanding of scheme risks."

Investing in infrastructure was the next topic of discussion as River and Mercantile head of infrastructure, Ian Berry, went back to basics on this asset class at a time when UK pension funds are being urged to step up their allocation to infrastructure investments to help preserve the long-term stability of the UK economy. He explained what infrastructure investing means to pension funds today; the different ways of investing in infrastructure; how ESG is integrated within the investment decisions; and, finally, what sort of risk and return funds should expect from this asset class.

"The key fundamental most attractive feature for most investors is that the assets either do or are thought to deliver long-term stable predictable cashflows – there are not many assets that can provide those features – and those sorts of assets are an attractive building block for most institutional investors.

"But not all infrastructure is equal, and different types of infrastructure in different countries will have different levels of stability of cashflow, of linkage to inflation perhaps which is another feature that many investors are keen to acquire through their portfolio. So it is important for investors to decide why they have invested or why they are allocating to infrastructure and what they are looking for. Infrastructure can be approached from a cashflow perspective or a capital appreciation perspective."

The importance of the role volunteering can play in the pensions space was next on the agenda, as The Pensions Ombudsman (TPO) head of early resolution, Tony Attubato, and network volunteer manager, Paul Day, introduced TPO's volunteer programme, looking to encourage professionals in the pensions industry to get involved and make a difference.

The TPO volunteer programme is well established and has approximately 200 volunteers from across the pensions industry. Volunteers play an integral role in helping the TPO to resolve informally complaints from the public about their personal pension. There are a number of benefits to volunteering, including networking opportunities and career development prospects. The training volunteers receive can also be used towards their CPD hours. Firms may also incorporate the TPO volunteer programme within their Corporate Social Reasonability and/or pro-bono initiatives.

Attubato commented: "Don't underestimate what difference you can make as a volunteer. We are confident that if you became a volunteer, you would find the role rewarding, Cases can be interesting, thought-provoking and offer a real sense of achievement. Pensions for many people are complicated, and dealing with the issues involved stressful. Volunteers make a positive impact, stripping away the complexity and emotion and helping sort out problems, that sometimes have been long-standing."

Day added: "Why become a TPO volunteer? It can support your professional development; it can enhance your career prospects; it gives you a chance to use your pensions experience to make a real difference in someone's life. Then there is the personal satisfaction that comes from helping others."

DC decumulation was next in the spotlight, as PLSA director of policy and advocacy, Nigel Peaple, outlined the PLSA's proposed new framework for DC decumulation.

"Pension savers face difficult choices when it comes to deciding how to access their pension. At the same time, pension providers want to provide more support but face tough regulatory challenges of their own. The PLSA has called for the introduction of a new regulatory framework for DC decumulation that it believes will lead to better outcomes for savers, especially the less engaged.

"Our recommendations, called Guided Retirement Income Choices, are based on observations made to us from our member pensions schemes, and from research data. Our member pension schemes say to us 'people really struggle to make the complex decisions they face at retirement', and the research tells us that people are very cash-focused, rather than thinking about their income for the rest of their life; they like to put off these complex decisions, to the point when it is really rather too late; and they like to follow the path of least resistance if there is one, whether or not that is sensible. Our idea for a new regime is focused around the saver, and about trying to learn lessons from auto-enrolment, when money is going in, and apply to the world of pension freedoms when money is going out."

Diversity and inclusion (D&I) was next in focus as Pension Protection Fund (PPF) director of legal, compliance and ethics, Dana Grey, focused on D&I within the PPF. This included the PPF's D&I strategy 2020-2025, how it is embedding D&I across the organisation and its recently published *Diversity Pay Gap Report*. As the PPF Strategic Plan 2019–2022 sets out, it is critical for the PPF to be a diverse and inclusive place of work at all levels, to boost innovation, improve risk identification, bring insight and efficiency to its operations, and provide better service to its members.

"Trustee boards have some work to do to become truly diverse, yes they have significant and potentially life-changing decisions to make. So they carry a responsibility to try and make themselves more diverse, particularly as members are becoming increasingly aware and engaged themselves, seeking to hold schemes to account. And what about the member in all of this? The media increasingly tells us that members and pensioners find pensions hard and difficult to access, so if you want to get people engaged, you have to remove barriers and be inclusive. We know people don't have a choice about whether to come to us or not, so one could ask why we need to bother; but we want to live up to our D&I commitments and make our services as accessible as possible."

Royal Mail Pension Trustees CIO, Ian McKnight, who oversees investments totalling c.£13 billion across three pension plans, next talked about how they have managed to keep investment returns up during the pandemic and his plans for the future, including offering an update on the plan's investment strategy over the past year and going forward, his thoughts on ESG, private equity, Bitcoin and other exciting areas of pensions investment.

"We are now legislated to look at ESG. I do wonder about this, as I am not being legislated to look at the Italy leaving the EU, probably a bigger risk than a sell-off in equities linked to climate change, the magnitude of which we just saw, last March, but there is a moral issue here too and our trustees are very passionate about getting it right. There are three prongs and we have done one of them for years, which is engage through an overlay. The other is impact – this is a really exciting area. You have got a tailwind on it. I don't like exclusion because it is not mutually consistent; and by excluding you are not acting in the best financial interests of your members. The third is mitigate – once you understand what your carbon footprint is, then you should consider all options as to how to mitigate it.

"But I do worry about greenwashing. I do worry about people espousing ambitions for the future, which may or may not be met. Moving tangibly and sensibly towards ESG with our financial best interests at heart is where we are, and we are wanting to do the right thing."

The view of the pension trustee was next offered by PTL managing director, Richard Butcher, who discussed the impact of an increasingly connected society on the pensions ecosystem and how the industry can take advantage of this to drive enhancements in pensions, specifically in member engagement and fiduciary/provider decision making. Butcher asked delegates whether we, as an industry, are using all the data available to us to design to the best effect.

"Connectivity gives us the opportunity to really improve member outcomes in both DB and DC; we can improve the quality of our decisions on their behalf; we can improve the quality of our engagement to their benefit; this is a win for everybody. As long as we grasp the nettle; as long as are open-minded. You need to listen to new ideas and nor automatically dismiss them; and not try to find an excuse against them."

Many thanks to all our speaker, sponsors and delegates who joined us on the day, and we look forward to hopefully seeing you in person at our Autumn Conference in London.

Written by Francesca Fabrizi

Just DB business development manager, Pete Jennings

Making it easier for smaller schemes to access bulk annuity pricing

Pensions Age editor, Laura Blows, speaks to Just DB business development manager, Pete Jennings, about how smaller schemes can access the bulk annuity market

In the midst of a very challenging year for all, there were still some good news stories to be had. For instance, last year still managed to be the second busiest year on record for the bulk annuity market, with plenty of opportunities for small DB schemes to de-risk, explains Just DB business development manager, Pete Jennings, in the latest *Pensions Age* podcast, *Making it easier for smaller schemes to access bulk annuity pricing.*

Just actually achieved its own record year in 2020, with over £1.5 billion of liability transferred from pension schemes to the company. Within that, it completed 23 transactions, ranging from £1 million in size to its largest deal so far, a £350 million buy-in with Ibstock, the brick manufacturer.

Some in the industry might define a small DB scheme as being under £100 million. But for Just, a small scheme is under £25 million – the point where schemes may struggle to get engagement from insurers.

To help these schemes receive insurer engagement, there are a lot of good initiatives from consultancies, such as pre-negotiated contracts, sending several projects in bulk or just keeping the process incredibly simple, Jennings says.

"But there are a lot of the general inefficiencies that trustees of small schemes will be familiar with, such as a relatively high proportion of fund value spent on keeping the show on the road, admin, consultancy fees etc, and it's a similar story for insurers. It might be an easier job for an insurer to price a scheme with 50 members than it is for 500 or even 5,000, it certainly isn't 10 or 100 times easier," he explains.

"Ultimately there is finite capacity at insurers and small schemes will be competing for exactly the same insurer resource as the larger schemes."

So, when it comes to smaller deals, insurers will be looking for projects that 'don't hit the sides', Jennings states.

This is where the scheme is 'buyout ready'. For instance, it would have high quality complete data, marital status write-outs done within the last year to 18 months, spouses' benefits calculated rather than estimated and a clear understanding on things like its approach to GMP equalisation.

Jennings warns that this may seem quite a high barrier to entry, particularly as the market requires trustees to go out on a limb and do this with no guarantee of getting a quote, and even if they do, of that quote being affordable.

Just understands that could be prohibitive, so it provides a solution by offering indicative quotes to schemes early in the process, designed to help trustees know what is feasible and assist their decision making. It is intended to be as accessible as possible, the limitations there are centred on the data being of a quality to make the quote worthwhile.

It has developed a simple template for schemes to supply their data in a standardised format – importantly it doesn't ask for any information that a scheme shouldn't already have to hand if contemplating a bulk annuity – allowing Just to process and price much more simply than from a random data set supplied.

While indicative, the price will be fully modelled, including reinsurer pricing for longevity, meaning trustees can go to their sponsors knowing the cost of the transaction and the value of any contribution required from the sponsor.

As Jennings explains, "we have struck a balance between making the process accessible as possible while maintaining value of the work done and importantly, there have been no short cuts in the modelling".

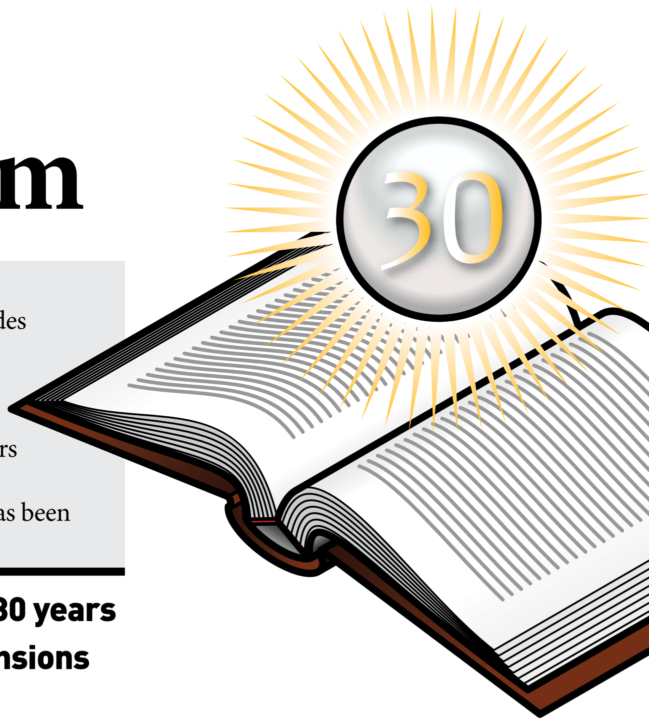
Once they have this indicative quote, trustees can then establish if the transaction is affordable. If so, and the sponsor agrees, trustees can get the scheme buyout ready and bring it to market. "Trustees can be confident that the deal won't fall down because of price, and we can be confident of that too, making us much more likely to produce a transactable quote," Jennings explains.

The reason for Just providing this assistance to smaller schemes through indicative quotes is because "one of our stated aims is to be a leading provider of small and medium-sized schemes and we aren't just saying that; it's something we absolutely mean", Jennings says.

"Ultimately what we want is small schemes coming to market well prepared and if having a price early in the process incentivises them to do that because it minimises the risk of unaffordability then that's a great outcome."

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

A pearl of wisdom



Summary
- The Pensions Ombudsman is celebrating its 30th birthday, three decades in which it has had a huge impact on the pensions industry.
- Soon to be outgoing ombudsman, Anthony Arter, says it's a key strategic goal to have a good relationship with the industry.
- The service is first and foremost there to help pension scheme members resolve disputes with the industry.
- Despite its 30-year history, there have been times when its existence has been under threat, but it remains strong going forward.

The Pensions Ombudsman service is celebrating 30 years in operation, but what has been its impact on the pensions industry? Natalie Tuck reports

Thirty years of marriage is symbolised with a pearl, representing purity, honesty and wisdom. The 1 April marked 30 years of The Pension Ombudsman (TPO), three decades in which it has been wedded to the pensions industry.

TPO was created after the Occupational Pensions Board concluded there was a need for a body to adjudicate pensions disputes. Since its establishment, over 100,000 written enquiries have been received, more than 25,000 disputes have been resolved and almost 9,000 determinations have been issued by five ombudsmen and four deputy ombudsmen.

Industry impact

The ombudsman's impact on the pensions industry has clearly been significant and several of its rulings have shaped industry policy. It is also well-respected by industry stakeholders.

TPO's most recent independent tailored review in 2019 found that it is a "well-respected and effective organisation". In particular, the review found strong support from stakeholders across the board for TPO's "quality, clarity and impartiality of its determinations on pension disputes".

Pensions ombudsman, Anthony Arter, believes the service's reputation in the pensions industry is "no accident" adding that one of its key strategic goals is to support and influence the pensions industry and the wider alternative dispute resolution sector to deliver effective dispute resolution.

"We work closely with key strategic partners and stakeholders across the industry to meet this goal; building relationships, sharing information and highlighting good practice to raise awareness and further increase our impact," he says.

Bevan Brittan partner and pensions specialist, Nigel Bolton, notes that the ombudsman's practice of publishing its determinations, and reasoning for, provides a "treasure trove" of knowledge for trustees and employers.

Sackers partner, James Bingham, also says TPO has given schemes confidence in the way they approach a number of issues as, "whilst the ombudsman judges each case on its merits, the public nature of the determinations provides guidance as to how TPO would view similar cases".

In an example of a decision shaping industry practice, Bolton highlights TPO's transparency over releasing meeting notes, something that has been required since the Hedley case in 2008, which has "transformed how trustees deal with and respond to members' queries".

"The case was not well received at the time, and it means that TPO is running counter to the law courts. However, although the transparency required may have been challenging for some trustees and employers, I see the decision as overall a good thing," he says.

Not all cases are well received however. A ruling in 2019 on the Shell Contributory Pension Fund's climate risk policies was criticised by environmental lawyers at ClientEarth. Concerns were raised as TPO did not ask the SCPF to release information to the claimant about how it deals with the financial risks posed by its investments in fossil fuels and its sponsorship by an oil and gas company.

SCPF member, Christoph Harwood, had been seeking reassurance that the scheme was properly dealing with risks posed to members' pension as a result of their policies. Harwood sought answers from the scheme for two years before taking his case to TPO at the end of 2018.

ClientEarth pensions lawyer, Joanne Etherton, said at the time that the wording of the decision suggested that TPO "may not have fully read the complaint" and that its failure to engage with the case law in the submission "raises serious concerns about TPO's decision-making process and access to justice for members of pension schemes."

Going forward, Arter expects a case involving Dalriada Trustees Limited, Stuart Garner and LD Administration Ltd to have a wider industry impact. Garner was found to be personally liable for breaches of trust causing significant financial losses to three schemes with 300+ members. "Our approach allows the case to be resolved for all members of a scheme, not just the complainants," Arter says.

Members

TPO's relationship with the wider pensions industry is key but it is pension scheme members that TPO is there to serve, offering a free and impartial service for people to resolve their pension complaints.

TPO is unique in that its determinations are legally binding and can put people back into the same position they would have been in had their need for complaint never arisen, regardless of the cost, Arter notes.

Bingham comments: "The availability of an independent forum for complaints to be considered has allowed members to challenge a wide variety of issues regarding their pension benefits. This has enabled members to engage with their pension to a greater extent and, where appropriate, seek to challenge trustees, employers and administrators on their actions."

In addition, Burges Salmon partner in the pensions practice, Clive Pugh, says TPO has played a "vital role" in not just protecting individual pensions but also ensuring that the industry "does not lose sight of the core importance of members".

"TPO has provided a readily accessible and clear avenue for members to raise concerns and be heard. The ombudsman's judgements are followed closely by the industry and have helped guide thinking as to what constitutes appropriate conduct," Pugh says, adding that the service's findings act as a "moral touchstone for the entire pensions industry".

Challenges

As the current pensions ombudsman, Arter highlights that there have been many challenges to the services' existence over the years. Examples include the 2001 Leggatt Review, which sought to introduce a more integrated tribunal system.

"At the time consideration was given to transferring the Pensions Ombudsman's jurisdiction to the new tribunal system but this proposal was rejected in the end," Arter says. There was also the 2007 Thornton Review that recommended functions of TPO should be combined with the Financial Ombudsman Service (FOS).

"More recently, the 2014 Triennial Review considered whether The Pensions Regulator, TPO, Pension Protection Fund and The Pensions Advisory Service (TPAS) should continue as separate entities and, to the extent they do, whether there is an alternative means of delivering their functions that would be more efficient and effective.

"The review concluded that the functions performed by the bodies under review were necessary and that the current bodies remain best placed to deliver those functions, although consideration should be given to simplification," Arter explains. He notes that in each of these situations, with the support from the industry, TPO has overcome these challenges and in many cases the ombudsman has ended up having its powers extended.

Evolution

The ombudsman has come a long way since its creation in 1991, when it had just 14 members of staff, compared to its 113 employees today. The number of people approaching TPO with an enquiry has increased by 44 per cent over the past five years – from 4,998 in 2015/16 to 8,977 in 2019/20.

Since Arter joined in 2015, a significant change has been to resolve complaints informally, at an earlier stage. In May 2015, 100 per cent of cases were resolved formally, by February 2016 70 per cent of cases were resolved informally. The Early Resolution Team transferring over from TPAS in 2018 has further assisted this new approach, so that in 2019/20, 95 per cent of cases were resolved informally.

Arter's term as pensions ombudsman will end on 31 July 2021 and a new pensions ombudsman will be appointed. As for Arter's tenure, Bolton says that each ombudsman brings their own style, but he has been encouraged by Arter's "much less confrontational approach and emphasis on resolving disputes".

"It will be interesting to see what changes the new ombudsman will bring later this year and how that integrates with the need for continuity for the service," Bolton adds.

For now, however, Arter says TPO's strategic goals remain the same. These are to provide a customer-focused service for the resolution of occupational and personal pension complaints; support and influence the pensions industry and the wider alternative dispute resolution sector to deliver effective dispute resolution; and transform and improve its services and processes.

"We expect demand for our services to continue to increase, especially as the impact of the Covid-19 pandemic evolves and we will continue to review our processes to enable us to meet increased demand and collaborate with key strategic partners and stakeholders, sharing good practice, to improve dispute resolution standards across the pensions industry," Arter concludes.

Written by Natalie Tuck

Unlocking sustainable investing opportunities in Asian fixed income – *Endre Pedersen, Murray Collis and Eric Nietsch of Manulife Investment Management consider how to unlock sustainable investing opportunities in Asian fixed income* ***p36***

ESG investing in Asia: An invisible evolution – *Sustainable and responsible investing is fast becoming one of the most important investment criteria globally and, in Asia, while the uptake has been slower, this trend is growing. Moreover, sustainability is now also seen as an important economic driver for investment performance. Murray Collis, Deputy CIO Fixed Income Asia ex-Japan and lead portfolio manager of the Sustainable Asia Bond strategy, discusses the drivers behind this movement and how the Covid-19 outbreak may have influenced developments* ***p38***

Sustainability focus:

Asian fixed income

Manulife Investment Management Deputy CIO, Global Fixed Income, Endre Pedersen
Deputy CIO, Fixed Income, Asia ex-Japan, Murray Collis
Head of ESG, Asia, Eric Nietsch

Unlocking sustainable investing opportunities in Asian fixed income

Endre Pedersen, Murray Collis and Eric Nietsch of Manulife Investment Management consider how to unlock sustainable investing opportunities in Asian fixed income

2020 was full of surprises – not all of them positive; however, the final few months of the year brought about developments that few could have anticipated: China announced its intention to achieve carbon neutrality by 2060,[1] while South Korea, Japan, and Hong Kong pledged to do the same by 2050.[2]

The seemingly independent announcements are highly significant. These four economies have effectively committed to removing approximately 35 per cent[3] of global carbon emissions by 2060, thereby establishing a concrete goal against which they will be measured. In our view, these announcements reflect the continent's commitment to address sustainability issues, which has important implications for Asian fixed-income investors.

Investment opportunities

Covid-19 has shifted consensus thinking around fiscal spending, enabling policymakers to introduce stimulus packages in a way that would have been unthinkable previously. This has created an opportunity for the region's leaders to incorporate sustainability goals into their spending plans. South Korea, for instance, launched its Green New Deal in July, pledging to invest more than US$60 billion to shift its economy onto a more sustainable path.[4]

Undeniably, there's a fair amount of scepticism surrounding these headline-grabbing pledges, however, in our view, the gap between where we are today and the pledged goals is where the investment opportunities lie.

Renewables

As Asia continues to grow, its need for energy rises – the region is forecast to account for nearly two-thirds of the world's new power demands in the next 20 years, with China and India leading the charge.[5]

China supplies more than 70 per cent of the world's solar panels and has recently pledged to invest as much as US$6 trillion into the development of new energy technology by the end of the decade.[6] The country's recent carbon neutrality pledge means its existing targets and policies will need to be revised higher in order to achieve its goal. India, on the other hand, plans to install 100 gigawatts of solar power capacity by 2022 (up from about 35 gigawatts in 2020[7]), having managed to generate solar energy in a manner that's cheaper than coal.[8] We believe this segment will create many entry points for fixed-income investors.

Sustainable bonds

China has always been an active green-bond issuer. In the first three quarters of 2020, the country issued US$9 billion in green bonds, and remained the top issuer in the Asia Pacific region last year. Singapore, Japan, and South Korea also made the list of the most active issuers globally during the nine-month period – evidence of the instrument's growing popularity in the region.[9]

Crucially, we noticed that the green bond structure has drawn the attention of Asian credit issuers from other sectors in recent years beyond the traditional realm of energy and infrastructure. Real estate developers and real estate investment trusts in China, Singapore, and the Philippines, for instance, are beginning to tap into this market for funding. This is an encouraging development since it reflects the growth in both the breadth and depth of the region's green-bond market, which should, by extension, usher in new opportunities.

Governance

Forty-three per cent of the world's top 5,000 companies, according to total revenue, are headquartered in Asia[10]. The inherent contradiction here is that Asian companies typically feature in the lower tier of most global corporate governance rankings. The positive correlation between profitability and good corporate governance practices is well known, and there can be no doubt that the region's companies have much work to do here. The less obvious takeaway, we would argue, is that when viewed through the lens of sustainable investing, independent and diverse governance structures can be an important investment theme that can be a meaningful source of alpha.

Capturing ESG opportunities in Asia fixed income – essential tools

It's easy to understand the appeal of sustainable investing however, it would be disingenuous to pretend that challenges don't exist.

The absence of a common taxonomy means that data vendors, environmental, social, and governance (ESG) research providers, and issuers can have varying definitions of key metrics, making analysis a highly challenging task.

Similarly, ESG rating companies aren't regulated in the same way as credit rating agencies, calling into question the reliability and accuracy of their work (a popular charge relates to greenwashing and, increasingly, social washing).

For these reasons, many have noted that sustainable investing is best suited to active management. What follows are some of the steps that we've taken at Manulife Investment Management that we believe are important when it comes to sustainable investing in this asset class.

Access to a dedicated team of ESG specialists

Fixed-income investing and ESG research are two separate disciplines, and it's important that both teams are able to work together to create an integrated investment process that takes into consideration all relevant ESG factors.

Local presence is critical

It's an inescapable fact: Most sustainability issues are geographically and culturally specific. In a sense, this is reflected in the diverse nature of the various economies that make up what we call the Asian economy. Having a strong local presence is essential – it enables the investment team and the ESG specialists to keep tabs on local developments and translate idiosyncratic nuances that are often lost within a global context.

Independent, proprietary research

The shortage of external analyst coverage is a persistent issue within the Asia fixed-income universe; unsurprisingly, the issue is exacerbated in the area of sustainable investing. For this reason, the critical role that independent and proprietary research plays in the investment process couldn't be clearer. In our case, we rely on our team of dedicated ESG specialists not only for original insight, but also for their ability to bridge and verify ESG data from external sources. Similarly, we depend on our Asian credit research team for proprietary in-depth credit analysis that isn't readily available from global third-party researchers.

A robust corporate engagement program

In our opinion, all investment firms that are serious about sustainable investing will have a comprehensive corporate engagement program in place. At Manulife Investment Management, we make it a point to share relevant ideas on best ESG practices with investee firms – leveraging our research in different sectors and regions – with the aim of helping them create value in their business and enhancing returns.

Opportunities in sustainable investing in Asia are growing, particularly in the fixed-income space. Recent announcements from China, Japan, South Korea, and Hong Kong have strengthened our belief that the region has indeed moved beyond the inflection point on the sustainability front. However, in order to unlock the investment potential that Asian fixed income has to offer on this front, we believe the right tools must be in place.

For more information, please visit manulifeim.com/institutional/uk/en

Written by Manulife Investment Management Deputy CIO, Global Fixed Income, Endre Pedersen
Deputy CIO, Fixed Income, Asia ex-Japan, Murray Collis
Head of ESG, Asia, Eric Nietsch

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Manulife Investment Management Deputy CIO Fixed Income Asia ex-Japan, Murray Collis

ESG investing in Asia– an invisible evolution

Sustainable and responsible investing is fast becoming one of the most important investment criteria globally and, in Asia, while the uptake has been slower, this trend is growing. Moreover, sustainability is now also seen as an important economic driver for investment performance. Murray Collis, Deputy CIO Fixed Income Asia ex-Japan and lead portfolio manager of the Sustainable Asia Bond strategy, discusses the drivers behind this movement and how the Covid-19 outbreak may have influenced developments

How is the Asian bond market evolving towards increased sustainability awareness and integration? Also, what are the main drivers behind this growth?
Asia has developed a lot in terms of sustainability over the past decade. In fact, they've actively been embracing the concept of ESG. We've seen a few different drivers behind the growth of sustainability in Asia, and we've slowly been incorporating these drivers into our portfolios over time. Asian governments are continuing to affirm their commitments to ESG issues in the region; for instance, within the final months of last year, China announced that it wants to become carbon neutral by 2060, while South Korea, Japan and Hong Kong pledged to do the same by 2050.

What we've seen over the past decade is that governments in the region are recognising ESG issues and starting to put frameworks in place to deal with them. This has led to the initial growth that we've seen in the Asian sustainability market. Once an issue becomes part of the government's agenda, regulators then start to take notice. Asian countries and territories are now starting to build and develop best practice principles for ESG investing, and the corporations within these countries and territories are also starting to adopt stewardship codes. Governance regulations such as the separation of duties between CEO and chairman have now become mandatory requirements for listed companies in a growing number of countries and territories in the region.

Central banks in the region are also putting measures in place to support the growth of the ESG market within Asia. A good example of this is the Monetary Authority of Singapore setting aside around US$2 billion to support the development of sustainable finance in Singapore, while the People's Bank of China has introduced a series of significant measures in recent years, which include accepting green bonds as collateral for its medium-term lending facility programme. There are a number of different ways in which governments and regulators can help to support the growth of the sustainability market, and it's positive to see Asian nations starting to embrace them.

From an investor's perspective, there's a growing recognition within Asia of the benefits to be gained from investing in sustainable fixed-income products. It's evident historically that sustainable investments tend to outperform over the medium to longer term, and this is something that investors are starting to factor in when considering ESG investments.

If you look at companies within Asia, the language around ESG and sustainability has improved over time. That's partly to do with engagement and partly to do with the regulatory environment and the government's approach to this topic. As previously mentioned, we're starting to see Asian corporations adopting best practices, which then creates opportunities for sustainable investment products. A good example of this is the green bond market in Asia. There were very few green bonds being issued four to five years ago, but since 2016, Bloomberg estimates that China represents around 17 per cent of global green bond issuance.

When you put all of this together, it's evident that there are a number of factors that are helping to drive the market. Regulators and governments are

supporting and incentivising the growth of sustainable investment, additionally you have investors demanding the adoption and implementation of ethical practices from corporations.

As with most themes in Asia, is China leading the way in the field of sustainable investment?
It's probably fair to say that the more developed countries and territories in Asia have been moving ahead. For example, we're starting to see a lot of green bond issuance from both Hong Kong and Singapore. China is (and always has been) one of the biggest markets in the region, and if you look at China's weight within the Asian credit market it's increased dramatically in the past decade.

We're also seeing big developments within India, although they still have a lot more work to do in this space. Overall, there should be some great opportunities in the near-term pipeline, as we're seeing a lot more issuance from renewable energy companies in India, China, and in parts of South Asia.

Has Covid-19 pushed ESG to the bottom of the list of investor priorities?
I'd argue that the opposite has occurred. We've seen investors worldwide inject more than US$152 billion into ESG funds in the fourth quarter of 2020[1]. We think that there are a few reasons for this, one being that investors have seen the effects of Covid-19 and it's highlighted some key sustainability issues that need addressing. Secondly, when you look at the wild fluctuations that we witnessed last March and April, investors have probably looked at the economic risks that are playing out and are wanting to invest in businesses that are robust and that have sustainable business models.

How do you engage with fixed-income issuers on ESG-related factors?
We take a multifaceted approach. When people think about engagement, they commonly think about the equity market; however, engagement is also really important in the fixed-income space, particularly in Asia.

We see engagement as an opportunity to build long-term relationships with issuers that we engage with. When we engage with issuers, we discuss a number of topics with them, which gives us greater insight into their business models and the strategies that the businesses adopt. We can also leverage the knowledge that we gain from dealing with regulators and governments to identify strong opportunities within the region. Ultimately, engagement can create better outcomes for us and our investors.

What we want to do is to share what we believe are the best sustainability practices. For us, it's not just about the number of engagements, but the positive outcomes resulting from those engagements.

Looking ahead, where do you see the key opportunities for this asset class?
Asian countries and territories are currently some of the largest emitters of carbon dioxide in the world and with the recent net zero announcements they are committing to highly important transitions to low-carbon economies. These transitions will create opportunities for sustainable investors. There's now a greater emphasis on climate change and the risks associated with climate change, so it's going to be a long-term investment trend.

For example, we're seeing a surge in green bond issuance from property developers in China, which we think is really interesting. To us, this signals recognition by the government of what's going on in the domestic market and encouragement of the adoption of best practices. A lot of this new issuance is going towards renovating and revamping existing properties up to a green standard, which we think is a great outcome. The positive side of this for investors is that they're being rewarded with a substantial yield.

Renewable energy is expected to be another area of growth within Asian economies, so we're continuing to watch this space. We've also identified some excellent opportunities within India and other Southeast Asian countries and territories.

For more information, please visit manulifeim.com/institutional/uk/en

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[1] Morningstar Research 'Global Sustainable Fund Flows: Q4 2020 in Review' 28 January 2021

One direction

Summary

• Phase one of TPR's plan to create a single 'supercode' sees 10 of its 15 codes consolidated into one, comprising 51 modules.
• Some previous guidance has been 'upgraded' into the new proposed code and it has a number of new requirements for trustees.
• Having just one code of practice removes the current duplication and conflicts of information between codes, and provides brevity. However, one code may also make accessing relevant information easily more difficult for trustees.
• The code is not expected to be finalised until later in the year, but preparation now is recommended.

Laura Blows looks at the regulator's efforts to create one single code of practice and what changes the proposed code will bring

The Pensions Regulator (TPR)'s plans to amalgamate its many codes of practices into one single 'supercode' has begun in earnest, with its consultation on its phase one draft set to close later this month.

Consolidation

Its plan to consolidate 15 current codes of practice into a single, shorter code first emerged in July 2019 in response to new requirements for scheme governance in the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018.

Phase one sees 10 of its 15 codes consolidated into one code of practice, comprising 51 modules, which, by removing "duplicated and unnecessary text", is considerably shorter than the original content, the regulator says. The single code currently runs at 149 pages, around half the length of all the current codes altogether.

The reason for undertaking this consolidation, TPR's consultation document states, is that when assessing its current codes of practice, "it became clear that they did not meet the current needs of schemes".

Several codes are now out of date and not always easy to navigate, it explains, and there is duplication of content between the codes and guidance the regulator provides.

"To meet the needs of schemes and their advisers, our codes of practice must be easier to access, understand, and act upon," the document adds.

TPR's executive director of regulatory policy, analysis and advice, David Fairs, expands on this, saying: "We want to provide governing bodies with a clear, simple-to-navigate source of information. The new code will see themes from our existing codes broken down to create shorter, topic-focused modules with our expectations set out."

Changes

This enterprise should not be dismissed as a pure consolidation exercise, however; there is plenty of new content for trustees to sink their teeth into. Forty per cent new content in fact, Baker McKenzie pensions partner, Chantal Thompson, states.

This mostly relates to governance changes flowing from the IORP II European Directive and the UK regulations that came into force from January 2019, she explains.

"These include requirements for 'key functions' to be identified, for trustees to conduct an own-risk assessment and for them to have a remuneration policy. There are also new expectations in the funding and investment modules of the code, and the regulator is expecting more to come in the areas of climate change and stewardship following the recent Pension Schemes Act 2021 developments, and it will be adding the DB funding code in once it's finalised."

According to Eversheds Sutherland pensions partner, Emma King: "Trustees shouldn't be under any illusion that the supercode is just a consolidation of existing guidance. It contains new requirements for trustees, some of which are quite onerous."

The one that is attracting a lot of attention is the requirement for trustees to undertake an annual own risk assessment, King highlights. "This is likely to be a major exercise. It also includes new elements such as the need to have a written remuneration policy – not just for the trustee board – but which covers everyone who 'runs' the scheme, so could capture in-house pension teams and even external advisers. The policy will also need to be published."

The introduction of an own risk assessment, a risk management function for boards and the introduction of a remuneration policy for trustees are some of the key changes in the code, Aon partner, Susan Hoare, agrees.

However, there are 51 modules and 27 of these include new requirements for DB pension schemes, 21 for DC pension schemes and 12 for public-sector pension schemes, she adds.

This could be attributed to some of the regulator's previous guidance being 'elevated' into the single code itself, "for example, in relation to cyber security measures to be taken by schemes", Thompson says.

But it's not only these requirements that is new about the code; there's a new regulator tone to contend with as well. While the consultation document does stress that its codes are not statements of the law, except in certain circumstances set out in legislation, the draft single code does sometimes read as such, Thompson notes.

"There are few statements that tend towards statements of the law even though not based on existing requirements, for example that 'no more than a fifth of a scheme's assets should be invested on unregulated markets'," she says.

This tone may be evidence of the regulator being 'clearer, quicker, tougher'. After all, it is TPR's ambition for the code to reflect this, Fairs says.

The consultation document states that its approach to the new code "reflects the changes we have made as an organisation" and recognises feedback from the pensions industry about the need to be clearer in setting out expectations.

"Trustees shouldn't be under any illusion that the supercode is just a consolidation of existing guidance. It contains new requirements for trustees, some of which are quite onerous"

Pros and cons

The proposed new code providing information in a clearer format is only one of its benefits. "By consolidating 10 existing codes into one single code we lose a lot of the duplication that exists at the moment, where for example, an area like conflicts of interest is covered in more than one code of practice," Hoare says.

However, "in a drive towards brevity, some of the useful context and background of the current codes may need to be sacrificed, which could make the supercode more of a technical read," Dalriada Trustees, head of technical, research and policy, John Wilson, warns.

"It is undoubtedly helpful to have the 10 codes in one document, with the proposed format being such that the single code will be comparatively easier to navigate and digest," Eversheds Sutherland pensions partner, Stuart Earle, says.

"That said, having separate codes of practice did mean trustees could readily determine which were relevant to their particular scheme and refer to them accordingly based on the particular issue they were faced with. The move to one code means there will now need to be an element of 'unpicking' required to determine which aspects of the code apply to the particular type of scheme involved – particularly noting that public and private-sector schemes have now been brought together for the supercode."

This catering to both private and public schemes within the code has resulted in it using the term 'governing bodies' instead of 'trustees' – "which I think will take some getting used to", Hoare says.

"Also having the requirements for both *[public and private schemes]* in a single code does interrupt the flow of the document and make it more difficult for the reader to follow the requirements for their particular pension scheme," she adds.

The code may also be daunting for lay trustees, Wilson says, for them to be expected to be conversant with it under trustee knowledge and understanding (TKU) requirements. He asks: "For some schemes, will this be another driver towards the sole professional trustee structure?"

To drive down such concerns, Hoare would like to see more clarity on some of the key changes, such as own risk assessment and how this connects with existing requirements like integrated risk management. "Ideally the regulator would provide a template on what a good risk management plan looks like to make this clearer for schemes," she suggests.

Wilson would like to see clear navigation of the code. "At around 150 pages and with more codes to be incorporated, it seems likely that the pensions super code will match the *[300-page single]* mental capacity code in terms of length. We hope therefore that steps will be taken to facilitate navigation around the final code."

Another issue, mentioned in the consultation document, is that there will be a period when the new code and existing guidance will not as closely match, as will eventually be the case. Users will also need to be made aware that there will be separate guidance, Wilson adds.

"The code is ambitious but is clearly a bit of a work in progress and we do wonder whether the industry will require much more guidance, possibly including templates, in certain areas, particularly where there is new content," Thompson says.

Preparation

As there are kinks such as these still to sort, and the single code is only currently in draft phase, the temptation may be to hold off preparing for its requirements.

This approach is not recommended.

According to Earle, the new code will require a significant amount of work even for those schemes that can already be considered well-governed.

He predicts that the code will cause all governing bodies to review their existing internal controls and processes and assess where there are potentially gaps that require specific focus for the scheme. "In turn, this should support overall trustee knowledge and understanding as well as help to refresh risk registers and also provide a basis from which trustees can perhaps challenge the status quo of how a scheme has been managed to date," he adds.

Given the magnitude of some of the new governance requirements, King recommends that trustees should start to identify now how they will ensure they are able to comply.

In contrast, Thompson feels it is "a little early" for trustees to be engaging with code expectations, "given that we are expecting that the regulator will be receiving a lot of feedback".

However, she recommends that trustees should be "dusting off existing policies to see how fit for purpose they will be under the new regime". She highlights findings from a recent Baker McKenzie survey, which found that 12-18 months is the amount of time expected for trustees to comply with the code once it is finalised.

Getting any groundwork done now should only be beneficial, as there are more changes to come on the horizon.

The consultation document states that the new code has the potential to bring its codes, guidance and the Trustee Toolkit altogether, combining around 200 pieces of existing guidance.

Annual updates have also been mooted by the regulator, but, it stresses, will not be delivered without warning. However, changes every year could make the burden for schemes in keeping themselves updated could feel more onerous with a single code, Hoare warns.

But that's all in the future. For now the focus is on phase one of the code, with the consultation into its draft format closing on 26 May.

According to Fairs, "feedback so far has been positive, but we continue to welcome all responses. Providing feedback on the new code will help us make it as clear and usable as possible".

The regulator plans to start the process of laying the new code in parliament by late summer or early autumn, with the aim for the code to come into force at the end of the year.

Written by Laura Blows

TPR's corporate strategy

The Pensions Regulator (TPR) has also recently published a revised 15-year corporate strategy that sets out its blueprint of future pensions regulation.

The strategy sets out five 'priorities' that the regulator will "immediately start to deliver".

These include the primary goal of protecting pension savers' investments, which includes working to ensure DB schemes are funded and can continue to rely on the Pension Protection Fund (PPF), driving consolidation where it is in savers' best interests, quick intervention when contributions are not paid by employers, and protecting savers from scammers and cyber-related risks through collaboration with partner agencies.

The regulator will also work to ensure that savers get good value for their money through suitable investments and reasonable costs, efficient administration and working with regulatory partners to ensure good practice.

Alongside this, it will be publishing a discussion paper to assess value for money for savers.

Ensuring decisions made on behalf of savers is in their best interests was also outlined as a priority, with the regulator expecting increased transparency and increasing its focus on managing savers' exposure to economic risks.

Commenting on its strategy, TPR chief executive, Charles Counsell, says: "The pensions landscape is changing fast. Driven by automatic enrolment, pensions freedoms and the introduction of pensions dashboards, among a variety of other factors, change is likely to be our only constant.

"Our corporate strategy puts the saver at the heart of all that we do and sets out our ambition to enhance and protect savers' pensions now and in the future.

"It is grounded in analysis of pension savers and is designed to respond to their differing needs as well as changes in the pensions landscape that may shape their financial futures. The shift in the pensions landscape has affected savers differently and will continue to do so.

"The strategy therefore includes analysis of savers by generation; followed by an analysis of the key trends in the pensions landscape, before setting out TPR's five strategic priorities; security, value for money, scrutiny of decision making, embracing innovation and bold and effective regulation."

The final strategy was published in March and from this, TPR's corporate plan is set to be published later in 2021, providing the 'roadmap' for its actions over the next three years.

Building trust

M. Catherine Miller reveals how to build an effective board of trustees

It's all too common for pension trustees to believe that they are exceptional at their jobs when, truly, they aren't.[1]

And why is that? Field research shows that pension trustees make decisions, by and large, for non-financial reasons; they're more influenced by the opinions of their social circle and what they've picked up from news cycles than accurate, prudent financial research. Boards are often made up of closed social networks without checks and balances.[2] In other words, boards can easily become echo chambers without a clear purpose.

Building an effective board of trustees

Focusing on adding gender, racial, ethnic, and other forms of diversity to boards can increase financial success for a company,[3] result in better attendance to government regulations and financial accounting structures, and lead to fewer ethical compliance issues.[4] Board diversity also results in significantly increased innovation.[5]

What does all this mean?

Instead of simply choosing the closest or most familiar individuals for the task, it's important for pension trustees to be chosen strategically and methodologically. This includes using a human resource management approach in which positions are listed, interviewing candidates based on their experience and skills rather than who they know, and vetting potential trustees carefully.[6] Job descriptions should also be thorough and explicit. Once candidates with appropriate competencies are secured, they ought to be onboarded, trained, and engaged just as employees are.

What makes a good pension trustee?

There are seven key traits that make a trustee good at their job:[7]

1. The strength not to be intimidated. Pension trustees must have the strength and self-awareness to stand up for their beliefs.

2. The willingness to be perpetually inquisitive. Discovering what's new and different in the pension industry is part of their job.

3. The power to be unwaveringly ethical. Showing that they are trustworthy and have an interest in ethics is critical.

4. The capacity for clear and unbiased thinking. Biased research results in groupthink and poor outcomes.

5. The readiness to be diligent. Pension trustees must make the time to read and digest all materials required for decision making.

6. The ability to not be blinded by deliberate distractors. Pension decisions often result in active lobbying of pension trustees by stakeholders, which must be ignored.

7. The desire to be a great listener and interlocutor. Building on a range of stakeholder ideas to create a great plan that works for everyone requires collaboration skills.

If candidates are not willing to align themselves with these traits, pension management is not for them.

A structure built on trust

With a strategic business orientation in mind, a pension trustee culture can be professional, purposeful, and practical. An effective board of trustees must want to work towards best practices, improving the governance of pension funds through a defined strategy that aligns the interests of service providers with those of fund participants and beneficiaries.

This is an iterative process. Ultimately, a strong board must understand that assessments of risks, conflicts of interest, and compliance are required to amplify a long-term performance.

Written by *Pension Clarity* author, M. Catherine Miller

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Driving forward

Summary

- Gig economy employers could soon be required to provide pensions to their workers, along with other standard benefits such as holiday pay and the minimum wage.
- Between uncertainty over which employers will be joining Uber and how many employees will qualify, it remains unclear just how many gig economy workers will commence pension saving.
- While schemes and providers have the apparatus to deal with the influx, we could soon see savings vehicles tailor-made to provide the flexibility that the self-employed and gig economy workers might find desirable.

Duncan Ferris explores what the Supreme Court's recent ruling in favour of Uber drivers in their quest to secure employee benefits could mean for the gig economy and the world of pensions

The legionaries of ancient Rome were a force to be reckoned with. Whether facing off against Gallic tribes, masses of Celtic warriors or Greek hoplites, the superior organisation of the soldiers from the Italian peninsula meant they almost always held the advantage in a pitched battle. One of their main advantages was that the force had become a professional army under the great Mediterranean empire's first emperor, Augustus, as he did away with the civilization's old republican system.

This meant that the full-time soldiers served for a fixed period before being given a discharge benefit, amounting to the equivalent of 12 years of service pay in the 1st century AD, and often a plot of land on which to live out their remaining years. This early form of professionalism and pension provision had a huge effect on the empire, forcing its governing apparatus to find land and sesterces for its loyal troops' retirement.

Recent developments for gig economy workers, who have so valiantly soldiered on through the coronavirus lockdowns making all of our lives easier by driving us to appointments, delivering us parcels and bringing us delicious takeaways, could also have major implications.

Following a drawn-out legal battle

with representatives of its legions of drivers, Uber has now confirmed that it will be giving them pensions. It took a February Supreme Court decision to finally drive the ride-hailing app into action, with the court ruling that Uber's drivers were not self-employed and thus had the right to be offered pensions and other benefits by their reluctant employer. Of course, this does not just mean that drivers will now be allowed access to pensions through Uber, as the ruling means they should also be able to receive the minimum wage and holiday pay.

Ramifications

On the face of it, the pensions-related results of the ruling are simple. Uber drivers who earn more than the minimum earnings threshold of £10,000 per annum are set to be auto-enrolled into pension schemes. Considering the fact that Uber will now have to pay its drivers minimum wage, this means that drivers who work for 22 hours per week or more will qualify for auto-enrolment.

But beyond this, there are consequences for the gig economy as a whole. The ruling has set a precedent that workers who were previously permitted to be classified as self-employed by the platforms through which they engaged in gig economy work may now have the right to be seen as fully-fledged employees and enjoy all the benefits that come tacked on to this label.

Aegon head of pensions, Kate Smith, elaborates: "The Supreme Court ruling that Uber drivers should now be considered 'workers' rather than self-employed could have a ripple effect throughout the whole of the gig economy. Uber drivers will now not only have rights to holiday pay, but also other workplace benefits such as employer pension contributions. Other employers who participate in the gig economy will need to rethink about how they reward their workers.

"In the UK pension provision is largely delivered through the workplace, and the self-employed, including gig workers, have previously been excluded from the government's flagship auto-enrolment policy.

"This reclassification however is another step towards opening the doors to auto-enrolment for all of the gig economy, giving them the opportunity to save for retirement with the important boost of the right to a minimum 3 per cent employer pension contribution."

Small pots

One apparent issue with an influx of pensions linked to gig economy workers could be the exacerbation of the 'small pots' issue that the pensions industry is currently facing.

Smith explains: "The small frozen pots issue has been exacerbated by auto-enrolment, as nearly every job comes with a pension. Small pots are a factor of low contributions, low earnings and frequent job changes. Auto-enrolling gig-workers into workplace pensions could increase the number of small frozen pension pots.

"It will become even more important for the government, with industry support, to implement automatic automated solutions to consolidate these small pots. Pension dashboards will be part of the solution, helping people keeping track of their multiple pensions."

It seems likely that this exacerbation will take place, particularly as gig economy employers are likely to shell out wages on the low end and that the type of employment they offer is commonly used for part-time hours rather than full time. Indeed, figures published by the Department of Business, Energy and Industrial Strategy in 2018 showed that 87 per cent of gig economy workers had earned less that £10,000 in the past 12 months, with 41 per cent having earned less than £250 over the period.

However, it would be wise to take these figures with a pinch of salt, as the amount of people reliant on the gig economy is likely to have changed under the yoke of Covid-19. Employment and labour market figures from the Office for National Statistics show that the number of payroll employees fell by 693,000 in the 12 months preceding February 2021.

The Fairwork Foundation's report, titled *The Gig Economy and Covid-19: Looking Ahead,* noted that similar increases in unemployment in the United States had led to increased competition on gig economy platforms as those who had lost jobs scrambled for sources of income. This in turn led many workers to sign up on multiple platforms in order to increase their chances of earning. If these circumstances are reflected in the UK's gig economy workforce, it appears that it will be even more challenging for workers to build anything beyond a small pension pot.

However, it remains to be seen whether the gig economy will retain the size of its pandemic-era workforce, or whether competition for gigs will decrease and workers will have an easier time amassing enough to make substantial pension contributions.

Of course, the effect of the pandemic on different segments of the gig economy has varied, with Uber bookings for Q2 2020 down 73 per cent on the same period 12 months earlier but orders from takeaway platforms, such as Deliveroo and Just Eat, soaring.

However, while the influx of gig economy workers into the pension system could lead to more small pots, Nest director of strategy, Zoe Alexander, states that this is not a reason for them to forego the chance to put money away for retirement.

She explains: "Bringing gig economy workers into automatically enrolled saving would likely increase the number of small pots in the system: but that is certainly not a reason not to enable this group to start to save in a structured way.

"Nest is working with industry peers to look for ways to reduce the number of small pots in the system in ways that work for savers. In the meantime, it is important that everyone who is eligible has the chance to build up a pension pot as a basis for a better retirement."

New members

In the aftermath of the court case, Uber chief executive, Dara Khosrowshahi, penned a piece in *The Evening Standard* in which he stated: "This is a significant improvement in the standard of work for UK drivers. But I know many observers won't pat us on the back for taking this step, which comes after a five-year legal battle. They have a point, though I hope the path that we chose shows our willingness to change."

This change, and the possibility of further gig economy employers following suit, will of course lead to an influx of new pension savers. But how easy will it be for the pensions industry to deal with this wave?

Nest head of service delivery, Robin Lewis, comments: "We have a straightforward online system for setting up, enrolling members and making contributions – this means we are able to support thousands of new employer and member accounts each month and have done so successfully for a number of years.

"Nest was designed to deal with administrative challenges. We were designed to meet the challenge of on-boarding hundreds of thousands of employers when auto enrolment was introduced. We are already helping almost 16,000 self-employed people prepare for their retirement. We are not able to comment on other schemes' administration."

Smith agrees, as long as the employers step up and play their part, stating: "Automatic enrolment processes are embedded into pension providers, so the administrative challenges aren't likely to be too substantial provided the gig employer is able to provide all the required information on a timely basis."

But when it comes to the type of scheme that Uber drivers and their fellow cohorts of gig economy workers may be headed for, it appears that, further down the line, there could be scope for something a little unorthodox.

Nest Insight director of research and innovation, Jo Phillips, says: "Nest Insight is currently conducting research, supported by the Department for Work and Pensions, which aims to test a range of approaches to encourage and enable retirement saving in a way that fits with self-employed people's contexts and needs.

"Whilst this work focuses on the self-employed population as a whole, the programme and its findings are likely to have broad relevance, including potentially for gig economy workers."

She explains that the research has indicated that "control and flexibility" would likely be important features for these workers, noting that 57 per cent of those surveyed liked the idea of automatically diverting income into retirement saving and "a hybrid savings tool combining a liquid account and a pension had broader appeal than a pension-only option".

Phillips adds: "The next phase of our research will involve technology-based trials testing the appeal and effectiveness of different tools and automated approaches designed to make it easier for self-employed people to save via the platforms and services they already use to manage their money."

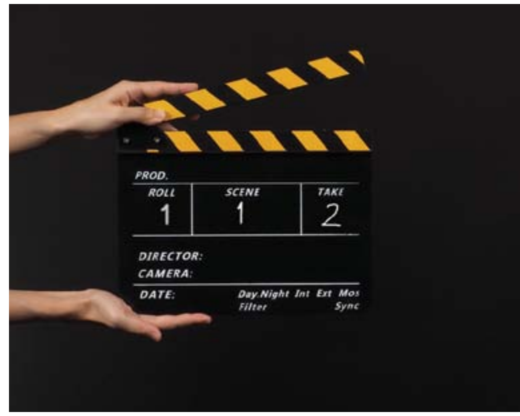
Smith is less optimistic, stating simply that: "In reality, gig employers are likely to use master trusts designed for the mass auto-enrolment market."

Whether they do go on to enjoy tailor-made retirement savings vehicles or not, it seems clear that it is a great positive for the financial health of our population that we can now welcome a portion of our legions of gig economy soldiers into the world of pensions.

Written by Duncan Ferris

Admin accreditation: Take two

Pensions Age speaks to Hymans Robertson financial risk management lead, Gillian Baker, about why it decided to seek Pensions Administration Standards Association (Pasa) reaccreditation and the process for achieving this



Why did you decide to seek Pasa reaccreditation?
Initial accreditation helped us focus in on our processes and identify areas for improvement and we were keen to do this again with reaccreditation. We were interested to see how we had improved in the three years since the previous re-accreditation.

We were one of the first third-party administrators (TPAs) to be accredited and by seeking reaccreditation, we were showing our continuing support to Pasa and confirming to the market we are in line with the best working practices in the administration industry.

How would you describe the main elements of the reaccreditation process?
The two main elements are (i) submission of the initial questionnaire and supporting evidence and (ii) supporting the fieldwork undertaken by the auditor.

Completion of the initial questionnaire and collation of the supporting evidence was straightforward. We were able to complete this initial task within the timeframes set out in the agreed audit timetable. We established a portal at our side for secure file sharing with the auditors and this worked well.

The agreed timetable set out an estimated three days for fieldwork, but this took three weeks to complete. Our suggestion is additional time should be allocated to this key part of the process.

How much internal resource was required?
Our resource planning started with the initial auditor meeting and was based upon their timetable and estimate of work involved.

We initially allocated two team members on a part-time basis to collate the evidence. Oversight of the wider process was undertaken by the team manager with upward reporting to management, ie a RACI model was established. The co-ordinator and team member continued to undertake other tasks alongside the audit work. We identified early on more resources were required and as the accreditation was a key priority for the firm, we reallocated priorities to ensure this was achieved.

The re-accreditation audit did take more time than initially anticipated, however we were committed to continue to invest what was required for us to retain this recognised award.

In future we would plan to allocate around three full-time resources to the project (one senior co-ordinator and two team members) for approximately three full weeks over the two-month audit period.

How long did the process take?
The initial agreed timetable with the auditor estimated the project would be completed within a four-month period (from initial kick off meeting to notification of reaccreditation from Pasa); in practice, the process took around five months as there were a higher volume of fieldwork requests and additional time required in co-ordinating calls as we were working fully remotely with the auditors.

Following the project kick off meeting, we started our preparation, ie reviewing findings from the previous accreditation report, identifying what we deemed to be the 'staples' from the audit such as client contracts.

Our quality assurance team undertook our own deep dive self-audit ahead of the reaccreditation as we were also undertaking the audit during Covid-19.

What would you say are the main benefits to having Pasa accreditation?
It is important to our clients to know we are handling their schemes and members effectively and they can have confidence in the service we are delivering. Our view is this is the only accreditation that is member-focused and the only one to measure the member experience; it therefore evidences to our clients we have the interest of their members at heart.

DB transfer guidance: Finishing the work

Summary
- The FCA's finalised DB transfers guidance is largely the same as draft guidance released in the summer of 2020, although some elements have been tweaked and additions have been made.
- Explanations and examples have been included to help trustees and employers avoid giving outright advice to members, while still giving them the resources they need.
- The amount of DB transfers taking place looks set to decrease even further, given the FCA's position that most savers should remain in DB schemes.

Duncan Ferris delves into the FCA's finalised DB transfer guidance, looking into both the content of the guidance and what it might mean for the future of the DB transfer market

As March came to a close, the Financial Conduct Authority (FCA) confirmed its finalised defined benefit (DB) transfer guidance for advisers, trustees and employers, setting draft guidance from June 2020 in stone with just a few amendments and additions. The watchdog explained that the guidelines had been carved out based on its assertion that it is in most DB savers' best interests to remain in rock-solid DB pension schemes, while advice for those seeking an exit should give advice that is suitable for each consumer's needs and situation.

Content

The FCA's guidance for employers and trustees was released as a separate document to its guidance for advisers, and lists what these parties can do to help members with financial matters without needing to be authorised by the watchdog, including examples to illustrate what they can and cannot do.

For instance, trustees are required to check that members wishing to transfer a pension with a value of over £30,000 have taken appropriate independent advice before allowing the transaction, with the FCA pointing trustees to check advisers against the Financial Services Register to ensure good service.

Commenting at the time of the release, Hymans Robertson partner and head of member operations, Ryan Markham, said: "This should allow trustees and sponsors to review and develop their member engagement and options strategy at a time when members have never needed this valuable support more. This can only be helpful in members engaging fully in their choices and reducing the risk of poor decisions or even worse falling victim to scammers."

Meanwhile, the document pertaining to advisers is intended to help firms identify weaknesses in their existing processes after the FCA said it found that many firms were "struggling to give consistent, suitable advice". It also aims to make the DB transfer market more sustainable by creating a situation where professional indemnity insurers see fewer instances of firms doling out unsuitable advice.

Canada Life technical director, Andrew Tully, says: "The changes that the FCA introduced (mostly from October 2020) were significant and changed or clarified almost every aspect of DB transfer processes.

"The final guidance provides a clear steer of what the FCA is expecting around DB transfers. While advisers will have changed their processes, they will be able to use this final guidance as a reference point to double-check the measures they have put in place and determine whether any tweaks are needed."

The release of the finalised guidance comes after the FCA reported in January that the DB transfer market was showing "some signs of improvement", with a significant fall in conversion rates interpreted as indicating that advisers

were normally suggesting to savers that remaining in their DB schemes was probably the best choice following the release of draft guidance. Additionally, there was a "significant reduction" in the number of savers who opted to transfer out of DB schemes against the recommendation of an adviser.

Tweaks

Following the emergence of the new guidance, LCP partner, Steve Webb, stated that the release had provided "welcome clarity and shows that schemes can help in a range of ways". Of particular concern for Webb had been the earlier draft of the guidance's slightly blurred lines around the definition of what amounted to giving savers advice, which he said had sparked concern that pension schemes could unwittingly end up providing advice without proper FCA regulation.

The offending segment had stated: "Some employers and trustees want to give their scheme members illustrative figures that compare the outcomes a member might get if they keep a safeguarded benefit or transfer/convert it into flexible benefits. But this kind of analysis might steer a member towards a specific course of action, which is part of the regulated advice process.

"As a result, we consider that providing such figures could mean that firms are likely to be giving advice or an inducement. If an employer or trustee provides a transfer value comparator, in accordance with the FCA's rules, they should consider whether they are doing it by way of business and need FCA authorisation."

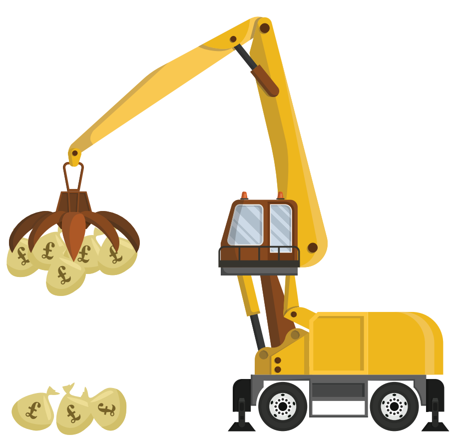
However, following a consultation which ended in September 2020, the new release saw the FCA clarify that schemes are permitted to provide transfer value quotes even if members have not requested them, can provide annuity estimates and can appoint independent financial advisers to assist scheme members.

Consequences

As the FCA have approached the guidance with the perspective that most savers would be best served by remaining in their DB schemes, it seems likely that one consequence of the guidance will be a drop in DB transfers. Tully points out that this will likely continue a trend which has already been observed.

Tully explains: "Around £14 billion of DB pensions were advised to transfer over the year April 2019 to March 2020. These stats also show the numbers of people transferring has fallen significantly since the prior couple of years. So there has already been a fall in the numbers transferring, however it has been fairly level over the 18 months to March 2020.

"These figures are a year out of date and there are some pressures on advisers in this market, including the greater regulatory scrutiny and the cost of professional indemnity insurance. But there are still many people who want to consider a transfer. This guidance will hopefully help ensure we continue to have a functioning DB transfer market while reducing the instances of poor outcomes for consumers."



Aegon pensions director, Steven Cameron, agreed, stating: "While this guidance will provide further confidence to those firms who specialise in this market, it is unlikely to reverse the general downward trend in the supply of DB transfer advice."

The FCA in January noted that the number of firms offering DB transfer advice had essentially halved in the past three years, dropping from 3,042 to 1,521. Similarly, research from Aegon released in January found that just 22 per cent of adviser firms offered DB transfer advice, down from 41 per cent in 2020. Nine per cent of those that did still offer DB transfer advice said they expected to leave the market entirely within the next 12 months,

While this in some ways suits the FCA's view that most savers should remain in DB schemes, it has sparked concerns that those few who would like to leave, for example because of unsatisfactory death benefits, might not be able to seek out the appropriate independent advice needed to transfer out. In the latter study, challenges around professional indemnity insurance and business risk were cited as the most common reasons that advisers might want out of the market, so hopefully the FCA's efforts to improve the market in the eyes of indemnity insurers will bolster its health.

Illustrating how important it is that the market survives, Tully explains: "Many people will be better off remaining in their DB scheme. However, there are some specific situations, such as those in ill-health or heavily in debt, where a transfer will be the best outcome."

Written by Duncan Ferris

Upping the ante

Summary
- Pension schemes have been coping with regulations introduced last October around the implementation statement, but adoption has been relatively boilerplate.
- Further challenges lie ahead of the upcoming TCFD disclosure requirements, particularly in relation to knowledge and data, but progress is being made.
- Industry experts are concerned over the burden of further climate-related reporting regulations, but broader government direction could result in further pressure for pension schemes to take more action to address climate change.

Ahead of the introduction of further climate-related regulations in October 2021, Sophie Smith considers how pension schemes have coped with the requirements already introduced and how they can prepare for even more in the future

Pressure around climate change, and the role the pensions industry can play in addressing the issue, has been ramping up for some time, with numerous requirements introduced over recent years and a new update seemingly round the corner every October. "It's easy to lose track of which October legislative updates made which changes," says Sackers partner, Stuart O'Brien, adding however, in relation to the October 2020 changes, largely implementing the Shareholder Rights Directive, there is a sense that schemes made the required changes "without much fuss".

"Although I think it's fair to say that most tended to introduce somewhat 'boilerplate' style wording to cover the points required," he says. "The real test is what trustees are making of the new requirements to produce annual implementation statements setting out how they have implemented their statement of investment (SIP) policies and describing their voting behaviour. It's still early days but I think we will see a bit of a mixed bag in this first year."

Research from the UK Sustainable Investment and Financial Association (UKSIF) has also supported this, revealing that only one-third of trustees have complied with the legal transparency requirements, and that most trustees have adopted "thin and non-committal" policies. Furthermore, whilst PTL MD, Richard Butcher, says that pension schemes are coping, he agrees that the first wave of implementation statements may not say anything of much significance.

"That's because you tend to approach these things on a compliance basis in the first instance, and next time round you tend to put in a bit more creative thought to try and see what else you can do that will be meaningful and useful," he says.

Rolling with the changes

But trustees will have no time to waste as further changes lie ahead, with larger pension schemes and master trusts expected to face new climate-related governance and disclosure requirements from October, which will require schemes to report on these issues in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

These changes are expected to be "very significant for schemes in scope", according to LCP head of responsible investment, Claire Jones, who highlights the fact that the TCFD requirements are scheme-wide as a particularly big change, with existing requirements instead focusing on investment.

For larger schemes, Jones suggests they check when they become subject to the requirements, before carrying out a gap analysis to see how their current climate practices stack up against DWP's proposals and work out a plan of action.

"The priority is to address those actions with a 1 October deadline – putting in place ongoing arrangements for governance, strategy and risk management," she says; clarifying that whilst periodic activities are not expected to be needed until the first year-end after 1 October, these are complex tasks and should be started in good time.

And whilst smaller schemes might be forgiven for thinking they can keep their heads down, O'Brien warns that The Pensions Regulator (TPR) has made its expectations clear, and that all trustees should be considering climate as a financial risk to their schemes. "As scenario analysis becomes commonplace for larger schemes, I can see a rapid trickle-down to smaller schemes as part of their risk and strategy approach," he says.

"I think two things will really drive change here though," he adds, highlighting the need for trustees to set targets in relation to their climate metrics, as well as the public disclosure element, which includes more prescriptive content requirements.

Butcher, however, warns that the reporting requirements risk adding another layer of disclosure to members in already weighty chairs' statements, suggesting instead that improvements could be made if these were directed towards an informed reader, such as TPR or an employer governance committee.

"It sounds like a small and trivial point, but we spend hours labouring over the language that we use to try to make it accessible to members, so I think that would be one simplification that would make the whole process more efficient and therefore optimal," he continues.

There are benefits to the more prescriptive requirements though, as O'Brien explains that they expected to apply to a smaller number of schemes initially, which is in turn expected to make it a more manageable task for a resource constrained regulator to review the first ones to be published, with a supportive approach expected from most.

"Where schemes fall short in their first year, I suspect TPR will be keen to educate rather than enforce, with fines being reserved only for those schemes which fail to publish anything meaningful at all but we will have to see," O'Brien says, emphasising that TPR's *Climate Change Strategy* certainly made clear their intention to take this seriously.

Echoing this, Jones adds: "I would hope that TPR will use their enforcement powers sparingly while climate practices are at a relatively early stage of development. However, it's important for trustees to know that TPR is willing to use its powers where appropriate and that it is training its staff so they can include climate change in their supervisory discussions."

Despite the warm reception to the inclusion of climate considerations in TPR's strategy, industry experts have been quick to warn against further regulation, as Butcher argues that this could risk detracting from good governance, as trustees are "so busy" reviewing their activities they do not get time to consider how to improve member outcomes.

PLSA deputy director of policy, Joe Dabrowski, agrees: "We do not think now is the time for more regulation, given the significant changes that have happened in the past one to two years, and is expected following the Pensions Schemes Act which will need to both bed in, and may need some rationalisation in future."

Hurdles in the road

Continuing, Dabrowski argues that whilst climate-aware investing is a major focus, there are practical issues still to overcome, as recognised by the government and regulators, stating: "At the moment there is a risk that schemes will not be able to fully report or monitor climate risk due to lack of information from investee companies, standard metrics and a common understanding of climate risk. More broadly, there are a number of barriers that will also need to be overcome within the industry, including the need for greater resources, knowledge and greater training."

AXA Investment Managers solutions Strategist, Bruno Bamberger, also highlights the need to collectively understand what is required to both protect against the emerging risks of climate change and to deliver a positive impact on the wider environment as a further initial challenge. These concerns are shared by Jones, who notes that there can be a challenge in finding sufficient time to understand and address such a complex topic, particularly when juggling it alongside other priorities, such as financial difficulties due to Covid-19.

"While difficult," Bamberger clarifies, "these challenges are not insurmountable and will involve the collective efforts of trustees, consultants, asset managers and others working together to break down the challenges one by one."

Jones also reports a welcome level of activity and innovation in light of the need for pension providers to match, and ideally anticipate, the rapidly changing needs of trustees, employers and members, emphasising "lots of work is underway to meet these challenges".

"And there is an upside to all this," adds Butcher, "it is driving trustees to behave in a particular way, and it is causing transparency. We will have to disclose our executed votes, even if we aren't doing the voting, and that light being shone under the bonnet will create a market imperative for the fund managers, the secondary fund managers and the tertiary fund managers to change their behaviour, and that is a genuine driver for improvement."

Accelerating the pace

This imperative looks set to grow even stronger, with Glenmont Partners co-founder, Peter Dickson, highlighting the government's recent announcement to slash carbon emissions by 78 per cent by 2035 as a welcome step towards the full decarbonisation of the economy, predicting that this will accelerate the divestment of carbon intensive industries from pension schemes into renewable technologies. But there is some scepticism, with Butcher warning that much of the government messaging appears geared towards "putting on a good show" ahead of COP26, despite the sense that change may be coming. "The reality is to achieve the targets they've set we need to make tangible changes very soon, and I expect what that means is that the regulators are going to up the ante on us," Butcher predicts, adding that whilst the government has shied away from compulsion before, this too could change in light of such aggressive targets, warning that "all of the rules could change".

Indeed, in a recent exclusive with *Pensions Age* for Earth Day, Pensions Minister, Guy Opperman, teased hints of further action, stating: "We need a whole economy transition. And better stewardship by pension schemes of high carbon companies will be particularly important. You can expect government action on this in the coming months – watch this space."

Written by Sophie Smith

Driving the transition

Amid the UK Sustainable Investment and Financial Association's (UKSIF) 30-year anniversary, chief executive, James Alexander, chats to Sophie Smith about the work that the group has achieved so far and what lies ahead in the future

What work has UKSIF been doing in the pensions space over the past year?
We've got a lot of members that are pension funds, and we are really proud to have that membership across the asset owner space, as well as the asset management space. We have actually done some quite exciting work on pensions.

We went to the House of Lords for what is now the Pension Schemes Act, pushing for the inclusion of the Taskforce for Climate-related Financial Disclosures (TCFD) recommendations and for greater consideration of the Paris Agreement goals when ensuring effective climate change governance. We're really pleased and excited that those amendments were accepted and that the Pension Schemes Act now does make reference to TCFD and makes reference to sustainability. We actually think that pensions are moving in a really exciting and positive directions.

We have seen a lot of our members now starting to commit to net zero, which is hugely exciting, and our job at USKIF is to learn from our members and to support each other, to try and figure out how to progress on that journey to net zero as quickly and effectively as possible and to drive towards that sustainable future. We were also really pleased the Pensions Minister took our proposal for a central registry of statement of investment principles (SIPs) in December last year, which will basically ensure that all of us can have better scrutiny of pension schemes ESG policies. That's one of the biggest policies wins for us on the pension side of things.

Issues around SIPs were also mentioned in The Pensions Regulator's (TPR) climate strategy, as well as a broader focus on climate change and sustainability in its corporate strategy. What are your thoughts on this and what it could mean for the future regulatory landscape?
We were really pleased to see that SIPs were referenced in that new strategy. TPR also did a wider corporate strategy, and in our response we said that it needed far more reference to climate change throughout this strategy, and to their credit they took that on board and they have now added climate change considerations across the wider corporate strategy, which is really important. Climate change can't be a separate strategy, it has to be embedded into every decision, and we're pleased the government is pushing that point as well.

In terms of SIPs, we think that this is a really positive start to having a register of SIPs. Where we want to get to eventually is that those SIPs are decision-useful, where they are easily accessible and a format that people can understand. We are getting part way there, there's still a bit more work to be done in the longer term, but it's great that that's being taken seriously and we're moving forward.

I think there are going to be some bigger challenges and in our policy vision we talk about the skills needed at the trustee board level, and how we think there should be specific skills on the trustee boards about ESG and sustainability and climate change so that those considerations are able to be effectively embedded into investment decisions.

The pension scheme absolutely has to be investing in long-term value adding assets that are an investment opportunity, that are basically not destroying themselves or destroying the world, because that doesn't create long-term value creation either.

I think there are pension funds that have huge opportunity because they are investing for the long term because they've got savers that are active participants in the real world, and research shows that people want to see their investments aligned with their values. Pensions are a really key place to be making sustainable investments, and we're so glad that TPR recognises that and that many of our members that are big pension funds working hard on this recognise this as well.

With concerns around trustees'

knowledge and understanding of sustainability issues, and UKSIF's previous research suggesting that pension schemes were taking a 'thin and non-committal' approach towards disclosures, is now the right time for further regulation to be added, or does this risk creating more burden than change?

It's so necessary for regulation to be effective. Of course, there are areas where regulation is needed. Driving sustainability requires a degree of regulation. I think the challenge has got to be to look at every piece of regulation and make sure that it's not duplicating something that's already there.

The challenge we've got to balance is we have got a very short amount of time to do an enormous amount of work, particularly when it comes to environmental issues around net zero. Halving our carbon emissions by 2030 is a monumental undertaking that makes tackling Covid-19 look straightforward, and we've all seen the challenges associated with that.

The amount of work that needs to be done is huge and we need every single participant to do their part. That means going the extra mile to build the skills and build up the expertise necessary to make effective decisions. From time-to-time that will require regulations, and our members support regulation when it is about driving us forward towards our mission, towards a sustainable future.

When you add in all the work we need to do on social issues as well though, there are so many things that now need to be considered. I think one of the key aspects is making sure we've got the right data, and that the data industry is able to provide us with the data that's necessary to make good and strong decisions.

Considering the impact of the pandemic, do you expect to see this additional focus on social issues to grow further?

Absolutely, our members are increasingly concerned about social issues, some of which are on the borderline of what is an environmental issue and what is a social issue, so the just transition is a really interesting example.

There's also a real view that building back better is the right approach. I think how we do it requires a lot of strategy and thinking across the country, but there is a keenness and willingness to be part of that building back better from Covid and to create a stronger society. Diversity and inclusion is another massive issue that our members are interested in from an investment perspective.

How do you think these issues can feed into stewardship, and what role can this play in a transition to a more sustainable future?

Stewardship plays an absolutely vital role in this transition. If we want to have the sort of impact we want, stewardship and engagement have to form a vital part of that. The problem is that I think because it's quite hard to be very open about your stewardship negotiations and it's sometimes hard to show quick results from that.

There's a lack of trust in the industry actually being effective stewards and driving the company as investors towards the future that people want. So, we need to start building that confidence when really effective stewardship is actually having a really positive impact and can be a really important tool for getting us to a sustainable future. I think there needs to be some cross industry thinking around how we can better collaborate on stewardship. The UK stewardship code is very positive and I know other countries around the world look to ours as an example of good practice but I still think that there's more to do around public confidence.

Looking ahead, do you think regulation and policy should continue to place a focus on pension schemes, or are further changes still needed in other areas of the investment chain?

In reality, the whole investment chain has a role to play. Nobody in the investment chain can say 'this isn't my problem someone else has to deal with this', because everybody has to play a role in this.

Everyone has a role to play, including the investment consultants, the asset managers, the funds themselves, and the individuals. Individuals have a role to play in articulating what they want to see their pensions doing and making choices accordingly. Of course, not forgetting government and regulations. They can't just outsource sustainable future to the financial services industry; they've got to help knead and drive that transition too.

But everyone is working on this. We engage regularly with the whole industry and there's such willingness to act and to move and to play a key part in this. The thing we're helping people to do is make that engagement in the most effective way, and to collaborate.

This is not something where people need to think of the finer solutions on their own, this is an industry-wide challenge. That's why UKSIF's here, to create industry-wide solutions and share knowledge across the industry.

Written by Sophie Smith

CDI Guide:

Rising to the challenge

Featuring:

- How the Covid-19 pandemic has kick-started greater interest in cashflow-driven investment and how DB schemes can implement this strategy
- How the time has come for cashflow-driven investors to adapt to investor, political and regulatory momentum around climate change
- Cashflow matching in pension asset management
- Company profiles

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Summary

- The market volatility and potential sponsor covenant issues from the Covid-19 pandemic may have caused DB schemes to keep a closer eye on their cashflows.
- Schemes that had implemented a cashflow-driven investment (CDI) strategy likely experienced lower volatility over the past year compared to schemes that did not.
- The predictability of CDI is a key benefit for DB schemes, particularly mature schemes that are increasingly cashflow negative.
- The number of CDI solutions provided by asset managers for schemes of all sizes to access is also helping drive CDI growth.
- Large schemes tend to prefer a bespoke solution for implementing CDI, while smaller schemes tend to use pooled CDI funds.

A wake-up call

Laura Blows explores how the Covid-19 pandemic has kick-started greater interest in cashflow-driven investment and how DB schemes can implement this strategy

The market volatility of the past year – a knock-on effect of the Covid-19 pandemic – may well have caused pension schemes to keep a closer eye on their cashflows.

"Covid-19 may have provided a wake-up call to many schemes. Although their assets may have been volatile, their cash outflows would have remained stubbornly constant, which can cause both sequencing risk and potentially higher transaction costs to fund these cashflows – two of the issues that cashflow-driven investing aims to overcome," AXA Investment Managers solutions strategist, Bruno Bamberger, explains.

Cashflow-driven investing (CDI) is an investment approach that tries to match the expected future cashflow requirements of the pension scheme.

"A properly constructed CDI portfolio ensures that cash is generated to meet pension benefits as they fall due, reducing the risk of being a forced seller of assets to meet benefits. This type of investing is typically well aligned to the long-term, predictable return profile pension scheme trustees look for," Hymans Robertson investment consultant, Ben Fox, clarifies.

"Where the liability discount rate is linked to the yield on CDI assets, this also reduces funding volatility and provides greater certainty to trustees and sponsoring employers. In many ways, CDI can be thought of as an extension of liability-driven investing, which many trustees have become comfortable with over the years."

Schemes that adopted a CDI strategy of holding contractual-income-focused assets and linking the liability discount rate with the yield on these CDI assets will have likely experienced significantly lower funding volatility over the past year, as widening, and subsequently contracting, credit spreads will have impacted both sides of the funding balance sheet, Fox expects.

"So long as the CDI asset cashflows were received as expected, a CDI portfolio will have done its job and pension benefits will have been paid," he adds.

However, the shadow of the pandemic has meant that company defaults and downgrades have been more likely, so schemes that had a CDI framework with "appropriate allowances for bad scenarios will have been able to withstand this better than those without".

Market conditions certainly play a role in whether CDI is an attractive strategy, Barnett Waddingham senior manager research analyst, Gaurav Gupta, highlights.

For example, the market impact from Covid-19 provided opportunities for the less risk-averse trustees to add more credit risk into their portfolio whilst credit spreads were wide, and coupons were high, he explains.

"However, fast forward to today, and credit spreads are tighter, and close to near all-time lows, making a CDI strategy more expensive to implement. This means when implementing a CDI strategy, investors need to be aware of the current market conditions and, from our experience, spread the investment over time, to get the average credit spread level, as it's very hard to time the market perfectly."

Timing market conditions may well be a consideration, but the internal changes and requirements of schemes themselves are a big driver for CDI implementation.

Rise in CDI

As HSBC Asset Management head of institutional sales for the UK, Scandinavia and the Middle East, Maria

Ryan, explains, the key benefit of CDI strategies is the predictability of the investment results.

"Predictability is particularly relevant for mature pension schemes that are increasingly cashflow negative," she states. "As this is the case for many UK DB pension schemes, the volume of pension assets – which are managed according to CDI strategies – can be expected to grow significantly."

This predictability of investment results is achieved by investing into more contractual type assets, such as bonds, and/or effective planning on how a pension expects to meet their cashflow obligations over the coming years, Gupta explains.

Another reason for the rise in CDI by pension schemes is the increase in the number of solutions provided by asset managers for pension schemes of any size to access, he adds.

"For example, three years ago 'maturing' buy and maintain pooled funds, a key component of any CDI strategy, were only offered by a small handful of providers, whilst now, that number has at least doubled. Whilst this may not sound a lot, we expect the universe to continue to grow, and more solutions to be launched, as pension schemes mature, de-risk their portfolio, and position their asset allocation to better meet expected cash outflows," Gupta says.

Bamberger expects the growth of CDI to continue for three key reasons.

First is the increasing number of DB schemes turning cashflow negative, "driving the need to invest in assets that pay income to offset these outflows".

Secondly, schemes are taking the opportunity to de-risk as their funding levels improve. "Rather than de-risk into cash, they can increase efficiency by implementing a CDI approach that provides both interest rate exposure and a return over government bonds," Bamberger says.

"Finally, pension schemes have become more comfortable with CDI as an investment approach to target both self-sufficiency and risk-transfer endgame options."

Options for access

The continued growth of CDI strategies is expected for DB schemes of all sizes. However, the ways in which they access CDI can differ.

"In our experience, we have found large schemes tend to prefer a bespoke solution where they can fully tailor the mandate to their individual cashflow, responsible investment views, risk and return objectives and investment beliefs," Bamberger says.

Meanwhile, Ryan finds that smaller schemes tend to use pooled CDI funds or a blend of suitable component funds. "However, the accuracy and individuality of a cashflow matching with pooled funds can be limiting. Every fund covers a comparatively broad range of maturities and only a few asset classes are represented in pooled CDI funds."

Rather than scheme size per se, Gupta finds that the approach to CDI depends on the amount of governance the trustees wish to take.

Broadly, there are three ways to access CDI, he says. There is the 'building blocks' approach, which takes the best-in-class funds from the asset manager universe and combines them into a CDI solution. "This has the greatest governance burden for trustees but can also produce excellent results. This is accessible for both small and large schemes as the best managers will often offer comingled versions of their strategies," Gupta explains.

Second is the 'one-stop shop' approach, where a manager offers a solution for combining their products into a CDI strategy given information on the client's cashflows and objectives. "This has the lowest governance burden for trustees as they work closely with one provider and can often be accessed by smaller schemes at a reasonable price," he explains. Third is a combination of the two approaches.

Considerations

No matter the approach taken, SEI, UK Institutional Group client strategy director, Alistair Jones, recommends schemes stress-test CDI strategies for liquidity shocks to help ensure CDI strategies are resilient in practice.

Gupta agrees that every scheme has its own set of circumstances. "As such there are a number of things to think through when considering: 'what would a CDI portfolio look like for my scheme?'; 'is CDI appropriate for my scheme today?' and 'how would I implement a CDI portfolio within my scheme?' The answers to these questions will be wholly scheme-specific. At the outset we believe it's vital not to see such an approach as 'all or nothing' and instead, think about it as a journey."

For most schemes, there is a balance to be struck between producing cashflows, generating return and managing funding level risk, he says.

"Schemes must also ensure that the CDI strategy meets its endgame target and remains consistent with its wider risk, return and climate objectives," Bamberger adds.

CDI strategies are also likely to evolve to meet schemes' changing requirements, such as incorporating climate change considerations into investment decisions.

"The coming years will usher in 'CDI 2.0' where *[CDI]* portfolios help schemes manage their climate and cashflow risk," he states.

But for now, it is the ripples from the pandemic that is affecting CDI take-up.

As Jones says, many pension schemes are now in a better position than they were pre-pandemic: "Although Covid-19 is still affecting people's daily lives, markets and funding levels react to future expectations. Those have now recovered for many schemes, meaning schemes may now be able to adopt a CDI approach that wasn't possible before."

Written by Laura Blows

How to build a climate-aware cashflow driven strategy

Pension schemes often have a long-term focus, aiming to build resilience both for today and for decades to come. This focus has made climate-aware investing an inescapable part of portfolio construction. Our approach is designed to address the physical risks of climate change and how investor, political and regulatory momentum around the issue will impact asset values. We believe the time has come for cashflow-driven investors to adapt to this new reality

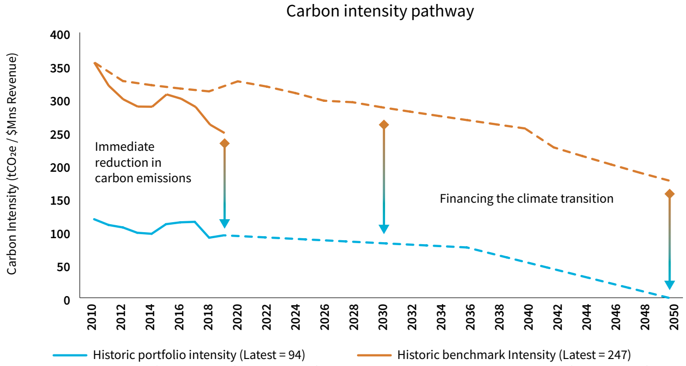
Investors must act with urgency. We have seen a steady flow of new policy announcements and corporate commitments designed to align economies and companies with the goals of the Paris Agreement. This represents an acknowledgment of the risks that rising temperatures bring – emerging and material risks that clash with the predictability required in cashflow-driven investment (CDI). Put simply, climate change could significantly affect the performance of credit markets, one of the core components in CDI strategies.

Long-term credit has a natural alignment with the time horizon over which climate-related risks can materialise – what you invest in today should deliver sustainable cashflows for members by seeking to either allay climate-related risks or benefit from the transition to a low-carbon economy.

As the world moves towards the goal of carbon neutrality, we believe investors can 'AIM for Net Zero' by following a three-step process: **Assess, Integrate and Monitor.** Using this AIM approach to portfolios, we think pension schemes can effectively apply a climate lens to support the goal of resilient, sustainable cashflows to pay their members.

ASSESS – A surge in the volume and quality of data available around climate change has made it possible for investors to gain effective insights into how their portfolios are positioned from a climate perspective. It has also coincided with increased regulatory scrutiny around climate for institutional investors. Larger UK pension schemes, for example, must make disclosures around climate risks in line with the requirements of the Task Force on Climate-related Financial Disclosures (TCFD) from October 2021.

Considering these changes, pension schemes can assess how well-aligned their existing holdings are to the goals of the Paris Agreement, and how they can expect to perform in a transitioning world. Being aligned to the Paris Agreement is often interpreted as the pursuit of net zero greenhouse gas emissions by 2050, with interim goals in place to smooth the journey. This explains why carbon emissions are often discussed as a first step in assessing portfolios. We believe investors should look to the carbon pathway of companies, rather than simply the current emissions. Using a forward-looking approach could help to find best-in-class companies that are targeting decarbonisation or providing climate solutions. Investors may also begin to appreciate previously unrecognised climate-related risks and opportunities within their portfolios – which should help to improve the resilience of their cashflows.



Jargon buster

Cold-washing – While 'greenwashing' refers to the risk of companies failing to deliver on environmental-related commitments, cold-washing relates to the risks of investors optimising portfolios to create the lowest possible emissions. This might look appealing at the outset but could fail to drive wider and longer-term industry decarbonisation, one of the fundamental principles of the Paris Agreement. We believe there should be a healthy balance between low carbon and transitioning companies to fulfil investors' financial and climate objectives.

INTEGRATE – We do not see any viable passive route to building climate-aware portfolios. Once the assessment is complete, security selection is crucial in building investor portfolios that can both mitigate emerging climate risks and harness the opportunities presented, to secure their required financial returns over time.

The vibrant green bonds market will form part of the solution. Additionally, using a best-in-class approach across all sectors can allow schemes to maintain diversification while allocating capital to market leaders to ensure a whole-of-market transition. The maturity of bonds bought is also important as some climate risks are more likely to emerge over time, reducing the appeal of climate laggards at the long end. We use metrics such as Climate Value at Risk to guide investment decision making in a variety of scenarios, backed by deep fundamental analysis from our 40-strong credit research team and a conviction-led, climate-focused engagement programme.

Jargon buster
Climate Value at Risk (CVaR) – This method of data analysis enables us to estimate the effect on assets in a variety of climate/temperature scenarios, from a 'cool' 1.5°C scenario to a 'hot' 3°C warming scenario. A cashflow driven investor can then see the potential performance of their climate-aware credit portfolio relative to a reference universe under those scenarios. The goal when creating and monitoring portfolios is to reduce the magnitude of the CVaR in absolute terms and to narrow the range of outcomes across likely scenarios – seeking to build resilience against the potential market impacts.

MONITOR – Climate investing is constantly evolving. Monitoring the steady flow of new commitments and data is critical if investors are to properly understand whether their climate-aware credit portfolios are achieving their financial and climate objectives.

The next few years will likely see further improvements in the quality and availability of data from issuers. This may include clearer assessments of so-called Scope 3 emissions which relate to the indirect effects of company products and services. More generally, there is significant impetus around the greater use of Science-Based Targets which will aid transparency and the ability of pension schemes to monitor their climate impact.

Cashflow driven investors should expect their climate profile to consistently improve over time as more issuers make more ambitious commitments and as our portfolio managers re-invest in bonds selected to achieve clients' cashflow goals while supporting the transition to a more sustainable economy.

Jargon buster
Engagement – A dialogue with companies is a key pillar for any climate framework. Investors can help protect their investments by encouraging changes in business strategy such as committing to net zero by 2050. It is essential as a risk-monitoring and mitigation tool, particularly given the long time horizon for many cashflow driven investors. AXA IM has encouraged some of the world's largest greenhouse gas emitters to lower their carbon footprint and commit to robust decarbonisation plans. And in both 2019 and 2020, climate issues represented the greatest portion of our engagement activity with management . We think CDI-style strategies can have greater influence over target companies as they are stable, long-term providers of capital.

AIMing high

We believe that by complementing traditional portfolio construction with climate analysis, portfolio managers can seek to construct a resilient, long-term credit portfolio that offers predictable cashflows. Owing to the long-term nature of CDI portfolios it is essential that investors start to incorporate this climate analysis now to avoid embedding risks into cashflows for years to come. Care must be taken as we navigate the path that the world is taking towards net zero.

Our goal through deploying this AIM process for clients' long-term, cashflow-oriented credit portfolios is to avoid the climate-driven financial risks and to benefit from the positive performance of climate leaders. At the same time, we continue to monitor the issuers to whom we allocate capital against their transition pathway and engage vigorously to generate better financial outcomes for pension scheme members and the world in which we live.

PENSIONS Age AWARDS 2020 WINNER
CASH-FLOW DRIVEN INVESTMENT (CDI) MANAGER OF THE YEAR

Written by AXA Investment Managers head of buy and maintain credit, London, Lionel Pernias

In association with AXA Investment Managers

A perfect match

Sandra Gueth explores cashflow matching in pension asset management

When managing defined benefit pension assets, two types of risk may be considered:

• **Valuation risk**

The valuation risk is the risk of a decrease in the funding ratio of the pension scheme at a point in time. To hedge this risk, the market value of the assets should be synchronised with the present value of the liabilities.

• **Economic risk**

Whereas funding ratios during the lifetime of the liabilities are only snapshots, the funding ratios of liabilities at their maturity dates are of long-term economic relevance. The risk of being underfunded at the maturity dates of the liabilities is thus referred to as economic risk.

Cashflow matching, ie generating cash inflows on the asset side that align to the timing and amount of cash outflows for the payment of member benefits (liabilities), is a key instrument for managing both types of risk. However, the different types of risk require different forms of cashflow matching. As liabilities are discounted with market interest rates, the valuation risk can most effectively be hedged by means of risk-averse, liquid bond portfolios. In contrast, reducing the economic risk of a pension scheme often requires returns above the discount rates of the liabilities. For achieving such returns, higher yielding instruments in the liquid fixed income and the illiquid alternative investment space can be used.

As the maturity of a pension scheme increases, economic risk becomes more relevant. As many DB pension schemes close and become cashflow negative, a shift towards cashflow matching with comparatively high yielding instruments – such as securitised and emerging market debt or direct lending – can be expected.

However, the maturity of the scheme is not the only aspect that needs to be considered when designing investment strategies for pension schemes. Other characteristics of the scheme such as the nature, timing and duration of the liability profile also have to be taken into account. For small pension schemes, for example, uncertainty about liability future cashflows may be higher than for schemes with a larger liability volume. In order to avoid unplanned sales of illiquid assets to cover cashflow shortfalls, small pension schemes may prefer to have a higher allocation to liquid assets.

Due to the impact of scheme-specific requirements, there is no unique 'optimal' investment strategy for all pension schemes. For every scheme, an individual strategy should be developed, which is aligned to the scheme-specific needs.

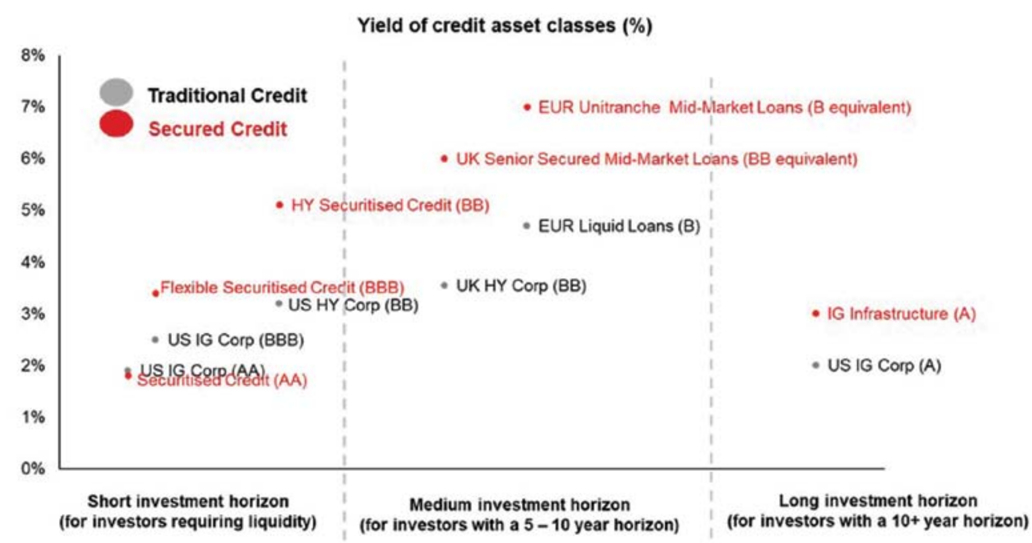
Such scheme-specific investment strategies consist of two components – a target strategy and a process for transitioning the current investment portfolio into the target strategy.

The key drivers for the development of the target strategy are:

• The characteristics of the pension liabilities (nature, timing and duration)

• The scheme-specific requirements

• The available range and relative valuations of financial market instruments



Source: Corporate bond yields, HSBC Global Research as at 7th April 2021; Secured Income yields: HSBC Asset Management as at 31st March 2021. For illustrative purposes only

All three parameters can best be taken into account by a cashflow-driven approach. The idea underlying this approach is to invest every component of the asset portfolio according to its specific investment horizon. This allows the scheme to very accurately align the asset portfolio with the underlying liability cashflow profile. In particular, it can be considered that different asset classes are suitable for different investment horizons. For example, securitised credit is attractive for shorter investment horizons, infrastructure debt is an interesting option for longer horizons.

The cashflow-driven approach is implemented by allocating the assets to the different expected liability cashflows and thereby generating virtual sub-portfolios. For every sub-portfolio, an investment strategy is identified that best meets the pension scheme's funding objectives. Importantly, the sub-portfolios corresponding to the different liability cashflows are not entirely independent. This is because the cashflows generated across the entire lifetime of long-term investments are integrated into the relevant sub-portfolios together with cashflows generated from shorter investment horizon assets. The investment strategies for the different sub-portfolios are thus developed successively, starting with the sub-portfolio corresponding to the most long-term liabilities. The resulting investment strategies on the cashflow level are then aggregated to the target strategy for the overall scheme portfolio.

Applying this cashflow-driven approach does not imply that the target strategy consists only of buy and maintain investments. Other instruments, such as derivatives for hedging risks on the liability side or growth investments, can also be represented. Hedging instruments, for example inflation swaps, allow the scheme to capture the uncertainty on the liability side. Growth asset classes may contribute to closing funding gaps or to building up risk buffers. However, buy and maintain investments often are core components of target strategies for pension portfolios. As far as the default risk can be effectively controlled, buy and maintain investments on the one hand reduce the uncertainty about future cashflows on the asset side. On the other hand, they can serve the same purpose as growth assets. Investments with a yield above the discount rate of the liabilities improve the relation of assets and liabilities at the maturity of the liabilities. Due to the broad range of potential buy and maintain investments, the risk-return profile of the buy and maintain component can be very flexibly adjusted to the requirements of the pension scheme.

Within the buy and maintain universe, traditional credit typically forms the core of most portfolios. However, there are many opportunities in 'secured credit' asset classes to meet the liquidity and risk-return profiles of investors. Such assets are often overlooked. And consequently, even in liquid segments of the market such as securitised credit, there is typically a yield premium versus traditional credit, particularly further down the credit spectrum, owing to the complexity of the asset class. The chart illustrates the yield premium secured credit opportunities across the risk, return and liquidity spectrum over traditional credit assets.

Where schemes have a longer investment horizon and more certainty as to their liability profile, illiquid credit asset classes such as direct lending and infrastructure debt may be attractive, providing long-term predictable cashflows and at a yield premium to traditional liquid credit. We estimate that the yield premium in these secured credit asset classes is approximately 1-3 per cent over liquid credits with similar risk profiles. Therefore, where schemes have longer time horizons, and given the magnitude of the illiquidity premium, there is an argument to be made that such schemes consider these long-term and higher-yielding assets.

For pension schemes wishing to move forward with adopting a cashflow approach, key first steps include evaluating the cashflow profile of the existing portfolio including the current buy and maintain component, if any, determining the scheme-specific target strategy, and evaluating overlap and transition optimisation. By definition, the long-term result of a buy and maintain investment is determined by the market conditions at the starting-point of the investment. For buy and maintain investments, smoothing returns by a phased implementation is thus particularly relevant. Moreover, it needs to be considered that investments in the alternative space have significant set-up periods and so may impact the target strategy. Not only the design, but also the transition to and the ongoing management of the target strategy including the buy-and-maintain components are therefore key to efficient pension asset management and pension fund mission achievement.

Written by HSBC Asset Management Germany head of asset liability and overlay management, Sandra Gueth

Company Profiles

AXA Investment Managers

AXA Investment Managers is a responsible asset manager, actively investing for the long term to help its clients, its people and the world to prosper. With over £770 billion in assets, our high conviction approach enables us to uncover what we believe to be the best global investment opportunities across both traditional and alternative asset classes.

AXA IM is a leading investor in green, social and sustainable markets, managing c£500 billion of ESG-integrated, sustainable and impact assets. We are committed to reaching net zero greenhouse gas emissions by 2050 across all our assets, and integrating ESG principles into our business, from stock selection to our corporate actions and culture.

Whether looking to secure cashflows, enhance growth portfolios or make an impact, our goal is to provide clients with a true value responsible investment solution, while driving meaningful change for society and the environment.

AXA IM employs over 2,440 employees around the world, operates out of 27 offices across 20 countries and is part of the AXA Group, a worldwide leader in insurance and asset management.

Visit our website: axa-im.co.uk/cashflow-driven-investing
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For more about our CDI solutions visit:
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HSBC Asset Management

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HSBC Asset Management

CDI Guide:

Rising to the challenge

Admin roundtable

Pensions administration: Doing the industry proud

Our panel of administration experts reflects on the pandemic, GMP equalisation, small pots, artificial intelligence, simpler benefit statements and more

Chair: How has the pandemic affected administration?

Archer: I have been hugely impressed by the service continuity provided by the various pension scheme administrators that I work with on pension schemes that I'm responsible for. I haven't noticed any decrease in service. There has been a small decrease in turnaround times but, on the whole, early on in March 2020, service providers worked extremely hard to ensure that home working for their staff worked.

Cowler: The sentiment, first of all, should be one of pride and positivity about the way we have served our clients and their members during what has been one of the most challenging years any of us can remember. If we roll the clock back 13 months, trustees, sponsors and members were all very concerned about service continuity. I can see clearly that – and this is echoed by views from clients – the investments we've been making in infrastructure, operating models and technology have all been key in building that more resilient model, and that has stood up well to this recent test. Aon was able to move 100 per cent of the team across all locations, all functions, to a home working model in less than a week. We couldn't have done that five years ago.

In terms of wider sentiment, we are mindful of the scale of the challenges still on the horizon. Clients are now beginning to engage with GMP equalisation at the same time that many are moving into the final phase of GMP reconciliation, whilst we also have the pension dashboards firmly on the agenda. It's going to be a challenge for the industry to engage with, resource and deliver against all of those areas.

McQuade: In terms of general view, it has been a tough 12 months and the industry has held up well. If you'd have said at the start of 2020 this is what's going to happen over the next 15 months, I don't think many predictions would have been quite as positive as things have actually turned out – that's a real credit to the industry. That's not to say there haven't been some tricky situations. With a number of in-house schemes, people had to carry on going into the office during the first lockdown because they were on servers rather than cloud-based systems, so accessing systems remotely was a challenge. Also, some providers were hit harder than others in terms of sickness – it can be quite a big challenge, for instance, if you've got senior people who have been hit with long Covid.

So, there has been a bit of fallout from it but, generally, the way providers have reacted has been positive.

Pickering: I have a great deal of sympathy for administrators as they have had so much thrown at them by regulators and legislators in recent times. It would have been hard for them to survive even in a normal world, but I've been very impressed by the way they've coped with the pandemic.

The patchy area has been the call centres – not all have stayed open all of the time. Some have been able to deal with vulnerable customers and not with others. But, by and large, they've responded well, mixing and matching, working in an office and at home.

Pension administration doesn't naturally lend itself to working from home – being able to lean across the chair to your neighbour and say, "what did you do last time you had this problem?", is something that you can't replicate when working remotely. But, by and large, they've done us proud.

Menezes: I'm delighted with the way pensions administration has transformed over the past two decades. Alan *[Pickering]* wrote an article

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CHAIR

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

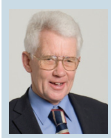
PANEL

David Archer, Client Director, PTL UK
David is a client director at PTL, a provider of independent trustee and governance services. As well as running routine trustee appointments, David is experienced in complex and large scheme issues involving restructuring; corporate takeovers; insolvency; scheme merger and regulator clearance. David founded PTL in 1994. He has been a partner in Pitmans LLP since 1992. He is a regular contributor to the pensions press and regularly takes part in pensions roundtables and events.

Gary Cowler, Partner and Head of Integrated Pensions Clients, Aon
Gary Cowler is a partner at Aon. Having been with the firm for 20 years, he co-leads the UK pensions administration business and is head of integrated clients. Alongside the leadership role, Gary continues to manage a portfolio of integrated or 'full services' clients; crucial in keeping close to what matters to clients and reflecting that in the business' direction and strategy. Gary is also a regular contributor to the pensions press and regularly takes part in pensions roundtables and events.

Ian McQuade, CEO, Muse Advisory
Ian has more than 30 years' pension experience, with a breadth and depth of expertise covering the management and administration of DB & DC pension schemes. He advises trustees and companies on a wide range of strategic, operational and governance related issues. Examples include setting strategy, operational effectiveness, review, selection and implementation of administrators and advisers, supporting governance improvements and leading major change projects.

Girish Menezes, Head Of Administration, Premier Pensions
Girish is head of administration at Premier Pensions. He has over 20 years of experience in business strategy, proposition development, technology build and operational delivery. He is also the director of the Pensions Administration Standards Association and on the Advisory Council of the Pensions Management Institute. He is a regular contributor to the pensions press and speaks often at industry events. Girish has a Masters in Management from the London Business School.



Alan Pickering, President, BESTrustees
Alan is president of BESTrustees and a trustee of a number of pension schemes. These include The Plumbing Industry Pension Scheme, which he chairs, and The People's Pension. Alan chairs the governance group of the Royal Mail Statutory Pension Scheme. He was a trustee of the Kosovo Pensions Savings Trust between 2011 and 2015. Until 2013, he chaired the financial literacy charity, Life Academy. He has also served as a non-executive director of The Pensions Regulator and was a member of the Occupational Pensions Board.

Paul Sturgess, Managing Director for Benefits, Railpen
Paul joined RPMI in December 2017 and he is the managing director of the benefits business unit. He is responsible for RPMI's Rail pension administration, customer engagement and transformation and change functions, as well as a portfolio of employee benefits (third-party administered) schemes. He is a member of the RPMI board. Paul has over 40 years' experience in the pension industry. He has a wealth of experience in both DB and DC occupational schemes and has been involved in a number of leading-edge pension developments.

recently about administration being the Cinderella service and that's absolutely true. Two decades ago, we were very much the sad sister in the cellar. We were underinvested, we weren't profitable, and we were thrown in as a sort of freebie, as part of an overall service. The pandemic has shown how investment has transformed the industry – it has shone a light on the administrators that did invest, and the administrators that didn't.

For instance, those in-house administrators that haven't been able to invest in their technology, or have small teams, they have found it difficult to engage their team, or couldn't turn around remote access to their systems, or couldn't handle the calls. Whereas organisations that had invested in workflow, automation of calculations, online member verification and so on could move their service to homes across the country, and run remote administration seamlessly.

Sturgess: I've also been pleasantly surprised. Covid has taught us, as an industry, that things are much more possible than we might have thought. In my world, service levels were not only maintained but, in fact, improved, and we even managed to successfully carry out some large-scale system migrations during Covid. Ironically, during the pandemic, whilst we did have some people who were poorly with Covid, sickness levels on the whole collapsed.

It's good that the industry has done so well. Saying that, it's not necessarily happened as easily as it might appear. People have had to be quite imaginative in how they've dealt with things. We went through a period where we could take calls, take messages and return calls, but we couldn't take them live. We can now, but we couldn't at first.

Will it go back to how it was before? I don't think so, and it's probably good that it doesn't. You will be looking at something, pretty much universally, that is more flexible in the way people work, the times people work. But working remotely does have an impact on colleagues. It requires a level of discipline and it requires different skills.

It's not sustainable for everyone. I feel particularly for young people and it's also much more challenging for people whose careers require social interaction, as well as technical interaction, that they're not currently getting.

Pickering: I agree – pensions admin is a team game and the team players need to be on the same pitch for some of the week, if not all of the week.

Recruitment and teambuilding is particularly challenging when everyone is working remotely. Many HR directors have found ways of doing it, and doing it well, but humans are by nature quite gregarious. Pensions admin can be both technical and somewhat monotonous, and working alongside other people helps you cope with the peaks and the troughs.

I'm all for flexible working, but I remain to be convinced that working remotely for all of the time, in an area like pensions admin – which is, after all, a people business – is the right thing. I want people to feel members of a team, to appreciate the brand under which they sail, to be loyal to that brand and, as a result, provide customers with the best possible service. So, I think we will see a mix and match approach to working.

Sturgess: Mix and match is probably the correct phrase. Some people in my team are desperate to be back in the office, and others are getting quite used to working remotely. There is a balance to be had. Team is important. We've recruited people throughout lockdown. It is harder, and it's taught me a lot around the whole induction piece/the way in which you train someone. Very

often in our industry, there's a period where people are working and beyond structured training, they also learn almost by interaction and osmosis. That's hard to do in a remote environment.

For certain things, you need to be more disciplined and structured working in a remote way. I was always a great exponent of managing by walking around. I rarely sat at my desk. I could see people in the corridor and have spontaneous conversations.

So I expect we will land in a mix and match environment – and some people will even choose to be in the office more frequently, depending on their personal circumstances. Sometimes there's no substitute for a team meeting, sometimes there's no substitute for people talking to each other, and I can envisage a situation where someone in their induction process, for example, might be much more office-based for a period, before they can work more flexibly.

Menezes: Employee engagement is really important at Premier. It's our number one metric. We've also done a lot of research into what other big organisations have done in this area. What's worked? What hasn't?

There are a few key aspects. The first is that 50 per cent of our employee base want to work from home two or three days a week. Then you've got about 10 per cent who want to come into the office; and another 10 per cent who never want to come into an office again. We want to support all of these people. We realise it helps work/life balance to be

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able to work remotely and reduces the time and costs of commuting.

Secondly, initial training hasn't been an issue for us, because we're so well automated, and we've got benefit specifications, knowledge bases, Zoom and so on, but my fear is longer term. If we're working from home for a year, two years, I'm not worried but, in the longer term, how do you train your employees? How do you mentor your employees, whether it's the junior people or the senior people? How do you move them through the ranks? Also, how do you create a company culture?

The final point relates to innovation. If people work from the office, five days a week, innovation tends to be stifled. Whereas, if people work five days a week remotely, you can get some wacky ideas, which often don't work in practice. So the best method of innovation is, apparently, a hybrid model, where you have space to think, but then you keep coming back and working together in groups and trying out things and seeing what works.

That's what we are trying. We are creating a template to allow people to work flexibly, but within certain parameters. They have to come in three days a week and their team leader will decide which three days. Because it's also pointless members of a team coming in on different days. So, when teams come in, they come in together, so they can learn from each other.

Archer: Picking up on that comment about culture, one important aspect

of culture is what I call the defensive aspect of it. However good your internal processes are, and however well they might be communicated, one still has to have a culture. We all want to be part of a culture where, if somebody junior in the organisation sees something going on that they're not easy with, that they speak up. That they feel they can walk into the door of anybody senior, or to the desk of anybody senior, and say, "I'm a bit uneasy about this".

That often happens at an informal level. Any organisation needs to have that openness, needs to have that ready communication at all levels, as opposed to a top down, oppressive culture in which employees don't feel free to speak out. That openness – which is important for the service delivery as well as the integrity of our organisations – is key and I am concerned about how we maintain that openness if everyone is working from home; that coffee machine/water cooler chat where we pick up pieces of information. We will need to find ways to replicate that collegiality. I agree also that a hybrid/two or three days in the office model is what, probably, most of our organisations will adopt.

Cowler: We adopted the agile working profile across all offices some years ago and, of course, you have to back that up with technology. That was a key determinant in helping us get the whole of the workforce fully operational, in a home working environment, in less than a week last March.

But whilst the shift to home working across the industry has been more successful than any of us might have imagined, we shouldn't see it as a nirvana of any sort. We are going to have to think quite carefully about what this new flexible or hybrid model looks like for the future. It's about finding an approach that works for colleagues, for clients and also for firms. It's going to be a delicate balance. You have got to work out how you coordinate, sensibly, the time that a team spends in the office, together, so that it delivers some real value for them.

Also, whilst home working might suit some more experienced colleagues – who have done most of their learning and who have built their networks – we have got to balance that against the needs of some of the different parts of the workforce. New recruits, for example, will need some of those more experienced people around so they can learn from them and network with them.

Whilst we can do some of that virtually with technology, and we've proven that we can over the course of the last year, some face-to-face element is also going to be important. Without that, there's a risk that there's a generation coming through that might be heavily impacted and that we might let down.

McQuade: Where people have tripped up is when they're trying to apply a blanket policy to everybody. That's clearly not going to work, because different people want, or need, different things. There are people who are desperate to get back into the office. Every time we've had a lockdown, as we come out of it these people want to get back because, perhaps, they live on their own or don't have a good workspace at home. You can provide people with the appropriate setup, but that's not what it's about. They want to be in an office, and that's bound to be the case for some. So, just saying, "everyone is going to be home-based and that's the way forward," is not going to work. It's about being flexible.

In terms of people learning from others in the business, people certainly learn by sitting next to others. They learn by working with experienced people. Yes we have technology, we have Zoom, we

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have people picking up the phone, but it's not the same as sitting together.

Small pots

Chair: According to a report from 2020, the big four auto-enrolment (AE) master trusts have around 11 million small pots, ie of less than £2,000. Of those, 75 per cent are less than £1,000, and just short of 24 per cent are less than £100.

There's a risk that if we try and merge some of these pots, for example if you have one person with two pots of £99, and you merge them, suddenly the £1 per month policy fee that some providers charge is going to be applied, and that doesn't sound like a good result. So, how are we going to deal with small pots?

Cowler: I've seen one estimate that the number of those small pots might grow to something like 27 million by the time we get to 2035.

So, whilst it might not be something that's directly and significantly impacting Aon's administration business given our areas of focus, it's clearly a massive problem for the members and one that the industry needs to tackle.

Also, while those stats indicate poor outcomes for members, they are also not good for providers. Where markets or parts of markets are not sustainable for providers, then poor outcomes for customers tend to follow. There are a range of options being considered in terms of the models and the approaches to address this issue, but we'd all agree that a solution is needed and ideally, it'll be soon, and it'll be simple.

Pickering: Small pots have become a problem, and it's one of the flaws in the AE system that we have tried to include people for whom a pension scheme isn't the natural home. People who are on lifelong low earnings, who are itinerant workers, are going to have small pots, and we have to find a way of amalgamating those small pots.

For as long as there is a competitive number of master trusts in the firmament, I'm moving towards an idea that if you are a trustee of a ceding scheme, whether it's a master trust or a single employer trust, you will say to your customers, "if you don't move your pot on within six months, then we have selected someone with whom we are comfortable, to steward your pot for the next phase of your accumulation journey".

Sturgess: I have several hundred employers in the railways industry, and we run a DC master trust. A lot of people move to different employers within the railways industry, so they'll disappear from one entity and reappear in another.

So small pots is an issue for us, and any charging structure is a balance. However, as our DC charging structure is AMC-based, it doesn't result in as many 'shrinking funds' issues for those with very tiny pots.

Equally, a lot of the workers that we have joining those schemes are not the sort of itinerant workers that get into difficulties with small pots. For someone who is a career itinerant worker, you're not going to end up with a massive pension pot. That is the reality of life. So, you have to question, what is the right vehicle for those sorts of people, who were previously outside the catchment of pension schemes?

What I do worry about, also, is that the solution to lots of small pots could be spending a lot of money moving small sums of money around. That's crucial to me, because I'm involved in a mutual so, in effect, any money I spend dealing with this is effectively other people's money. I'm spending members' money, in the Railways Pension Scheme, so I always want to make sure I spend that sensibly. I worry that we could end up with a

system where there is a substantial cost of moving. The question then is, who bears that cost, and what is fair?

Menezes: If a member has a small pot in a trust-based arrangement, whether a DB or DC, there's a lot of risk and cost taken off the table and therefore, from the member's point of view, actually the best bet might be just to leave the money there until the point of retirement.

From the trustee's point of view, if they pushed those members out of the scheme, I think they'd be in trouble with the regulator, because it is probably not in the member's interests to do that. That's an important consideration. So, any solution should keep in mind the specific dynamics of the trust-based sector and not create unnecessary costs and increased risks.

On the other hand, for the insured market and master trusts, small pots is a huge problem at 75 basis points. The problem was so evident, and when auto-enrolment came in, we know some organisations refused to take on retail pensions schemes because of this, because they knew this was an issue.

How do we solve it? Because it doesn't work for members to have little pots all over the place, with different charging structures, different investment arrangements. I like the idea of virtual consolidation, and Pasa has always supported virtual consolidation, because pot follows member just sounded like a very expensive administrative chore. Dashboards would allow virtual pot consolidation and for people to see where

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their little pots are, how much they're charging and possibly, at the click of a button, to consolidate it.

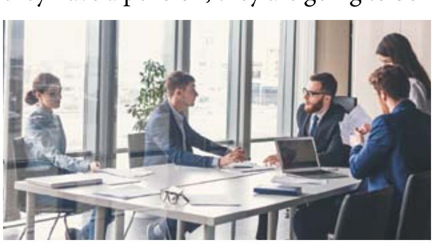
It is in the interest of insurance companies and master trusts to make that consolidation easier, to sell that consolidation to people, to give people a cost-effective way to do it.

McQuade: The dashboards will help here, and it works well for DC pots; but the member still needs to engage with it, and this is the main problem.

When we were talking about pot follows member, I said at the time we should be looking at how the Swiss system works. In Switzerland, you have six months after leaving an employer to transfer your pot to the scheme of your new employer. If you don't, it gets transferred to the consolidator vehicle that exists.

We have a potential consolidator vehicle here in the UK – Nest. The problem with that is the insurance industry, more than the pensions administration market, has concerns with anything that drives more money towards Nest, which I so understand. At the same time, from a member point of view, if their assets were consolidated, with no costs on the transfer, then with the 0.30 per cent charge, I don't think that's a bad outcome for members. We know also that a lot of the people impacted by multiple small pots are those who already have an account with Nest.

Archer: The broader issue is pensioner poverty in 30 or 40 years' time. So many workers think, because they have a pension, they are going to be alright – they don't appreciate that their small pot won't go far in 30 years' time.



I would either double employer contribution levels in AE, or significantly improve the state pension. Neither of which is politically attractive.

GMP equalisation

Chair: How is the market coping with the continued administration challenges created by GMP equalisation?

McQuade: Everyone understands why GMP equalisation is happening, but it does worry me that we're going to spend more solving the problem than we are in actually rectifying people's benefits.

From a resourcing point of view, the amount of effort that will be taken up with this is terrifying, when there are lots of other conflicting priorities.

Some providers are taking a more pragmatic approach and looking to focus on the narrower population that really needs help in this area. They are looking at how they tackle this issue as efficiently as possible so that the time is spent on the members where there really is going to be an impact as a result of equalisation.

It's an absolute beast of a project, as far as our industry is concerned, so the more pragmatic we can be, the more we can focus in on the small proportion of members who have really lost out, and therefore need to have their benefits rectified.

Pickering: I am sad that this issue ended up in the courts, rather than in Whitehall and Westminster. I'm sure we could have found a legislative solution, even if it meant passing some primary legislation. It's not the sort of topic that lends itself to a court judgment because, although judges are more down to earth than many of their critics would have you believe, no matter how down to earth a judge is, they are never going to be able to sort out the weeds of GMP equalisation.

We are spending a mammoth amount of money to little or no benefit. It would be cheaper just to give every member of a contracted-out pension scheme a one-off bonus and call it quits.

Menezes: Pasa has done a lot of work on GMP equalisation and we recently set up a working group to look at this from the practitioner's point of view, addressing questions such as how are we going to do the equalisation calculations, and how are we going to store the data in a standardised fashion? If you look at the problem, clients of ours who are going through the process are finding, actually, the amount of data cleanse required, especially if you can leverage some of the HMRC data for example, could be much less than expected, and you should be able to make many more assumptions than we first thought, so data cleansing may not be such an issue. Administrators also originally thought that they'd have to do member-by-member calculations for bringing things up-to-date, or the rollback, roll forward. Whereas, actually, there should be quite a simplified, automated manner to do the rollback, roll forward, which could be far more cost effective than first expected.

There are lots of clever minds trying to support this process and if we, as an industry, come together, we can find a pragmatic way to deal with this.

Cowler: I absolutely understand the comment about pragmatism, but I also think back to those cases where the initial challenge of sex equalisation in the 1990s saw some compromises made for a quick and easy solution. Too many schemes are still paying the price for that today, some 30 years down the line. If we imagine the same scenario here, that we're re-opening the file on GMP equalisation again in five or 10 years' time, perhaps at the point of buyout, and the approach taken on a particular scheme is significantly challenged, well, that will be horribly unwelcome to say the least. I guess the point I'd make here is that the only thing worse than dealing with GMP equalisation is having to deal with it twice!

We have seen some important progress made so far by clients, but we're still in the relative calm before the storm, and there's an awful lot more to come. The majority of Aon's clients are now equalising future transfer values, for instance, and we're seeing good engagement with the data analysis and early data cleanse work. But the serious job of deciding upon the method of equalisation is only now getting under way for many clients and, of course, that's what's going to trigger most of the work.

So, the data-related work is going to be a significant undertaking for administrators, and I do expect there will be some capacity constraint coming across the industry. If all this arrives at the same time, it's going to be in clients' best interests to move sooner rather than later, and perhaps think about beating any possible capacity crunch, which might be on its way.

Also, the follow-on work for administrators depends very much upon the method decision that trustees and sponsors are making.

For the earliest movers, we are seeing a fairly even split between those choosing dual records and those choosing conversion. An interesting angle on this, however, is that of those choosing conversion, almost half are seeing this as a wider transformation opportunity. They're combining GMP equalisation with a PIE offer too. That can be a good outcome for the scheme and for the members, but it also means conversion won't always be the relative light touch approach for the administrator that might first be assumed.

Sturgess: I fear that, whilst we all want as pragmatic a solution as possible, the moment for real pragmatism has passed, so we're saddled with it.

The choice of method is a much harder decision to make than people think. The Rail Scheme has got many separately funded sections, and given that the conversion route requires agreement from employers, then that's not easy to achieve.

There's also a degree of frustration among trustees that they have to bear the cost of the fact that other things didn't happen with state benefits/GMP, and it does become disproportionate.

One of the things I was particularly encouraged by, when I joined the board of Pasa, was the collaborative work that's been happening with other industry bodies, to try and come up with the right, most practical route for this.

Archer: The two things I would love to see would be a decent de minimis threshold being applied here. We might all differ on where that de minimis threshold should be set, but it would make a big difference. The other thing would be limitation period. There ought to be one. So, I would love to see if there's any scope, even at this late stage, for some guidelines to be set along those lines that would make the process simpler.

Member web and self-service

Chair: There have been developments in the areas of member web and self-service – but is there enough demand?

Pickering: This is clearly an area where DC leads the way, because it hasn't got the legacy issues that DB has. I'm a great believer in multichannel access to pension engagement. One mustn't assume that elderly people can't cope with digital tools, but one shouldn't also assume that all young people can access pension information digitally. So, we are

going to need multiple channels – paper, email, websites, and some of the wackier pieces of kit that people can use. There is also a need for human intervention at some stage in the process.

Also, one mustn't apply every tool in every set of circumstances, because there will be certain membership cohorts that only need to engage at a certain level, and to make the kit so complicated that it's hard to find a level at which you want to participate is pointless.

We have to make the choice, hoping that we understand what our cohort membership wants and how they can engage with what they want and what they need, and mustn't just do a technology dump and say, "there you are – get on with it".

Menezes: In DC, member self-service is critical, and we find lots of engagement with our DC schemes. I would like to see all DC members logging in when they get their benefits statement, to look at what they have, review their requirements and so on. For people to do that, you need to move away from paper benefits statements being sent once a year. You need email communication, online benefits statements, lots of modelling tools, lots of online learning resources, because that's what's going to get DC members online and engaged and reviewing – not every day, not every month, possibly not every quarter, but at least once a year – that would be sensible.

For DB, it's interesting – most DB members only review their DB arrangement a couple of times in their

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lives, if that. They don't really want to go online for this. Saying that, I do believe there is a need for a frictionless website, where they can go online, fill in a form, press a button to submit, and a few days later they are emailed a retirement quote or transfer-out quote, whatever it is they are looking for. That's how it should work. Then, if I'm a pensioner, I can log in once a month or once a year, look at my payslip, print out my P60, download it to my computer, and so on. A few people may want to use it for changes of address, a couple of times in their lifetime, update their expression of wishes, for example. So, we already have a lot of engagement online, but we need to make sure we review what members need and focus on the right things.

Sturgess: I think there is enough demand for DB. If I look at the main scheme I run, we have had websites for many years, but because we had a complete system migration, we had a new website, which involved people re-registering, and this has been up for a little bit less than a year. For most of the membership, in fact, it was only available within the last six months, and I'm running with 44,000 registrations in that scheme! Yes, it's a big scheme, but our DB members have carried out 73,000 transactions over that period.

So the DB appetite needs to be properly understood, because it's more extensive than we think. The dashboard will help drive this because the people retiring now are the people that have worked in the digital age, so it is going to change. People's energy is going to change, their wishes are going to change. It's only going one way.

We will always need different ways of dealing with people but, if you find your benefits through the dashboards, by definition, you're engaging electronically. That's how you're going to do it. So it's going to help drive that deferred population, where people are less engaged, or the retired population – who have less need, frankly, to go into their scheme every five minutes – where you'll get registrations. I've got a lot of retired people registered, at great ages, but there will be differences. Things like the dashboard could become a catalyst to change, just as Covid has been.

Cowler: We have also seen quite a significant increase in all forms of engagement from members, including preserved members, over the course of the past five or six years, since pensions freedoms. For instance, we're increasingly seeing people asking for large volumes of retirement and transfer quotations. If they are not thinking about transacting those, they're instead trying to get their affairs in order, or they're trying to do some financial planning.

Interestingly, we see that about 80 per cent of those quotes do not go through to any final change in status for the member. I'm convinced that if we can find a more efficient way of satisfying members' needs in real time for what are 'what if' calculations in most cases, it's better for all parties; members, trustees and administrators. It's cheaper and more efficient so better for our clients, it's better risk and data control, so yes, web is proving to be a really important facility, in that respect.

We, as administrators and trustees, can work together to decide how we want to nudge and engage members to use web at the right time and in a way that works for them. So, when a preserved member rings up and asks for five or 10 different retirement quotes – which is not exceptional – instead of sending them in the post, or an email, a week later, it's much better to invest some time talking them through their first log-in, or talking them through their first quotation run. That person is then equipped to get all that they need, whenever they need it, for the future. They get a richer member experience, and the client gets a broader, more efficient, better risk-controlled, more responsive service.

Simpler benefits statements

Chair: Are we getting any closer to delivering simpler benefit statements?

Pickering: I genuinely have a passion for simplified benefits statements. I'm not convinced we need standardised benefits statements, because simplification and standardisation can often be pushing us in different directions. But for almost as long as I've been involved with pensions, there's been a belief among the chattering classes that if only we gave members more information, they'd make more use of that information.

Obviously, the anti-scam campaign can try and help members smell a rat, but I don't think we can rely entirely on member communication as a means on its own to protect members against scammers, but we ought to be able to communicate with members in a way that is a meaningful as it can be to someone who only dips in and out of pensions. Whatever we issue, we've got to bear in mind who is on the receiving end of what we issue, and the more we can make it cohort specific, the better.

Menezes: Simpler benefits statements – I love the idea. I hated the execution, but I'm coming around to it. The reason is that, from my conversations with the DWP, it's going to be a two-pager, high-level information, simplified, standardised statement. You will get it from all providers at the same time, and then you can compare things on a like-for-like basis. Therefore it's a precursor to the dashboard.

My understanding is also that you don't have to send it by post. You can send it by email, you can have it on a website, and it doesn't have to be the only communication. So, if you have a fabulous benefits statement, if you've got a video statement, you can still provide that as well. So, I'm getting won over. I'm on the DWP working group focusing on this, so I am looking forward to providing input into how it develops.

Sturgess: Who can argue with simpler benefits statements? One word of caution, though, if you've got a half decent website, where someone has engaged and registered, the benefits statement *per se* is an irrelevance, because they will actually see things that are more up-to-date than the benefits statement on the portal.

Protecting members at transfer

Chair: Protecting members at transfer: how can this be achieved?

Cowler: There are two things there. The first one is the practical steps that we, as administrators working with trustees, can take to mitigate against scams, while the regulator's pledge is another positive step. On the pledge, there are some points of detail that concern us, but we'll get those resolved in good time. We also all remain mindful that scammers will keep evolving. We'll need to keep up and try to get beyond the scammers.

The second angle is the work that we and trustees can do in engaging non-retired members generally. The more engaged members are with the scheme in the first place, the less vulnerable they will be to scammers. So, if you've got regular communications with members, that can help maintain contact and engagement, it also provides an opportunity to warn against the risk of pension scams in the first place.

The particular area, though, which has been very beneficial, is that more proactive approach in communicating the wider range of scheme options in the run-up to retirement. This has been beneficial for members and even more so where we're aligning that with a selected, and often paid-for, IFA.

We've seen that becoming increasingly popular. The feedback from members, trustees and sponsors has been that it's a very valuable investment of time and money. Again, I call it out here because the degree of engagement that it brings to the scheme is a huge step in reducing the risk that members will be caught by scammers in the first place.

Menezes: Given the flexible retirement options that are available, we need much more education – be it via paper, online, or whatever - for members, so that they understand transferring and the implications of it. Because 90 per cent of members shouldn't be transferring, but those who should do need the right support. Also, every trustee body is going to, at some point, have to bite the bullet and offer a preferred set of advisers to their membership. Because if you don't, then they're open to scams. But if they get scammed, and the trustees had offered a preferred adviser or advisory firm, it will be more difficult for the member to make a legal case against them.

Pickering: Many years ago, when I was trying to persuade employers to have a designated financial adviser, they felt that having such an adviser was a risk too far. I think not having such an adviser is a fairly fundamental risk. If you don't provide people with access to trusted advice, they'll talk to someone in the pub instead and that frightens me.

Chair: What trends might we see in the future? What does artificial intelligence (AI) potentially come in?

McQuade: Looking ahead, people having the ability to self-serve is going to be important. The only way we can address pensioner poverty is by getting members to really understand what it is that they're going to receive. That's not just what they're going to receive from their individual pots, but also what they are going to get from the state.

When you bring it all together, along with anything else that they've already got planned outside of their pensions, what does that look like to them? That's where the likes of AI can make a difference. So, there is a real opportunity to use some of the technology, some of the AI, to help people engage with their future and start to do something about it.

Archer: Most people outside of pensions think of administration as being a simple role, or a simple task, and we all know it's not. It's complicated data analytics and processing, and the pay for basic administration work is too low. It has been regarded as a commoditised service by a lot of employers and trustees and that has driven prices down.

It seems to me that, in pension scheme administration generally, there are quite a lot of slightly demoralised and underpaid workers, and that's because of pressures that drive costs down. I hope that the introduction of better algorithms, more reliable AI systems, will equip those workers to be free to do more interesting work.

Summary
• UK retirees receive an average of 24 per cent of their annual salary through state pension payments, ranking it the lowest amongst developed countries.
• However, there are other factors to take into account, including the supportive occupational pension sector and tax relief on contributions.
• Many industry experts have called for reform of the state pension system in the UK, notably on the triple lock and state pension age.

The bigger picture

The OECD has ranked the UK's state pension as the lowest in the developed world as a percentage of average earnings, but is there a bigger picture to consider? Jack Gray investigates

The UK's state pension (SP) aims to provide a safety net to workers across the country. However, it is widely accepted that it is not enough on its own to retire comfortably. In its current guise, those who have paid 35 years of National Insurance contributions receive the full SP of £179.60 a week when they reach SP age, which is currently 66.

The most recent data from the Organisation for Economic Co-Operation and Development (OECD) shows that this equates to 24 per cent of average earnings, the lowest in the developed world.

Although this has led to criticism by some, it is important to consider all the factors that contribute to an individual's retirement. Some countries may have a higher SP, but few have a private and occupation pension sector that is supportive as the one in the UK.

Out with the old

In 2016, the UK moved to the 'new' SP, which aimed to simplify a complex system to help the public plan their retirement and create a fairer structure. LCP partner, Steve Webb, who was Pensions Minister during the development of the new SP, says it was introduced to "deal with a number of failings of the old system".

Alongside the complexity, these failings included the interaction with means testing, which could result in those with a small private pension not being better off than if they had just a SP. Webb also points to the abolition of the State Earnings Related Pension Scheme (Serps) and contracting out as positives.

Although the reforms aim to simplify the SP, Aegon pensions director, Steven Cameron, notes that this will not be achieved until all those who had entitlement under the old system have reached SP age.

He also explains that "many" workers built up a "significant" additional amount through Serps, which meant that even those not in a workplace scheme could save enough for a comfortable retirement.

"Future generations in the new SP, many of them will receive less than they would have received under the previous two-tier structure," Cameron adds. "While I get the reason for the change, I wouldn't say it was without its drawbacks."

However, it could be argued that auto-enrolment will create a new Serps-like system, whereby savers will have saved a second income to the SP.

In with the new

While the new SP is seen as an improvement by most, it is not immune to criticism. "The SP is an incredibly valuable part of the retirement ecosystem in the UK and is playing its part in helping boost the retirement income prospects of millions of people," says Canada Life technical director, Andrew Tully.

"However, the SP is far from generous, with the onus really lying on individuals to take personal responsibility to save if they wish to enjoy their retirements."

AJ Bell senior analyst, Tom Selby, adds that while the SP is a good foundation, it only provides a basic standard of living and puts the UK alongside Lithuania and Mexico in terms of generosity, according to the OECD.

"At the other end of the spectrum, countries such as Austria and Italy boast an income replacement rate via mandatory state benefits of over 90 per cent," he notes.

Some cohorts benefited from the change, as Webb explains: "One group who benefits, on average, is women. For example, if you take time out of paid work to bring up a young child, which on average is more likely to be a woman, you have as much SP rights for that year as a year running a FTSE 100 company.

"The other group is the self-employed. Under the old system, their National Insurance they paid accrued them a basic SP but not Serps. Whereas a year of self-employed National Insurance contributions builds you up a year of the new rate."

The bigger picture

Despite the 'basic' standard of living provided by the SP, it is important to understand the additional factors that contribute to a comfortable retirement. A large occupational pension sector, with savers automatically enrolled once they earn a certain amount, helps plug the gap. Additionally, the UK has relatively generous tax relief on pensions.

"If you compare the UK, where we have a big occupational pension sector, with a country where the SP is very high, they will tend to have a much smaller occupational sector," explains Webb. "What matters is the total income, not just the bit that comes from the government. Through tax relief particularly, there is a lot of public money that goes into bolstering the 'second pillar'."

Selby agrees, adding: "The private pillar of UK retirement provision is strong when compared with other countries, with savers benefiting from both matched contributions via automatic enrolment and pension tax relief at their marginal rate.

"Savers also benefit from a huge choice of pensions, with a wide range of providers offering different services at different prices."

Other benefits of living in the UK include access to Pension Credit to top up SP income and the NHS, which can remove the need to plan for most medical expenses later in life.

Room for improvement

While improvements have been made, there are still issues to address. People are living longer and the population is ageing in general, resulting in an affordability issue whereby less workers are supporting more retirees.

"The SP age in the UK is in the process of being pushed back, with an increase to 67 due by 2028 and 68 potentially as early as 2039," says Selby.

"In the private sector, defined benefit provision has also been dramatically scaled back over the past two or three decades, with employers running for the hills amid spiralling costs and rising life expectancy."

Although most agree, and hope, that Covid-19 is unlikely to cause a long-term decline in life expectancy, it has put the triple lock in the spotlight. The triple lock is assessed each year and increases SP payments by whichever is highest out of earnings growth, inflation or 2.5 per cent.

"If national average earnings growth is going up because lots of low earners are losing their jobs, is that the basis on which you should be granting pensioners an increase?" asks Cameron.

"If there's a big boom in consumer spending and inflation rockets up for a little while, is that the best way of year-on-year determining SP increases? What I would like to happen is to smooth out the triple lock and we look at experiences over three years rather than one year."

Another issue is the disparity in life expectancy between the most deprived and affluent areas, leading to concerns that having a set SP age leaves those with lower life expectancy with fewer years of benefits.

"A *[downwardly]* flexible SP age with a small actuarial reduction is something that I'm really supportive of," says Cameron. "I think that giving people some flexibility is a good thing, as long as you help them make those choices. If we keep increasing the SP age, there are people who are in heavy manual occupations and other stressful jobs who it becomes increasingly difficult for to keep working."

However, Webb notes that this could benefit those who can afford to take an early SP more than others, while Selby warns that it could present cashflow problems for the Treasury if there is significant demand.

Most appear to believe that reform is needed, but how to proceed with those reforms could be a contentious issue.

Written by Jack Gray

Remembering the non-AE

Latest figures show non-enrolled workers outpacing those of auto-enrolled workers. *Pensions Age* asks: Is auto-enrolment too easily considered the 'saviour' of pension saving, and does the industry need to take a closer look at engaging with non-enrolled workers?

The reasons why workers might be non-enrolled are numerous and diverse.

One plausible explanation for the figures is that employers are hiring staff as the economy recovers from the pandemic, and there is a lag before new employees become auto-enrolled. One example of this is where there is a postponement period, up to three months, in operation. This would suggest that in time the figures will correct.

A second reason why workers might be non-enrolled is that they have opted-out or haven't opted-in when they could do so. Again, the motivations could be numerous but potentially this is an area the pensions industry does need to examine. On the one hand, individuals can only save when they can afford it and it could be perfectly rational to prioritise short-term needs over long-term saving. But on the other hand, employer pension contributions are 'free money', attracting no tax for most employees. Perhaps the industry needs to remind these workers that a £50 pension contribution from them will be topped up to at least £80 by their employer, tax free?

Aon head of UK retirement policy, Matthew Arends

The benefits of saving into a workplace pension are there for all to see. It's nine years since the introduction of automatic enrolment and its impact has surpassed all expectations, with more than 10.2 million people having enrolled into a pension since then.

There are still some workers who miss out on the opportunity to save for their retirement and one of the easiest ways of fixing this would be to reduce the qualifying earnings threshold from £10,000 to £6,240 and reduce the lower age limit from 22 to 18. These measures, which we would like to see implemented once the post-pandemic recovery is complete, would give nearly two million workers the opportunity to build up pension savings.

B&CE director of policy and external affairs, Phil Brown

The figures are concerning and need further analysis in my opinion. Are the non-enrolled workers those who do not qualify for auto-enrolment (AE) or those who have opted out?

For those not eligible for AE – this could be down to the rise in the gig economy and the different attitude to work. There should be a focus on explaining the benefits of long-term saving for these individuals.

If the numbers opting-out of AE are increasing then this is concerning and more needs to be done to explain the benefits of long-term saving to those wanting to opt out. Communication plays a key role here.

AE has undoubtedly been a success but a concern has always been that people will think that they have ticked the pensions box even at the lowest, default contribution rate. We are headed for a future full of many disappointed people on this point.

We need to be more positive about the benefits of long-term saving. Sell it to employees that by doing more today, it will enable them to do more in the future.

Gallagher director – retirement communications, Karen Bolan

'Non-enrolled' workers are largely those who didn't meet the requirements to be eligible jobholders: being too young, too old, or most likely not earning enough. They currently form 30.5 per cent of the workforce, compared with 30.1 per cent a year ago and 29.8 per cent two years ago. The increase might be connected with the rise of the 'gig economy' and very part-time employment.

While government and industry alike have been too self-congratulatory about the success of auto-enrolment, the way to bring more of the missing 30 per cent of workers into pension saving is government's responsibility, not the industry's. In December 2017, the government's auto-enrolment review proposed to lower the eligibility threshold to 18 and remove the lower limit on earnings for calculating contributions: but crucially, not before the mid-2020s. And those earning less than £10,000 a year will still be left out – as will be the self-employed, a rising proportion of the workforce.

Affordability is the key and loading any extra cost onto workers or employers while the combined economic impact of Brexit and the pandemic has yet to be revealed would be politically foolhardy. A more sensible – and sensitive – approach might focus on diversion of a portion of NICs already payable.

Aries Insight director, Ian Neale

Pensions history

The investment scene

Speaking under the broad title of 'The Investment Scene' at the Hill Samuel one-day conference on 11 May 1972, George Ross Goobey in his opening remarks said: "Many of you were present at the National Association of Pension Funds' conference last year at Killarney, when I spoke under the title of 'Equities What Now?' and you may consider that the cautious note with which I talked about stock exchange equities at that time might look a bit silly in view of the fact that the Financial Times Ordinary Share Index has risen 25 per cent since that time.

"It is perhaps unnecessary to explain I was endeavouring then to make a comparison of the relative long-term attractions of the three main pension fund investment avenues; Stock Exchange equities, fixed-interest investments and property.

"I could point out that the price of property investments, which I was advocating so strongly then, have also risen during the past year (although perhaps not quite so fast as equities) and so has the price of gilts and other fixed-interest securities."

He went on to explain that higher market values do not always only reflect increased achieved income and expected income but reflect such things as supply and demand, popular trends and fancies.

As a continuing investor for his pension fund, he was happier when markets did not shoot ahead too rapidly. In fact, he was quite pleased when markets had a setback, which enabled him to invest ever-increasing new money advantageously so long, of course, that the long-term outlook had not deteriorated.

Concluding, he said: "I suppose my general message is, therefore, buy good stocks and properties and stick to them, don't get too mesmerised by the market price from time to time, but watch and, I hope, enjoy the increases in dividends and rents."

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

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N	O	I	S	N	E	P	E	T	A	T	S	D	C
C	O	M	B	U	D	S	M	A	N	Y	M	L	Z
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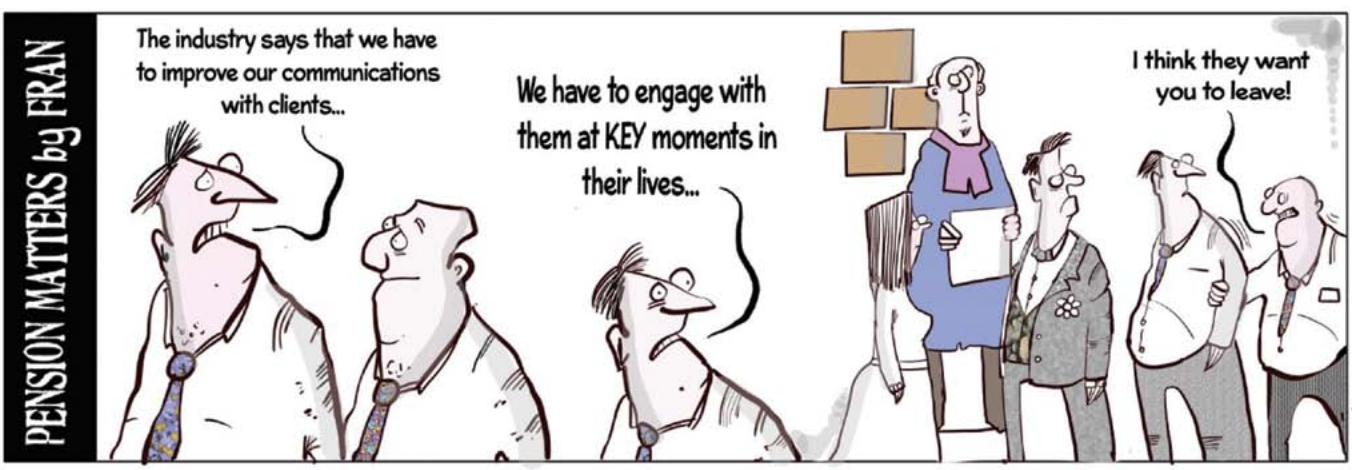

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