GMPs
Navigating the technicalities of GMP conversion

Deficit recovery contributions
Post Covid-19, the new macro pressures employers face with making pension payments

Public sector pensions
The latest developments for public sector pensions following the McCloud ruling

www.pensionsage.com

May 2022

PENSIONS Age

The leading pensions magazine

State pensions: *The latest state pension developments and its impact on workplace pension saving*

Pension commission: *The debate around the establishment of a pension commission*

A show of hands

It's AGM season - the key issues for pension fund investors

INSIDE: DC GUIDE 2022

Editorial Comment

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

May kicked off with an event that should have been the centre of attention for everyone – the local elections, as Britain's voters went to the polls across 200 local authorities, mainly to air their dissatisfaction at the rising cost of living. Yet rather than focus on the (some significant) losses and gains experienced by the various political parties, the press (and people's general conversations) centred more around Sir Keir Starmer and him drinking a bottle of beer in Durham in 2021! Strange as this may seem, it all comes down to one thing – playing by the rules, or in this case not playing by the rules, which is the theme of this month's issue of *Pensions Age.*

We all know the general public's appetite for playing by the rules has certainly been tested over the past two years – being told not to see friends or family, even at Christmas time; being asked not to travel, socialise, even attend weddings and funerals of our loved ones; which has of course made it even more unacceptable when we see our political leaders – and most recently 'Mr Rules' himself – allegedly flouting those same rules we all painstakingly adhered to.

The pensions world itself is full of rules and those running pension schemes have the sometimes difficult job of having to navigate those rules that could catch them out even when then don't realise it. The Pensions Regulator, while it may have taken a softer stance in the past, is taking a more proactive approach to cracking down on the rule-breakers with, for example, more spot inspections now taking place where employers are suspected of failing to meet their workplace pension duties.

Speaking at last month's Pensions Age Spring Conference *[see page 28],* TPR CEO, Charles Counsell, said the regulator also planned to consult on a new enforcement policy, which will specifically set out its enforcement in relation to DB, DC and hybrid public service schemes; and announced plans to consult on an update to the regulator's prosecution policy, which will cover its overall approach in that area.

Additionally, much noise has been made in recent weeks about the importance of starting to get ready for the upcoming pensions dashboards, with the regulator's David Fairs emphasising that "dashboards are coming and it's time to take action", warning TPR will take action where it sees intentional non-compliance.

Howver, the biggest challenge the pensions industry faces in many areas is understanding the rules and what they mean for their particular scheme and membership base. While dashboards on the face of it sound like a great idea, the intricacies of applying it to the various member populations cannot be underestimated – one consultant mentioned to me recently that the only way it can be managed is by everyone making their own interpretations of how it applies to their membership and surely that can't be right.

Our feature on page 34 offers another screaming example of an area so complex that even the most devoted scheme managers might struggle to stick by the rules – that of GMP equalisation and conversion. Similarly, page 60's feature on the aftermath of the McCloud ruling highlights the complexities and rising costs that public sector schemes are facing just by trying to adhere to the rules set out by that judgment.

In some cases, the lack of information available makes it almost impossible for schemes to comply even when they want to – for example, our news story on page 15 highlights how delays to the Department for Work and Pensions' (DWP) final regulations for notifiable events could risk leaving schemes in 'limbo', with pension consultant LCP arguing that further guidance and clarification is desperately needed to allow pension schemes to do the right thing.

So playing by the rules is not always as easy as it sounds and even those who want to comply (which I believe includes most of the pensions industry) will come up against challenges. Luckily, there is a wealth of information also available out there, as all the various associations and bodies work hard to publish guidance and host informative events to assist pension trustees and anyone involved in running a scheme to first understand the rules, and then do their best to apply them.

It's a shame that everything to do with pensions always has to be so complex, but then that's a whole other argument for another day.

Francesca Fabrizi, Editor in Chief

Capita

Creating a brighter future

Capita Pension Solutions

Data services

Administration

Consultancy

www.capita.com/pensions

COVER FEATURE

Theme: Rules and regulations

Highlighted features

Features & columns

PENSIONSAge

Publisher
John Woods
Tel: 020 7562 2421

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

Editor
Laura Blows
Tel: 020 7562 2408

Associate Editor
Natalie Tuck
Tel: 020 7562 2407

News Editor
Jack Gray
Tel: 020 7562 2437

Senior Reporter
Sophie Smith
Tel: 020 7562 2425

Reporter
Tom Dunstan
Tel: 020 7562 4380

Design & Production
Jason Tucker
Tel: 0207 562 2404

Accounts
Marilou Tait
Tel: 020 7562 2432

Commercial
John Woods
Tel: 020 7562 2421

Camilla Capece
Tel: 020 7562 2438

Lucie Fisher
Tel: 020 7562 4382

Subscriptions
Tel: 01635 588 861
£149 pa within the UK
£197 pa overseas by air

NEW circulation figures

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

Managing Director
John Woods

Publishing Director
Mark Evans

ISSN 1366-8366
www.pensionsage.com

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

Dateline - April 2022

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

5 April Over 30 million pension savers are being targeted in a new **cross-industry campaign** designed to boost people's understanding of, and engagement with, their pensions, with 15 pension providers and schemes already signed up. The campaign will initially run in autumn/winter of this year, and will be led by the Association of British Insurers (ABI) and the Pensions and Lifetime Savings Association (PLSA). As it grows, savers will be able to see the campaign in a variety of formats and places, including social media and in digital and written communications from their pension schemes. These communications will share tips on how to identify who pension providers are, make sure contact details are up-to-date and check how much members have saved towards retirement, and will also help people prepare for pensions dashboards. An investment of at least £1m over three years is agreed.

5 April The **Pensions Dashboards Programme** (PDP) is on schedule with the development of pensions dashboards against the timetable it set out in October 2020. In a blog, PDP programme director, Richard James, says that the programme remains "on track" and it expects to have the first users within dashboards later this year.

6 April HMRC publishes further guidance on transfer value top-ups and guaranteed minimum pension (GMP) conversion for GMP equalisation. In its GMP equalisation newsletter – April 2022, HMRC addresses issues around the pensions tax implications of equalising members' benefits.

7 April Delays to the **Department for Work and Pensions'** (DWP) final regulations for notifiable events could risk leaving pension schemes and their sponsors in "limbo", LCP says, with further guidance and clarification still needed to address industry concerns. Whilst industry experts had expected DWP to publish the final regulations in response to the consultation in order for the regulations to come into force in April, the regulations are yet to be published.

12 April The aggregate surplus of UK defined benefit (DB) pension schemes increased by £42.8bn to £176.4bn in March, the **Pension Protection Fund** (PPF) 7800 Index reveals. As at 31 March, the funding ratio stood at 111.4 per cent, its highest level since June 2007, up from 108.4 per cent at the end of February.

12 April The **PDP** confirms the staging timeline for pension providers and schemes to provide data for pension dashboards, following the FCA and DWP's consultation proposals. It outlines the three waves of staging, starting with wave one for large schemes, which is scheduled for between April 2023 and September 2024, before moving onto wave two for medium schemes between October 2024 and October 2025, while small and micro schemes are "likely" to be in 2026. The PDP also outlines the schemes' exact sizes, with large schemes having 1,000 or more relevant members, medium schemes having between 100 and 999 relevant members, and small or micro schemes having 99 or fewer members. Relevant members are defined as both active and deferred members.

19 April More than half (60 per cent) of UK pension schemes have a professional independent trustee in place, with this figure expected to increase to around 90 per cent over the next five years, according to research from **Isio.** The firm's *2022 Professional Independent Trustee Survey* reveals that the 12 largest trustee firms saw their revenue grow by 20 per cent in the past 12 months, with over 200 new appointments.

22 April Two pension fraudsters are jailed for a combined total of more than 10 years for their roles in a scam that saw over 200 savers tricked into transferring £13.7m into fraudulent schemes. Following a prosecution brought by **The Pensions Regulator** (TPR), Alan Barratt and Susan Dalton are sentenced at Southwark Crown Court after admitting to charges of fraud by abuse of position as trustees of pension schemes.

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

25 April The **PDP** announces that Altus and ITM will be the first alpha participants to begin testing their connection to the pensions dashboards. The firms will now begin testing their connection as the project moves into its next development stage, ahead of connecting the first group of staged data providers in 2023.

27 April TPR announces that it will be publishing initial guidance to help trustees and scheme managers meet their pensions dashboards duties in May. Speaking at a webinar on the PDP's launch of its latest *Progress Update Report*, TPR business lead, Lucy Stone, says the regulator is going to be producing products to help trustees and scheme managers understand their duties and how to comply with them. "We are going to publish initial guidance in May and we are going to be updating throughout the year," she states. Information will flow from PDP architecture to TPR, identifying non-compliance or providing the regulator with data to identify potential risk of non-compliance.

27 April Industry experts urge the **government** to outline a timeline for the 2017 auto-enrolment (AE) review reforms, after research reveals that more than half (57 per cent) of Brits are not saving enough to maintain their living standards in retirement. Speaking at a Work and Pensions Committee (WPC) hearing, industry experts highlight adequacy, pension gaps and participation, and decumulation as key areas of concern, as well as issues around smaller pots and savings for the self-employed.

28 April The **government** rejects the WPC's recommendation to automatically enrol pension holders into an appointment with Pension Wise before accessing their retirement pots. In its response to the WPC's report *Protecting pension savers–five years on from the pension freedoms: Accessing pension savings*, the government says that it disagrees with the proposal.

28 April The **Private Member's Bill** on GMP conversion is granted Royal Assent and becomes the Pensions Schemes (Conversion of GMPs) Act 2022. The act, first introduced by independent MP for Rutherglen and Hamilton West, Margaret Ferrier, aims to clarify and streamline the GMP conversion process by clarifying that conversion applies to both earners and survivors, and outlining which employers need to give consent. It also enables clarification of the minimum survivor's pension required and remove the need to notify HMRC. The bill, which was first introduced in June 2021, has received cross-party support and support from the government. Commenting on the passage of the act, Pensions Minister, Guy Opperman, says: "I warmly welcome the passing of this act and commend Margaret Ferrier MP for introducing this valuable legislation. This will benefit many hard-working people across the country by helping pension schemes equalise the effects of GMPs between men and women."

29 April TPR confirms plans for a number of upcoming consultations on key industry developments, while calling on the pensions industry to help prevent a cost of retirement crisis amid recent financial challenges. Speaking at the Pensions Age Spring Conference 2022, TPR CEO, Charles Counsell, says the regulator plans to consult on a revised code of practice on notifiable events, the authorisation and supervision requirements for collective defined contribution (CDC) schemes, and the updated DB funding code.

News focus

PA Spring Conference: TPR confirms several upcoming consultations

In a session at the Pensions Age Spring Conference, TPR stated that it planned to launch several consultations on key industry developments, including on a revised code of practice on notifiable events, the authorisation and supervision requirements for CDC schemes, a new enforcement policy and the updated DB funding code. The PPF also spoke at the conference, discussing the evolution of its funding strategy

The Pensions Regulator (TPR) has confirmed plans for a number of upcoming consultations on key industry developments, while calling on the pensions industry to help prevent a cost of retirement crisis amid recent financial challenges.

Speaking at the Pensions Age Spring Conference 2022, TPR CEO, Charles Counsell, said the regulator planned to consult on a revised code of practice on notifiable events, the authorisation and supervision requirements for collective defined contribution (CDC) schemes, and the updated DB funding code.

"We also plan to consult on a new enforcement policy, which will set out our enforcement in relation to defined benefit (DB), DC and hybrid public service schemes," he continued.

"We will be publishing these soon, in what we hope will be an easy to navigate form."

In addition to this, Counsell announced plans to consult on an update to the regulator's prosecution policy, which will cover its overall approach in that area.

Indeed, he emphasised that the regulator had been "very busy in this area", noting the recent success achieved by TPR in the Norton Motorcycles case earlier this year.

"We'll also be establishing, for the first time, a victim support service, which will be led by Money and Pensions Service," he added.

A joint feedback statement from TPR and the Financial Conduct Authority is also expected in "late May", following the recent joint consultation on value for money.

He continued: "There are several challenging policy issues in this space that need to resolved, so we are committed to working closely with DWP and FCA on this and we've initially agreed a timeline for the rules and regulations to come into force late next year, following consultation.

"We're looking to take a phased approach, focusing initially on value for money, particularly default arrangements for workplace schemes."

Counsell acknowledged that there were concerns over the number of consultations undertaken in the past year, reassuring the industry, however, that TPR will work closely with others to try to make sure it consults together where possible, and look at ways to make consultations smarter.

He also emphasised the need for the industry to help support savers to avoid the cost of living crisis from becoming a cost of retirement crisis.

"As an industry, we need to encourage and support savers to keep saving, to help them understand that the impact of immediate financial pressures will not be best addressed by opting out or reducing pension contributions or making poor decisions on transferring a DB pension," he stated.

"We need to help them appreciate that investing in saving for their own future is worthwhile and prudent, because retirement costs are not just measured in pounds and pence, ultimately they are lived."

Counsell added that TPR is "very much on the side of action", urging the industry not to fall into the trap of thinking the regulator will be relaxing its stance because times are challenging.

"We will continue to be tough on those we need to be tough on, scammers, fraudsters and criminal gangs, and those who fail to treat savers fairly should be mindful of our powers and our willingness to prosecute," he added.

"We supported trustees and the industry through the initial impacts of the global pandemic with guidance and regulatory flexibility. We will continue to do so during this period of economic pressure, but that does not mean complacency should creep in."

In other news, the Pension Protection Fund (PPF) is at a "really interesting juncture" in how its funding strategy will evolve, according to PPF head of actuarial levy and policy, Jay Khimji.

Also speaking at the Pensions Age Spring Conference, Khimji confirmed that the lifeboat is currently undertaking a stakeholder engagement programme to support its ongoing strategy review, highlighting this as "a really interesting juncture in considering how its funding strategy will evolve in the future".

The PPF previously reported a probability of success of 95 per cent, which Khimji noted was ahead of its 90 per cent target, prompting a review of the funding strategy, which will take into account all factors.

He stated: "We are approaching a key milestone in our journey, the growth in our reserves means we would be decently well placed to withstand potentially high levels of claims from schemes, without risking the security of our members benefits.

"However, whilst this all feels like good news, it's important to remember that there are still today schemes out there with very large deficits, and there's potential for economic and geopolitical headwinds.

"Indeed, a year ago, in 2020, our probability of success of 83 per cent was the lowest it had been since we started measuring it in 2010, so it's important we look at all factors."

During the session, Khimji also discussed the PPF's new rules for alternative covenant schemes, which have their levy calculated in a different way to other schemes to reflect that the main risk posed by these schemes is investment risk, rather than a failure of a corporate business.

Whilst Khimji acknowledged that there are not many, if any, scheme's falling into this definition yet, he emphasised the need for the PPF to recognise the potential for the market to evolve in this way.

"At this point it's hard to judge what form those innovations will take, so what's most important for us is that we are monitoring developments and we are engaged with what's happening in the market," he added.

Written by Sophie Smith

VIEW FROM TPR

We are committed to putting savers at the heart of all we do, and we take a dim view where their needs are neglected.

As our recently published regulatory intervention report demonstrates, we will take enforcement action to safeguard savers in schemes of all sizes, and against individuals.

The report also shows that even if a target of our enforcement is overseas, it is no barrier to us using our powers.

We used our anti-avoidance powers against SMT Scharf AG, a German mining equipment business with global interests and subsidiaries, in support of the scheme for the employees of the Dosco Group, a UK-based engineering business.

We issued a £2 million contribution notice to the overseas parent company – and secured a £130,000 settlement with a senior company executive to help protect a 600-member defined benefit scheme.

A financial settlement was secured with a former chief executive of the Dosco Group, Martin Cain.

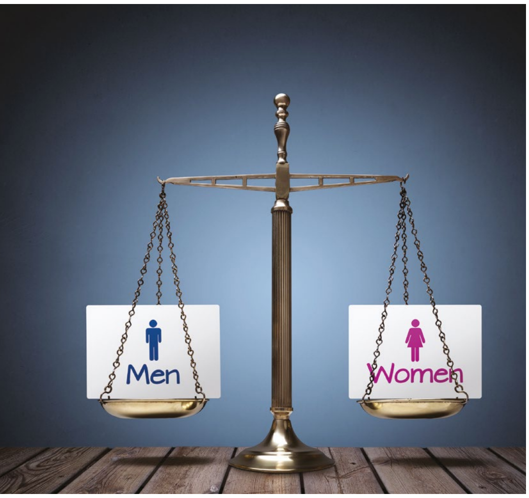
SMT Scharf AG sold the Dosco Group to a management buyout company which had no realistic prospect of being able to support the business. As a result the pension scheme's sponsoring employers went bust eight months after the sale.

Scharf showed a complete disregard for the scheme, which was left with no funding or prospect of financial support.

The case sends a clear warning to corporate entities and individuals that we will take action where appropriate to protect schemes.

TPR executive director of frontline regulation, Nicola Parish

The Pensions Regulator
Making workplace pensions work



GMP conversion bill receives Royal Assent

Margaret Ferrier's Private Member's Bill on clarifying the GMP conversion process has received Royal Assent and become law

The Private Member's Bill on guaranteed minimum pension (GMP) conversion has been granted Royal Assent and has become the Pensions Schemes (Conversion of GMPs) Act 2022.

The act, first introduced by independent MP for Rutherglen and Hamilton West, Margaret Ferrier, aims to clarify and streamline the GMP conversion process by clarifying that conversion applies to both earners and survivors, and outlining which employers need to give consent.

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

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

When initially introducing the Private Member's Bill, Ferrier said she chose the bill to try and help "reassure occupational pension schemes that they are able to use the methodology published in Department for Work and Pensions guidance to level the effective differences between pension amounts paid out to men and women".

Private Member's Bills are introduced by 20 MPs that are drawn from a ballot each parliamentary session, with those drawn given the opportunity to bring forward legislation on their chosen topic.

Commenting on the passage of the act, Pensions Minister, Guy Opperman, said: "I warmly welcome the passing of this act and commend Margaret Ferrier MP for introducing this valuable legislation.

"This will benefit many hard-working people across the country by helping pension schemes equalise the effects of GMPs between men and women."

In other news, HMRC has published further guidance on transfer value top-ups and GMP conversion for GMP equalisation.

In its GMP equalisation newsletter – April 2022, HMRC addressed issues around the pensions tax implications of equalising members' benefits.

On transfer value top-ups, HMRC confirmed that, provided the appropriate steps are taken, schemes can generally pay top-ups to the original receiving scheme or direct to the former member in cash, if the direct payment is less than £10,000, without unwelcome tax consequences.

"Lots of transfer value top-ups are small - typically only a few hundred pounds," said LCP partner and head of GMP equalisation, Alasdair Mayes.

"Trying to arrange payment to the original receiving scheme risked costing more than the top-up was worth to the former member.

"HMRC's confirmations on paying cash direct to the individuals make everything much easier. We have found it's also popular with members."

On GMP conversion, HMRC noted that there were likely to be impacts on the treatment of non-retired scheme members' annual allowance in the tax year of conversion, as well as in all subsequent tax years to retirement.

It acknowledged that it needs to undertake further work in this area to determine the "appropriate outcome and treatment", and the potential for any legislative change.

HMRC also clarified that although there may be pension tax consequences for non-pensioners, most members will not face tax issues in using GMP conversion to equalise benefits.

However, schemes looking to use the conversion method of equalising benefits were urged to consider the tax implications that may arise for deferred scheme members, as the effects of GMP conversion may cause the loss of fixed protection.

"GMP equalisation is a complex topic and guidance has been urgently needed to help pension trustees and sponsors navigate two really important pension tax issues; around transfer value top-ups and conversion," Mayes commented.

"This guidance from HMRC is really valuable and will save trustees time and money.

"Trustees will be breathing a sigh of relief that HMRC agrees for most members there will not be adverse tax consequences in using GMP conversion to equalise for GMPs. This means that trustees won't need to seek clearance from HMRC on a scheme-by-scheme basis, saving time and money."

Written by Jack Gray

PDP on schedule with pensions dashboards' development

The development of pensions dashboards is on schedule with the timetable set out by the PDP in 2020 and it is expected that the first users will be within dashboards later this year. Altus and ITM have been chosen as the first alpha participants to begin testing their connection to dashboards

The Pensions Dashboards Programme (PDP) is on schedule with the development of pensions dashboards against the timetable it set out in October 2020.

In a blog, PDP programme director, Richard James, said that the programme remains "on track" and it expects to have the first users within dashboards later this year.

James praised the data and dashboard providers that had volunteered to work with the PDP, saying the programme owed them a "huge debt", as with their support it could fully test the technology.

"Their own work is coming along well, and we have established close connections with them that will allow us to move into integration and test with them over the coming months – thereby proving the technology end to end," he continued.

"As we complete that work later this year, we will accelerate our work to prepare for staged onboarding.

"During that time, we will work with our first consumers to continue improving dashboards themselves, while making sure that our support arrangements and onboarding processes are ready to support the rest of industry as we move into compulsory onboarding."

The PDP has also confirmed that Altus and ITM will be the first alpha participants to begin testing their connection to the pensions dashboards.

The firms will now begin testing their connection as the project moves into its next development stage, ahead of connecting the first group of staged data providers in 2023.

Altus and ITM announced their partnership last year, with the firms becoming the sector's first commercial pensions dashboards integrated service provider with an open-market connection to dashboards.

Meanwhile, The Pensions Regulator (TPR) announced that it will be publishing initial guidance to help trustees and scheme managers meet their pensions dashboards duties in May.

Speaking at a webinar on the Pensions Dashboards Programme's (PDP) launch of its latest *Progress Update Report,* TPR business lead, Lucy Stone, said the regulator was going to be producing products to help trustees and scheme managers understand their duties and how to comply with them.

"We are going to publish initial guidance in May and we are going to be updating throughout the year, particularly in November when regulations are firmed up and PDP's standards have been through consultation and are confirmed," she stated.

Written by Jack Gray

VIEW FROM THE PPI

Single mothers find it more challenging to save adequately for retirement. They have also been disproportionately impacted by pandemic-related labour market changes. Employment rates have declined, while part-time working has increased substantially. As a result, the proportion of single mothers who are eligible for automatic enrolment has decreased over the course of the pandemic.

Women over 65 who were single mothers during working life have private pension incomes equivalent to 50 per cent of the population average. Without policy or labour market changes, single mothers are increasingly likely to experience poor retirement outcomes.

Greater employment flexibility, such as remote working and alternative work patterns, could help to close the gender pensions gap, especially for single mothers, by easing the tension between paid employment and domestic responsibilities. However, it will be important to monitor the longer-term impact of greater flexibility on career progression, income and pension contributions, and underpensioned groups, including single mothers, are likely to need further support to close the gap in retirement outcomes. Changes to automatic enrolment criteria could also be effective in increasing pension participation among single mothers, particularly removing the earnings trigger for automatic enrolment or combining income from multiple jobs in eligibility assessments.

PPI senior policy researcher, Lauren Wilkinson

PENSIONS POLICY INSTITUTE
PPI

VIEW FROM THE PLSA

It's been 10 years since the launch of automatic enrolment and, as a result, millions more people are now saving into a workplace pension.

However, a recent survey by the PLSA showed around a quarter of savers in workplace pensions think their current amount of pension saving will not be enough when they retire. Those aged between 35 and 54 (29%) are the most concerned they won't have enough to live off, compared to those aged over 55 (20%). And while just one in five of those in households with an income of over £48k have concerns, that figure rises to 35% of those whose total income is up to £14k, and 31% with an income £14k-£28k. It's why we launched our Retirement Living Standards.

Our survey reported that one in five people (21%) who have a pension say they save into it to ensure they have a minimum standard of living in retirement, 41% save to have a moderate standard of living and 33% to have a comfortable living standard. It's our view that, by 2030, pension contributions would be a 10% contribution, split evenly between employers and employees. Then, in the early 2030s, when affordable, employers and workers would each be asked to pay in an extra 1%, so bringing the total contribution up to 12%.

PLSA director policy & advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Pensions industry joins forces in national engagement campaign

Pension schemes and providers from across the sector have signed up to a national engagement campaign that will aim to boost people's understanding of their pensions and target over 30 million pension holders

Over 30 million pension savers are being targeted in a new cross-industry campaign designed to boost people's understanding of, and engagement with, their pensions, with 15 pension providers and schemes already signed up.

The campaign will initially run in autumn/winter of this year, and will be led by the Association of British Insurers (ABI) and the Pensions and Lifetime Savings Association (PLSA).

As it grows, savers will be able to see the campaign in a variety of formats and places, including social media and in digital and written communications from their pension schemes.

These communications will share tips on how to identify who pension providers are, make sure contact details are up to date and check how much members have saved towards retirement, and will also help people prepare for pension dashboards.

It is designed to help savers understand the basics of pensions, after research suggested that only 20 per cent of people are confident they are saving enough for retirement, raising concerns that millions of people are at risk of adequacy concerns if action is not taken.

Around 15 providers and schemes, representing 41.5 million savers and customers, have already committed to supporting the campaign, with a collective investment of at least £1m for the organisation over the next three years, and a multiple of this amount in scheme and provider specific resources to further amplify the campaign.

It is thought to be the first time that so many pension providers and schemes across the UK have united behind the same call to action, with the concerted action expected to reach tens of millions of savers across a variety of pension vehicles as a result.

The work will also complement the work of the Department for Work and Pensions (DWP), with resources to be made freely available to use by all those who wish to participate, including employers, regulators, and government departments.

Commenting on the launch of the campaign, Pensions Minister, Guy Opperman, stated: "Engagement season will complement the crucial work already underway on pensions dashboards and simpler statements, helping savers get to grips with their pensions and bringing retirement saving into everyday conversation."

Written by Sophie Smith

Schemes in 'limbo' amid delay to notifiable events regulations

LCP has warned that a delay in the publication of final regulations for notifiable events could risk leaving pension schemes and their sponsoring employers in limbo, and stated that it was vital for further guidance and clarification to be published to ease industry concerns

Delays to the Department for Work and Pensions' (DWP) final regulations for notifiable events could risk leaving pension schemes and their sponsors in "limbo", LCP has said, with further guidance and clarification still needed to address industry concerns.

The DWP previously consulted on proposed changes to the notifiable events regime, which covers major changes to a company's finances that have to be notified to The Pensions Regulator (TPR) because of their potential impact on the security of the pension scheme.

Whilst industry experts had expected DWP to publish the final regulations in response to the consultation in order for the regulations to come into force in April, the regulations are yet to be published.

In light of this delay, LCP suggested that, by the time they appear and are followed up by guidance from TPR, it is likely to be autumn before the new rules come into force.

This could be a particular concern as industry experts have emphasised the need for further clarity and guidance in a number of key areas.

In particular, LCP noted that the proposed timing of notifications were due to be "when a decision has been made in principle", clarifying however, that there is not necessarily a very precise moment when a business can be said to have made a decision 'in principle'.

It also suggested that the requirement for accompany statements to be made when 'main terms of the relevant event have been proposed' was another subjective milestone.

LCP flagged industry concerns that the definition of the new notifiable events could be so broad that companies may not realise that they applied to them, explaining, for instance, that the breach of the 25 per cent threshold for selling off assets need not be in a single transaction but could be in a series of transactions over a 12-month period.

It noted that the delay puts trustees in a "difficult position" in the intervening period, as they may not be able to use the new regulations as leverage to be given information about corporate transactions that are being considered by the sponsor and could affect the security of the pension scheme.

"It is important that DWP is clear about its timetable for new regulations and sticks to it so that pension schemes and their sponsors know exactly where they stand," said LCP partner, Laura Amin.

Written by Sophie Smith

VIEW FROM AMNT

Since the horrific invasion of Ukraine and the West's response with economic sanctions on organisations and individuals, the phrase 'moral high ground' has gained traction, particularly when considering investment decisions.

Morals are principles of right and wrong frequently used to set standards of behaviour. However, there has been a long-held belief that business and ethics (morals) do not mix on the premise that business practices are basically amoral — not necessarily immoral — because businesses operate in a free market. This 'myth' was exposed by Economist and social critic, Robert H. Frank, who challenges in his book *What Price the Moral High Ground?* the notion that doing well is accomplished only at the expense of doing good.

He argued that socially responsible firms often reap unexpected benefits, even in highly competitive environments, because their commitment to principle makes them more attractive as partners to do business with.

So where does this leave pension funds when assessing investment portfolios that might have Russian connections? Probably too late given the freeze on such assets, but it is now time for funds to review all their investments with links to countries and individuals who have a dubious human rights record.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

NEWS IN BRIEF

Two pension fraudsters have been jailed for a combined total of more than 10 years for their roles in a scam that saw over 200 savers tricked into transferring £13.7m into fraudulent schemes. Following a prosecution brought by **The Pensions Regulator**, Alan Barratt and Susan Dalton were sentenced at Southwark Crown Court after admitting to charges of fraud by abuse of position as trustees of pension schemes.

European life and pensions consolidator, **Chesnara** plc, has completed the acquisition of Sanlam Life & Pensions UK Limited for £39m. Chesnara said the deal, which was initially announced in September 2021, enhances the scale of its operations in the UK by adding £2.9bn of assets under administration and approximately 80,000 policies.

The government has rejected the **Work and Pensions Committee's** (WPC) recommendation to automatically enrol pension holders into an appointment with Pension Wise before accessing their retirement pots. In its response to the WPC's report, the government said that it disagreed with the proposal.

Industry experts have raised concerns around the limitations of auto-enrolment policy, despite figures from the **Office for National Statics** revealing that around 22.6 million employees are now saving into workplace pensions. The data showed that participation in workplace pensions had increased to 79 per cent as at April 2021, partly due to the increased public sector employment.

UK DB pension funding ratio at highest level since 2007

The DB pension scheme funding ratio reached its highest level in nearly 15 years at the end of March 2022, with the ratio increasing by 3 percentage points over the month to 111.4 per cent. Despite assets declining, the aggregate surplus rose by £42.8bn to £176.4bn due to a sharper reduction in liabilities

The aggregate surplus of UK defined benefit (DB) pension schemes increased by £42.8bn to £176.4bn in March, the Pension Protection Fund (PPF) 7800 Index has revealed.

As at 31 March, the funding ratio stood at 111.4 per cent, its highest level since June 2007, up from 108.4 per cent at the end of February.

The increase in funding levels was attributed to an increase in bond yields.

Total assets of the 5,215 schemes in the index decreased over the month, from £1,732.2bn to £1,721.5bn.

However, this was more than offset by liabilities falling from £1,598.6bn to £1,545.1bn over the same period.

There were 3,307 schemes in surplus and 1,908 in deficit at the end of March.

The aggregate deficit of the schemes in deficit was £62.9bn, down from £83.1bn at the end of February.

Commenting on the update, PPF chief finance officer and chief actuary, Lisa McCrory, said: "*[In March]* the aggregated funding ratio for the universe of schemes we protect increased to 111.4 per cent, the highest it's been since June 2007.

"Scheme funding levels continue to be impacted by the increase in bond yields which have moved to reflect expectations that the Bank of England's policy rate will be higher in the coming years than it has for the previous decade."

Buck UK head of retirement consulting, Vishal Makkar, added that the recent Spring Statement offered no major shake-up for pension schemes, with nothing new in terms of requirements or regulation for trustees to contend with.

"Unfortunately, the Chancellor also offered little in the way of relief when it comes to the ongoing cost of living crisis," he continued.

"The rising cost of living remains an important worry for scheme members and an increase in National Insurance contributions may well be a further pain point for those who haven't yet reached retirement.

"Rising inflation could also impact most scheme sponsors and is likely to affect end game planning for many schemes this year. A combination of inflation and accompanying interest rate hikes could make 2022 a difficult year for DB schemes as they grapple with a rapidly shifting investment landscape.

"Trustees will need to plan carefully and may want to speak with a trusted adviser to help them navigate this new environment."

Written by Jack Gray

Market commentary: Feeling the squeeze

As inflation rates continued to rise whilst wages stagnated and bills increased, the cost-of-living crisis has been on the minds of many. Saving the pennies have become more important than ever, with many looking at reducing or stopping their pension contributions as a source of quick and easy money.

"When people's pay for April hits their bank accounts, it will drive home the impact of the cost-of-living squeeze," commented Aegon head of pensions, Kate Smith.

"Following the government's announcement last September that National Insurance rates would rise by 1.25p in the pound to support the NHS and social care funding, April has been earmarked as the month when employees would see their tax burden rise.

"However, since these decisions were made, inflation has risen to a 30-year high eroding the purchasing power of take-home pay at an alarming rate."

Smith also offered a warning: "Those looking to cut back on their pension contributions should carefully consider the long-term effects before making any decisions.

"While there may be a small immediate boost to take-home pay, Aegon analysis shows it could leave you thousands of pounds worse off in retirement. What's more, employees who pause pension contributions will very likely lose valuable employer contributions, which help to boost retirement savings."

The crisis looks set to affect how a lot of people use their money, changing the way they save, spend, and invest. The severity of these changes will be determined by the length of time the crisis continues, as AJ Bell head of retirement policy, Tom Selby, explained: "Whether you're saving for the future, approaching retirement or already taking an income from your pension, the impact of the cost-of-living crisis is likely to be felt in various ways.

"The extent of this impact will depend on a range of factors, including your income, spending patterns and how long spiralling prices persist.

"A short, sharp bout of inflation would be extremely painful for many, but the real fear is that the cost-of-living will keep rising over a prolonged period.

"People in different stages of their retirement savings journey will also face different challenges in this environment, from maintaining a long-term savings plan when you're younger to making a pension income stretch further."

The crisis may have also affected people's interest and appetite in ethical investing, as LGIM co-head of DC, Rita Butler Jones commented: "It underlines the role providers have to play in reassuring clients about their savings in volatile times.

"While we are encouraged by the increased appetite for net-zero pensions, 2022 has underlined that this really isn't at any cost. It is clear that savers see their pensions' main purpose as saving for their retirement."

The cost-of-living crisis could also provide a threat to auto-enrolment, as Standard Life managing director, pensions and savings, Colin Williams, described it as the policy's "biggest test to date".

"The current cost-of-living crisis is squeezing household budgets and while savings rates have held up well to date, many people will be assessing every cost right now," he said.

"This is evident in the figures, where participation among private sector workers earning between £100 and £199 a week are far lower than the average at 43 per cent."

Written by Tom Dunstan

VIEW FROM THE PMI

Pensions Management Institute

As we enter May, school and university students will be preparing to sit for exams. In the pensions industry too, many professionals have been taking exams to earn their professional qualifications, including the new Diploma in Pensions Trusteeship that was launched in October 2021.

Without everyone pulling together our exams would not have been as successful as they have been. This has been achieved through teamwork, cohesion and a commitment to the continued learning and teaching of our learners.

From a learner's and employer's perspective, between now and September/October and the autumn sittings, make sure you have everything you need, ask us, ask your colleagues, ask your managers, never wait until the 'what if' conversation happens, I can guarantee that will be too late. It is planning for now where the next set of good exam results for autumn are created.

Moreover, make sure you plan effectively, these plans have to include study time, balance, a home life, work and more than anything time to relax. To be at your best you have to be mentally healthy, and this has never been more important than now as we emerge from the hibernation of isolation.

PMI director of qualifications and lifelong learning, Keith Hoodless

Appointments, moves and mandates


Harus Rai

Capital Cranfield has announced Harus Rai will succeed Neil McPherson as managing director.
Rai is currently the firm's head of sole trusteeship and will assume his role of managing director on 1 June when McPherson retires. He joined Capital Cranfield in 2017 after seven years with Capita Pension Trustees as a professional trustee. He started his pensions career in 1997 with Sedgwick Noble Lowndes (now Mercer) before moving into their consultancy practice that specialised in liability management through scheme design. Capital Cranfield chairman, Martin Jones, said the firm was "delighted" to be able to promote from within and that Rai had demonstrated "the vision and energy" needed to drive the business forward.
Adding to this, Rai said: "With a strong team of professional trustees and a robust supporting infrastructure, we are very well placed for the future. Neil leaves a strong legacy, which I am looking forward to building on in the next stage of the company's development."


Mark Condron

The People's Pension (TPP) has named Mark Condron as its new chair of the trustee. Condron has already served for two years on TPP's trustee board, and will succeed Steve Delo as of September this year. He has more than 30 years of experience in the pensions industry, and has held a range of senior positions within pensions advisory and administration businesses. He is also a fellow of the Institute and Faculty of Actuaries.


Shani McKenzie

Hymans Robertson has named Shani McKenzie as head of sole trustee services. In her new role, she will build relationships with professional trustee firms on sole trustee services and the internal delivery of services to sole trustee clients. McKenzie joined the firm in 2007, and is a client director and actuary, with experience advising a range of DB trustee and corporate clients, including non-professional boards and sole trustees.


Colin Stewart

BestTrustees has appointed Colin Stewart and Jonathan Crowther as trustee executives. Stewart is a pensions trustee and senior business leader with more than 30 years of pensions experience, and is an adviser to the Scottish government. Crowther is an investment specialist and pensions consultant who has held a variety of senior roles with WTW, Legal & General Investment Management and Axa Investment Managers.


Lydia Fern

LCP has appointed Lydia Fern as principal. Joining from Capita, where she was head of pensions consulting, Fern brings over 20 years' experience in the pensions industry to the role, now returning to the firm that she spent several years with at the beginning of her career. She also previously created and headed up DC teams at Redington and Barclays, and has experience developing and improving client care programmes and making digital shifts.


Liz Woolman

The Pension Protection Fund (PPF) has appointed Liz Woolman as a non-executive director. Woolman joins with extensive experience in the pensions industry, having previously managed an extensive technology portfolio for BT group. She is also an accredited associate executive coach, and is currently non-executive director at both the Local Pensions Partnership Administration and Anglo Saxons Friendly Society.

The Pensions and Lifetime Savings Association (PLSA) has announced the appointment of six new members to its Policy Board.
Joining the board are Tesco PLC's Laura Hay, Royal London's Jamie Jenkins, London Stock Exchange Group's Ava Lau, Greater Manchester Pensions Fund's Euan Miller, Smart Pension's Darren Philp and Pinsent Masons' Carolyn Saunders.The board is currently chaired by Railpen chief executive, John Chilman, and encompasses 20 participants from across the PLSA membership, including funds from the DB, DC, LGPS, and master trust sectors, as well as business members such as employee benefits consultants and law firms.
Commenting on the appointments, PLSA Policy Board chair, John Chilman said: "I am very much looking forward to working with Laura, Jamie, Ava, Euan, Darren, and Carolyn on the Policy Board.
"With this diverse group of thought-leaders and experts from across the PLSA's membership we can shape the pensions and savings landscape for the benefit of both schemes and savers as we focus on our top six priorities for the year ahead."

Diary: May 2022 and beyond

PLSA Investment Conference
25-26 May 2022
EICC, Edinburgh

The Pensions and Lifetime Savings Association's Investment Conference is back in Edinburgh. The two-day event comes as we enter a new era for pensions investment, with the government calling for an investment 'big bang' amid rising inflation and continuing economic disruption due to the pandemic. This conference will discuss the hot topic issues and how the pensions industry can meet their responsibilities in this challenging time.

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

Pensions Age Northern Conference
7 June 2022
Park Plaza, Leeds

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

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

PLSA Local Authority Conference
13-15 June 2022
De Vere Cotswold Water Park Hotel

With 2022 looking set to be another major year for the LGPS, the Pensions and Lifetime Savings Association's upcoming Local Authority Conference will give attendees the chance to network and learn alongside their peers. The likelihood of new climate-related reporting requirements being on the horizon, long-term issues due to the pandemic and the government's call for an investment 'big bang' mean this conference is a must-attend event for all those involved in local authority pensions.

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

Pensions Age Autumn Conference
15 September 2022
The Waldorf Hilton, London

This conference will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs. With the past 12 months having thrown up an unprecedented set of challenges, this event will be an opportunity to reflect on how well the industry has risen to the challenges and learn from the pension funds and providers that adapted successfully.

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

Visit www.pensionsage.com for more diary listings

Month in numbers

111.4%

The funding ratio of UK defined benefit (DB) pension schemes rose to its highest level in nearly 15 years as it increased to 111.4 per cent in March, the Pension Protection Fund 7800 Index revealed.

£37bn

Pension pots worth a total of £37bn are lost or dormant across 1.6 million savers in the UK, research from Gretel has found. The average value of lost or forgotten pension savings was estimated to be £23,125 per member.

10 years

Two pension fraudsters have been jailed for a combined total of more than 10 years for their roles in a scam that saw over 200 savers tricked into transferring £13.7m into fraudulent schemes. Following a prosecution brought by The Pensions Regulator, Alan Barratt and Susan Dalton were sentenced after admitting to charges of fraud by abuse of position as trustees of pension schemes. Barratt was sentences to five years and seven months in prison, while Dalton received a sentence of four years and eight months.

VIEW FROM THE SPP

"My dear Watson, it is quite a three-pipe problem and I beg that you won't speak to me for 50 minutes", said Holmes as he considered *The Case of the Missing Regulations.* "We are suffering from a plethora of surmise, conjecture and hypothesis..."

So begins the lesser-known Conan Doyle work seeking The Pensions Regulator (TPR) (Notifiable Events) (Amendment) Regulations 2021.

At the time of writing, these regulations remain a mystery even as the presumed implementation date has passed. The regulations are not unimportant, setting out new events that must be notified to TPR and affected trustees, including the intended sale of a material proportion of a pension scheme employer's business and the granting of prioritised security by an employer over its assets. Both standard corporate activities that will need to be notified for the first time. The notification must come earlier than ever before and failure to do so will risk a significant fine. These are changes that will affect almost all corporates, banks, trustees and members.

If they are on ice it would be great if the industry was told. If they need changing, I'm sure we could help. For the time being it remains a case that even Sherlock Holmes might not crack.

SPP legislation committee member, Andy Cork

THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

VIEW FROM THE ABI

In the upcoming call for evidence on decumulation in occupational schemes, we should aim for consistency with FCA rules, but also take this opportunity to go further in supporting consumers.

It should look at consumers' needs when it comes to information, guidance, support and products and what is already available to them.

The FCA's investment pathways, put in place over a year ago to address mismatches between withdrawals and investments, will be at the heart of the consultation. Preliminary ABI data shows an almost even split between those who opt for pathways and those who remain in current investments. Learning the lessons from the upcoming FCA one-year review will be important for expanding decumulation rules to occupational schemes, but the data is only split by pension pot, which remains a challenge when drawing conclusions.

Over half of all pension pots are accessed without either guidance or advice.

Providers believe they have a clear responsibility to help non-advised customers, but the restrictive advice rules open them to compliance and reputational risks. Rules need to change for providers to be able to offer more personalised guidance.

Lastly, consistency between contract-based schemes and trust-based schemes should always be the aim. Consumers should be equally well supported irrespective of the type of scheme they are in.

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

ABI

In my opinion

On 47 per cent of UK pension schemes not having insurance against cybercrime attacks: "Fraud and cybercrime are the crimes of the 21st century, accounting for over half of all crimes in England and Wales.

"With their high volume of payments to members and the amount of personal data held, pension schemes are seen as attractive targets by fraudsters. Trustees need to not only be aware of that fact, but act on it and implement preventative measures to mitigate the threat and impact of an incident.

"The risk of a cyber-attack is more of a 'when' than an 'if' today. Pension schemes have made a lot of progress in protecting themselves since we started our *Risk Management Report* five years ago but much more needs to be done as the likelihood and sophistication of attacks continue to rise."

Crowe partner and head of forensic services, Jim Gee

On 20 per cent of people leaving retirement planning until at least the age of 60: "Retirement can feel like a long way away and it is easy to put off planning until the last moment. However, by doing this you leave yourself at risk of not giving yourself enough time to make up any shortfall in retirement income and this can really limit your options.

"Pensions are a long-term game and it's worth taking the time earlier in your career to think about what kind of retirement you would like and put a plan in place to help you achieve it.

"Checking in on progress on a regular basis will help you stay on track as you can make adjustments as and when needed and you can plan with confidence."

Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey

On the rise in pension scam red flags to near-record highs: "Whilst the volumes of transfers that are being stopped from proceeding under the regulations are low, many of the flags seen require the member to seek additional scams guidance from MoneyHelper, so there will continue be pressure on the service to provide guidance to all these members in a timely manner."

XPS Pensions Group client lead, member engagement hub, Helen Cavanagh

On the government providing flexible, early access to state pensions: "The higher the state pension age, the more individuals will struggle to stay in full-time work. This could be because of their health, a physically or mentally taxing job or caring responsibilities for elderly parents. An ever-rising fixed state pension age could become increasingly divisive and out of sync with today's flexible private pensions world.

"While individuals can already choose to defer their state pension in return for a higher monthly payment, there's no flexibility to start it from a younger age. We support giving people the choice to draw it up to say three years earlier, at a reduced amount to make it financially fair for all.

"But as automatic enrolment into workplace pensions continues to mature, millions more employees are building up an increasingly valuable workplace pension, reducing their reliance on the state pension and the risk of falling below means tested thresholds."

Aegon pensions director, Steve Cameron

On pension schemes re-evaluating their ESG approaches in light of the Ukraine conflict: "Even among those that indicated that the conflict would not affected their ESG approach, many said that it had illustrated the importance of having a robust approach here. Indeed, we saw cases where ESG-oriented investors had significantly reduced or eliminated Russia exposure ahead of 2022, which benefited performance in Q1."

Bfinance head of investment content, Kathryn Saklayala

Bond investors need to understand the volatility cycle

Fixed income markets have become increasingly volatile, a trend that looks set to continue. Investors need to adapt themselves

The recent surge in bond yields has rocked fixed income investors. Losses on one benchmark bond index from its 2021 highs have already exceeded their near 11 per cent drawdown during the global financial crisis in 2008. What's more, this sort of volatility isn't going away – indeed, it has jumped sharply in recent weeks. Investors will need to learn a different, more active approach to fixed income investing.

An era of unconventional monetary policy – which drove yields to exceptionally low levels – is coming to an end amid a broadly global inflationary surge. This suggests bonds are no longer the safe haven for investors they once were, with particularly significant risks for those holding longer-dated securities, an investment staple for institutional investors with long-term liabilities, such as pension funds.

The roots of this predicament are 30 years in the making. It has been a period of ever-intensifying financial repression, with central banks deliberately holding interest rates below the rate of inflation. The result was not only that yields were artificially compressed, but also that the ups and downs of credit and economic cycles were far less pronounced.

When, in 2006, then-UK Chancellor Gordon Brown claimed to have ended economic 'boom and bust', he was right – to a point. But the side effect of smoothing these cycles through highly interventionist policies was periodic and severe bouts of volatility.

Another side-effect financial repression is that traditional credit markets have become more highly correlated with equities, shrinking investors' margin for error. Which means future return characteristics of fixed income assets will not be the benign ones of the past four decades. Add in routine spikes in volatility and investors now face difficult periods.

In light of these dramatic changes, how should investors approach fixed income selection and portfolio construction? Investors who can avoid making mistakes – like chasing returns – and yet exploit opportunities that present themselves will tend to succeed.

That's especially true now. The sheer number of credit investors is staggering, not least because of the ever-growing number of passive products that are available. This has increased volatility as an ever-larger number of investors move in and out of the market simultaneously, particularly through exchange traded funds. Meanwhile, there has been a huge accompanying deterioration in the credit quality of company issuing bonds. As a result, investors' risks have grown significantly.

This idea of not chasing returns will inevitably feel alien to investors. Reducing risk when valuations are stretched and taking opportunities to add risk when other investors are fearful is indeed contrarian. Yet, it is this contrarian, value-focused mindset and objective assessment of the state of credit markets that offers the strongest basis on which to navigate these volatility cycles.

The Covid pandemic and the events of March 2020 are salient examples. Many high yield bond investors suffered significant losses during the worst of the crisis. But for those who had previously taken steps to minimise risk and were therefore well placed to take advantage of the value that was on offer, there were many good quality credit securities available at multiple percentage points below their par values.

Today, interestingly, it is investment grade credit that appears particularly risky. That's because in this part of the market, asset allocation decisions come with very little margin of error and much of the generational high risk previously outlined. In contrast, rising stars within the high yield bond market – sub-investment grade companies whose financial prospects have been improving – offer much better risk-adjusted prospects.

Given how markets have behaved in recent times, it is inevitable that there will be many more bouts of intense bond market volatility, accompanied by severe peak-to-trough declines. Interestingly, bond volatility has spiked even as equity market volatility has remained relatively well behaved, an anomalous condition that few fixed income investors would have been prepared for.

Though we can produce a list of potential risks in store, we can't predict the specific catalyst. What we can do, however, is position ourselves to take advantage of these events when they happen. This means understanding what reflects fair value in asset allocation decisions and then trying to realise as much of the total return available as possible – but without becoming greedy and chasing returns unnecessarily.

Written by Pictet Asset Management head of investment grade credit, Jon Mawby

In association with PICTET 1805 Asset Management

VIEW FROM THE ACA

The Pensions Regulator (TPR)'s 2022 Annual Funding Statement (AFS) strikes a good balance across the range of circumstances UK schemes and businesses find themselves in, including Ukraine, high inflation, Covid-19 and Brexit.

The emphasis on trustees tuning into how their scheme's sponsor is coping is spot on. TPR's messaging is suitably nuanced, ranging from struggling businesses being given breathing space on contributions, to thriving sponsors treating their scheme fairly when paying special dividends.

The 2022 AFS marks a subtle but important shift in focus for TPR and UK schemes. Where past messaging has centred on repaying deficits, this year's statement speaks to schemes who've reached full-funding and are on track.

The clarity with which TPR's set out its stall on longevity and inflation is welcome. These are unquestionably the two key technical topics all schemes will wrestle with in 2022 valuations.

Recognising that the impact of Covid-19 on life expectancy is uncertain is fair, but it is also reasonable for trustees and sponsors to begin to draw inferences from the available data. Giving schemes the green light to think about allowing up to 2 per cent of liabilities is better than a head-in-the-sand view that Covid-19 has had no impact on the world around us.

ACA chair, Patrick Bloomfield

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Soapbox: Do as I say, not as I do

"*Do as I say, not as I do.*" This phrase is a favourite with parents around the world, and I'm sure we're all guilty of expressing a similar sentiment at times. But increasingly, it also seems to be an attitude that the pensions industry is taking towards savers.

Getting back out and about in the industry has allowed us to once again catch up with familiar faces, discussing the ups and downs of home schooling and remote working, the return to commuting, and of course, all the progress that the pensions industry has made over the past year.

One key development that has been centre to many industry discussions in the past month has been progress on pensions dashboards, as schemes and providers look to make sure that their data is ready, with the regulator recently stressing that "the time for action is now".

At the recent Pensions Age conference, however, one administration professional admitted that they were aware of a mistake on one of their own pensions, which could potentially prevent them from being matched on the dashboard as their name was spelt incorrectly. Yet despite having a strong awareness of the impact this error could have, they had not done anything to address this issue.

This doesn't seem to be an uncommon occurrence. In fact, not only is it an experience that several other pension professionals I have spoken to have had, but it is also an issue that I myself have had, and equally, have yet to correct. After all, the to-do list is just too long!

And whilst we perhaps expect more from members than we even do ourselves in this area, there are other aspects of pension savings where the opposite seems to be the case in other areas.

Another pension professional, for instance, was recently discussing why they had chosen not to consolidate their smaller pensions, noting the benefits of 'not having all their eggs in one basket'.

Yet pension savers are increasingly encouraged to take back control of their pension by consolidating, with promises that this will help them to feel confident about their retirement and gain a better awareness and understanding.

But sadly, much like consolidating debt, whilst it can make the issue easier to understand and reduce the impact of charges, consolidation makes no direct impact on the amount savers have in their pot, and there is not always a good member understanding of the impact.

Equally, whilst the pensions industry repeatedly calls on employers to offer better pension packages, such as increased employer matching, many within the pensions industry are on the minimum auto-enrolment contributions. Those that urge employers to use pensions as a hiring or retention tool often fail to mention their pension provision in their own job advertisements.

Pension journalists are not immune to the issue, either. I know I have written many previous articles on the need for savers, particularly young savers, to up their contributions when they are able to. Yet I haven't done so myself, even when my budget would have allowed.

No-one is perfect, and no-one likes being accused of hypocrisy, but it might be time for the pensions industry to lead by example. I know I will be looking to correct the error on my pension… just as soon as I've finished the rest of my to-do list of course.

Written by Sophie Smith

Looking to US Treasuries

David Sack highlights the case for adding US Treasuries to a portfolio's allocation

Inflation is climbing, central banks are withdrawing monetary stimulus, and 10-year US Treasury (UST) yields are rising. No, this isn't today, but September 1981, when the 10-year US Treasury yield was almost 15.9%[1], the Consumer Price Index (CPI) was 10.1%[2] year-on-year and the federal funds rate was 15.50%[3]. Since September 1981, bond yields have trended lower and lower, hitting a low of around 0.5%[4] in early April 2020. Today, at the time of writing, the 10-year UST yield is 2.40%[5], the federal funds rate is 0.50%[6], and CPI is 7.9%[7]. In the face of rising inflation and less accommodative monetary policy however, the current outlook for bonds is challenging.

At The People's Pension, our bond portfolio has three different building blocks: gilts, sterling corporate bonds, and global bonds. This portfolio has benefitted from three coinciding tailwinds: falling interest rates (bond prices rise as interest rates fall), which has been of greatest benefit to the longer-dated gilts held in our portfolios; narrowing credit spreads (corporate bond values tend to increase as spreads narrow), which has helped the allocation to sterling corporate bonds, especially those with longer maturities; and the general performance of sterling debt, which over the past decade has been among the best performers in the investment grade universe and represents a sizable proportion of our bond allocation.

Due to current market trends, we think it's time to harvest the gains and review these strategies, then plot an appropriate progressive structure for the fixed income content of our portfolios.

This is also of paramount importance when constructing a multi-asset portfolio, one that is sufficiently diversified so it can withstand adverse movements in asset prices without sacrificing too much return. Holding decorrelated assets helps us to build more resilient portfolios for our members, as it lowers performance dispersion with the aim of providing more predictable returns. This doesn't remove the effects of market turbulence but mitigates them to some degree.

We believe it's appropriate to start adding USTs, funded by the sale of gilts and sterling corporate bonds, for several reasons, one of which is their ability to diversify our multi-asset portfolios, as they have less correlation with the equity components compared to our current bond allocation. USTs also provide a 'left-tail' risk hedge, ie a buffer when risk assets fall or when investor sentiment turns negative.

Due to its shorter duration, an all-maturity UST index is less sensitive to rate increases than gilts. An all-maturity gilts index contains bonds which mature in 30, 40, and 50-years' time, whereas in the US, the longest-dated bond matures in around 30 years. In a rising rate environment, these longer bonds tend to suffer, hurting portfolio performance. The same is true of sterling corporate bonds, which aside from having several long-dated issues within the index, also have narrow spreads over gilts.

We think that rising rates also carry a risk of either a policy mistake or a derating of some of the growth mega caps that have been driving performance in the pre-eminent equity market of the last decade – the US. Any slide in equities could trigger a widening of credit spreads, which, all other things being equal, would likely cause corporate bonds to fall.

USTs have the highest quality credit rating from the rating agencies (AAA). In summary, we think that adding USTs makes the portfolio more robust in the event of a negative market environment.

USTs should therefore help our members' portfolio performance over the long term. Four different economic regimes are possible over the next 12 to 18 months, of which the first two are most likely:

1) Slowing growth, rising inflation, and a neutral monetary policy
2) Accelerating growth, rising inflation, and a hawkish monetary policy
3) Weakening growth and inflation, and a dovish monetary policy
4) Accelerating growth, slowing inflation, and a neutral monetary policy

We think that increasing our portfolio's exposure to USTs at the expense of gilts and sterling corporate bonds will pay off in regimes 1 and 2 and help to add value to our members' savings.

Written by B&CE – provider of The People's Pension – head of investment strategy and asset allocation, David Sack

[1] Bloomberg (Data as at 30/09/1981)
[2] US Bureau of Labor Statistic, YoY, not seasonally adjusted (Data for September 1981, published in October 1981)
[3] US Federal Reserve (Data as at 30/09/1981)
[4] Bloomberg (Data for April 2020)
[5] Bloomberg (Data as at 04/04/2022)
[6] US Federal Reserve (Data as at 16/03/2022)
[7] US Bureau of Labor Statistic, YoY, not seasonally adjusted (Data for February 2022, published in March 2022)

Letter to the Editor

Dear Editor,

Maggie Williams' article in the March edition of *Pensions Age* – *The elephant in the room* – was excellent. Maggie is absolutely right to point this critical, but often ignored, area out.

The impact of mental vulnerability, in the context of what we do, is a reduced capacity, which may be temporary or permanent, to make an informed decision and, as someone once said to me, "we are all vulnerable at some point in our lives". This means all of our members, DB and DC, young and old, are exposed to the risks of making bad decisions including; whether they join or opt out, how much they contribute, what options they take at retirement, and after retirement. DC members will also be exposed to the risk of making poor investment decisions. The impact of these risks manifesting could be relatively low (for example, perhaps not opting for the optimal investment strategy for a short period of time) or very high (falling for a scam).

But the key thing I wanted to point out in response to the article is that the incidence of vulnerability amongst our members is set to increase due to several economic and social factors. These include:

- Increasing longevity resulting in more older members, who are at greater risk of cognitive decline
- 'Actual' retirement ages increasing as a result of lower levels of pension saving ie at retirement decisions being made later in life
- More DC members remaining in their schemes beyond retirement age as they take draw down, ie again taking complex decisions later in life
- Increasing pensioner poverty (the number of poor pensioners has increased by a third in the past eight years) and so increasing financial vulnerability (fewer than half of pensioners can afford a £200 cost shock)
- The increasing 'wealth gap' with those at the lower end of the scale having increased financial vulnerability and lower job security
- The greater incidence of poor health driven by lifestyle factors, whether enforced or voluntary, impairing later life cognitive ability

There can also be temporary factors. The FCA, for example, recently reported an increase in the number of people with the characteristics of financial vulnerability. They put this down to Covid. The increase was 3.7 million!

Responsible schemes absolutely must have some sort of infrastructure to protect their vulnerable members and, what's more, should be getting ready to scale it up.

PTL managing director, Richard Butcher

So you think you have a data strategy? – One year later…..

Grant Stanley questions whether the industry is utilising new technologies to empower data strategies

One year ago, my colleague Brendan Doherty asked the question "So you think you have a data strategy?"

When his article was published, I had just returned to the industry having spent three years out after the sale of my previous company. I've been involved with pensions data for the past 30 years and time away can provide fresh insight to familiar issues. To me, the most glaring is the high number of schemes that still do not have a real data strategy and how, consequently, efforts to address scheme data issues are carried out in complete isolation, failing to build on what activity went before.

With that in mind, I believe the answer to Brendan's question could well be a resounding "no".

Consistency is key

A data strategy must fit the scheme strategy, an alignment to a common goal must be its primary purpose. However, that doesn't make it easy to deliver. Legislation and data issues, such as GMP changes, regulatory guidance, de-risking and pensions dashboard compliance, are obvious complications.

Schemes must accurately identify if there are data problems and, if so, quantify the scale and impact of them. Historically, the basis for evaluation has been inconsistent at best – often a project analyses scheme data with a single objective in isolation to other data exercises. Therefore, many stakeholders still have no solid basis for a holistic view of a scheme's data accuracy.

I've seen schemes where a very high level of data accuracy is reported, but award and retirement processing demonstrate that a high percentage of cases require intervention. This should raise an alarm bell, highlighting that the scheme's accuracy is lower than reported, but without all-encompassing and repeatable interrogation, consistent measurement and in-depth analysis, this may not be visible to all stakeholders.

As the industry starts to innovate again, driven by greater transparency, more modern technology alignment and the need to deliver greater functionality through digital engagement, member data accuracy will be critical.

Without a holistic data strategy, schemes will continue to struggle when hit with a cycle of legislative and scheme strategy change. That strategy must be supported by visualisation of data issues for stakeholders at key levels to place the data strategy as a cornerstone of the scheme's governance and decision making.

Technological advances

Data never stops changing shape, so solutions to assess, manage and present data need to adapt to the changing legislative landscape and service innovation that will inevitably follow the initial roll-out of pensions dashboards.

We have come a long way recently, but a move to the next generation of data quality innovation and delivery is a must for the industry. Technological advancements in recent years mean that reporting and analytical software now exists, with the capacity for real-time dashboards that identify trends and issues leading to informed resolution. This can put powerful analysis tools in the hands of a scheme's data experts and bring data quality to life for stakeholders at all levels – but always driven from one single version of the truth.

If I were a trustee, I'd want a holistic view over all data projects and certainty that the data analysis is repeatable and on a consistent basis. A real-time, trustee-friendly visualisation that offers differing perspectives according to differing requirements, including the ability to track and monitor data quality as projects progress – the management of which can inform and help achieve data strategy objectives, and cut out repeat work, duplicated effort and unnecessary cost.

Imagine a world where interactive and real-time dashboards for different pension scheme objectives are visible, dynamic and available at the touch of a button! The technology already exists in the industry; we need to approach data projects from a different angle to realise the full benefit of the technology that's now available.

To find out more about Intellica, contact Grant.Stanley@intellica.co.uk

Written by Intellica director, Grant Stanley

Sponsored by:

Capita Landscape. LCP INSIGHT CLARITY ADVICE

Pensions Age Spring Conference 2022

Empowering schemes, embracing innovation, preventing scams and gearing up for the future

The Pensions Age Spring Conference was finally back in person last month, as delegates gathered at the glamorous Hilton London Tower Bridge Hotel to hear some of the most influential speakers in the pensions arena.

Pension trustee and investment expert, Roger Cobley, chaired the dynamic event, which included presentations from leading bodies such as The Pensions Regulator (TPR), the Pension Protection Fund (PPF), the Pension Scams Industry Group (PSIG) and the Pensions Dashboards Programme, to name a few.

The conference covered a wide variety of topics across the defined benefit (DB) and defined contribution (DC) space, providing insight on key issues ranging from scams to stewardship and data to diversification.

The day began with a presentation by the opening keynote speaker, PSIG chair, Margaret Snowdon, who looked at recent updates in the world of pension scams and offered suggestions of what still needs to be done.

Snowdon began her presentation by setting the scene, giving an overview of the current state of pension scams, revealing that £1.5 billion was the approximate amount lost from pensions to scammers in a year and that 10,000 people a year were being conned by pension scams.

Snowdon then went on to provide insight into how recent legislation had affected the scams and the pension landscape, detailing the practical applications of The Pension Schemes Act 2021 since its implementation last year. "The important thing, and the good thing, about it is it gives trustees the legal power to refuse a transfer and that's very useful as the practice was, not long ago, you were taking a great risk if you saw a warning sign and decided that you would stop the transfer, so trustees were between a rock and a hard place. Now there is a legal rule to refusing a scam transfer."

The talk concluded with Snowdon describing what work still needs to be done to protect against pension scams in the future, pointing to the publication of an updated PSIG code expected for the end of May, the expansion of the online safety bill to police social media adverts, and the removal of the tax penalty for the victims of pension scams.

Schroders head of UK institutional DC, Tim Horne, was the next speaker up to the lectern to discuss the role private market solutions can play in pension portfolios today, both in terms of their ability to provide diversified long-term returns, and also their potential for considerable positive environmental and social impact.

Horne began by explaining the attractiveness of private markets asset classes, looking at why investors are and should be interested in private markets, to include the complexity/illiquidity premium they offer, their impact and sustainability traits, as well as the fact that they offer access to high growth industries.

He went on to explain in practical terms, with the use of effective case studies, how a diversified portfolio across private markets asset classes and sectors that are focused specifically on climate and social themes can help facilitate the desired shift to a more sustainable future.

TPR CEO, Charles Counsell, was next to present, providing an update on the latest work being done by the regulator.

Counsell's update covered a variety of different issues, touching on pension scams, collective DC schemes and superfunds, auto-enrolment and more, though special consideration was given to the upcoming pension dashboards.

After mentioning that TPR would be publishing its guidance on pension dashboards soon, Counsell provided four recommendations the organisation would suggest to prepare companies for the dashboards, saying: "One, include dashboards on your board agenda if they're not already and get the appropriate conversations going. Two, trustees and scheme managers will need support from administrators – make sure you're speaking to them to create that approach. Three, accuracy of data is absolutely key for dashboards to be a success. So, we'd ask you to take stock of your data, is it digitised? Is it accurate? Four, make sure you and those who are working with you to meet your dashboard duties are engaged and informed."

It was then the turn of Landscape founder and creative director, Ryan Sales, who spoke about how to create a better member experience and how to drive engagement.

Sales began by explaining how communications have changed in recent years, pointing to the impact of Covid-19, high mobile phone usage, and the rise and dominance of social media, suggesting that these developments necessitate an emphasis on improved digital communication for the pensions industry.

He then went on to describe ways to increase the effectiveness of a company's digital communication and used case studies to highlight those players who are doing this well – for example, by using animation to provide information in an attractive and welcoming way.

Sales concluded by warning of the potential risks of also being too ambitious: "Sometimes the problem is doing too much. If there are a bunch of great ideas, it might be worth starting small, testing, launching and then reviewing. Other functionality could then be added, gradually following the same process."

After a coffee and networking break, the stage was taken by Leadenhall Capital Partners business development managing director, Alistair Jones, and head of business development managing partner, Lorenzo Volpi, to discuss how investments in insurance risk can enhance pension scheme assets.

Leadenhall described the current opportunity for DB and DC pension fund to invest in insurance-linked strategies (ILS), detailing how these types of assets can help diversify from more traditional cyclical investments. It was also shown how yields are at multi-year highs.

Additionally, Leadenhall highlighted how insurance private credit can help provide yield and cashflow as a pension funds matures; and described how insurance-linked strategies integrate ESG particularly as insurance provides policyholders with resilience to risk events, including those related to climate risks.

Alternative covenant schemes and other innovations was the focus of the next talk given by PPF head of actuarial levy and policy, Jay Khimji.

Khimji began with a brief reminder of the PPF, why it was set up and the role it plays in the pensions space today. He then went on to describe 'alternative covenant schemes' – what they are, why they have been introduced; and how their levy is calculated.

Alternative covenant schemes, he explained, have been introduced as a result of changing dynamics in the pensions space. They include in their scope not just commercial consolidators, but indeed all schemes where the link to a trading employer has been broken. In these cases, he explained, the risk of a call on the PPF would now be linked more closely to scheme investment performance rather than to the failure of a business performance. As a result, alternative covenant schemes have their levy calculated in a different way compared to other schemes.

Khimji described how alternative covenant schemes bring together the previously separate categories of commercial consolidators and schemes without a substantive sponsor, as well as the schemes with unconventional sponsorship – and while Khimji acknowledged not many schemes would fall under this scope right now, there would be more schemes defined as such as the market evolved.

Finally, he called on the industry to engage with the PPF on the topic where relevant, remember alternative covenant schemes rules when a new entity is being set up, and finally stressed the importance of keeping an open dialogue with TPR too.

LCP partner, Steven Taylor, and head of health analytics, Dr Jonathan Pearson-Stuttard, were next to give their talk, which centred on the potential lasting legacy of the Covid pandemic on mortality assumptions, how companies can use the data that has and is being acquired, and what this could also potentially mean for pension journey plans.

The presentation highlighted the wealth of data that has been collated and is also emerging, which show the impact of Covid-19 over various time periods on different populations – to include direct impacts (deaths directly from Covid-19), indirect impacts (deaths for example from changes in the health system) as well as the important social and economic impacts (such as impacts on physical and mental ill health). They also warned how the indirect effects of Covid-19 could span up to 30 years in the future but could also set the quality of care back irreversibly.

Finally, LCP outlined what this all potentially means for pension schemes and sponsors; what they could draw from this data; how different scenarios could have an impact on the value of liabilities; and what action should be taken – importantly that schemes should try to understand the direct impact for their schemes; observe wider and national trends to help draw inferences for future trends for their scheme; and, all in all, do what they can to make informed assessments going forward.

After lunch, the Institute for Financial Studies (IFS) associate director and head of retirement, savings and ageing sector, Jonathan Cribb, took to the stage to provide an update on some of the latest work conducted by the IFS.

In his talk, Cribb focused on four of the many challenges that weigh heavily on savers and impact the development of pension policies – namely self-employment trends; declining home ownership; automatic enrolment and whether it is doing enough; and the rising state pension age.

Referencing the self-employed, Cribb highlighted that saving within

this group continues to be a challenge, with the percentage of working-age self-employed contributing to a pension scheme having been in decline over the past twenty years. The increased rate of private renting also continues to create difficulties for retirement planning, he added. Meanwhile, automatic enrolment, he highlighted, was clearly not going far enough; and finally, the increasingly large gap between state support at state pension age needed to be addressed, raising questions of how people can finance their expenditure between retiring and state pension age.

Tumelo CEO and co-founder, Georgia Stewart, was next to speak, using her time to discuss the power of stewardship – how it can create value, make an impact, improve outcomes for members and how Tumelo can help pension schemes achieve these aims.

She began by showcasing the mainstream and powerful role stewardship now plays, referencing high profile examples such as cases involving Microsoft and Apple. She also emphasised the considerable pressure pension scheme trustees are now under, being expected to uphold their fiduciary duties to members on the stewardship front, but often without the access to the quality data they need to do this. Finally she showcased how Tumelo can help pension schemes better achieve these goals; and how its effective and engaging technology can put trustees in a more powerful and informed position.

The penultimate talk of the day continued the focus on data and was led by Capita Pensions Solutions client relationship director, Geraldine Brassett, and director of pensions policy and UK market lead, Anish Rav.

Capita used the session to showcase how important complete and accurate data is to the success of so many of the challenges facing schemes today – from dashboards to de-risking. They also used examples to illustrate how data can affect the member experience, scheme delivery and the many benefits of getting scheme data in shape.

The day ended with Pensions Dashboards Programme principal, Chris Curry, presenting a comprehensive update on the work that has already been put into the pension dashboards, what still needs to be done, and when they hope to do it by.

Curry began by informing those in attendance what the latest progress on the dashboards was, stating that they were less than a month away from finishing the first alpha part of the programme and laying the dashboard's foundations.

He then went on to explain what would be the next steps, pointing to the publication of a set of dashboard standards that would govern aspects such as testing, service requirements, security and operations - standards which Curry stated they hope to publish over the summer.

Curry ended his talk by discussing the current state of dashboard planning, ending on a positive note by saying: "We're probably 90 per cent of the way there in knowing the detail of what needs to be done and how it can be done, and I think that is one of the key messages from this progress update report – we now know how it's going to work. We've got almost all of the detail. There's still a few bits around the edges which will be fine lines like the regulations that will come out in the standards."

All that remained was for Cobley to offer up his own summary of the conference's excellent speakers before thanking all those in the audience for attending.

Written by *Pensions Age* team

Making a difference

Sackers senior partner, David Saunders, chats with Sophie Smith about his proudest pensions moment, childhood dreams of the stage, and his secret karaoke skills

What's your employment history (including jobs outside of pensions)?
As a student I delivered parcels around my local NHS hospital and processed new business applications at an insurance company. During my training to become a solicitor, I enjoyed my experience in corporate and banking seats, but ultimately it was my time in pensions that really caught my attention. I was fortunate to join Sackers in late 2004.

What's your favourite memory of working in the pensions sector?
It is a privilege and honour to have been elected senior partner of Sackers last year. Beyond that, successfully fighting to protect the entitlements of the members of the Sea Containers Pension Scheme, the first beneficiary of a financial support direction from The Pensions Regulator, was a real highlight. We made a difference to the lives of many people.

If you did not work in pensions, what sector do you think you would be in instead?
I noticed Steve Webb was a previous recent interviewee for this feature. He moved from politics into pensions. If I was going to do something instead, I'd probably move in the opposite direction! I can't be the only one thinking modern politics seems to be crying out for more honest, trustworthy and principled participants, which I hope I could be should the opportunity ever materialise.

What was your dream job as a child?
I wanted to tread the boards. It's a career only for the very talented and I would probably have spent more time treading grapes to supplement my income.

What do you like to do in your spare time?
Anything fun with my three children and partner, Andrew. My daughters have been particularly keen on skating this winter/spring. With the warmer weather upon us, I'll now be looking to trade the ice for the waters of my local canal for some paddleboarding and kayaking.

Do you have any hidden skills or talents?
I've been known to pick up a karaoke microphone with enthusiasm from time to time. Chesney Hawkes is a particular favourite. I believe I'm amazing, those who have heard me may suggest the talent is very hidden indeed.

Is there a particular sport/team that you follow?
I've enjoyed many a Sunday afternoon sitting in a deckchair on the boundary whilst my son plays cricket for our local club.

If you had to choose one favourite book, which would you recommend people read?
André Aciman's *Call Me By Your Name* sticks with me and made for an emotional week of commuting. The monologue delivered by Elio's father to his son had me in pieces.

And what film/boxset should people see?
In our family we have always celebrated *Where Eagles Dare* as a classic and recite chunks of script verbatim, having watched it far too many times: "Where's the Major?" "He's on the cable car".

Is there any particular music/band that you enjoy?
Most things dating from 1980 to 1989. So Chesney again really.

Who would be your dream dinner party guests?
Whilst I could reel off a list of famous names who would no doubt make for stimulating conversation, in reality my dream dinner party would be made up of friends and family who make me laugh, make me cry and make me grateful to be spending time with them.

Is there an inspirational quote/saying you particularly like?
I'm lucky enough to be Churchwarden of the cockney-defining St Mary-le-Bow in the City of London. "Go and do likewise" is the instruction from Jesus, following his telling of the Parable of the Good Samaritan. We all trip up, of course, but I start each day aiming to be a good neighbour.

Written by Sophie Smith

Reliance on the state

The state pension has been in the spotlight as the cost of living rises and inflation soars. Jack Gray analyses the recent developments and their potential impact on workplace savings

Summary

• Recent developments in the state pension have been hitting the headlines amid soaring inflation and a rising cost of living.

• The pausing of the triple lock has prevented a record rise this year but has increased concerns about reliance on the state pension.

• The government consultation on the state pension age closed on 25 April.

• Focus on workplace saving has intensified as people are increasingly less likely to be able to rely solely on state pension income.

Amid a backdrop of Covid-related financial pressures, adjusting to Brexit and conflict in Ukraine, economic uncertainty and rising inflation have been rearing their heads in the UK. Both at a governmental and individual level, the country has been feeling the economic squeeze.

The state pension has not been immune to these issues, with the government putting a one-year pause on the triple lock to avoid a record rise in state pension income, while the *Second State Pension Age Review* consultation has just closed as the population gets older and affordability issues persist.

It seems that people are unlikely to be able to rely on the state pension in later life, with the OECD publishing analysis showing the UK state pension provides a lower level of pension income than most other advanced economies relative to average earnings.

In the UK, this shortfall is partially made up through workplace savings, and the importance of individuals saving into a workplace pension has never been more apparent.

Making a change

"There have been both immediate and long-term changes made recently to the state pension," begins Interactive Investor head of pensions and savings, Rebecca O'Connor.

"The triple lock was scrapped for a year this year, controversially. This was because wage growth after lockdowns meant it would have gone up by an unusually high amount had the triple lock remained. Instead, it went up with inflation, which at the time was 3.1 per cent."

Since the pause, the government has confirmed that the triple lock will be reinstated from next April. Although the announcement to reinstate the measure has been praised, O'Connor warns that the government's ability to quickly remove the triple lock creates uncertainty on whether pensioners can count on a rise in line with inflation or earnings.

AJ Bell head of retirement policy, Tom Selby, agrees, adding: "Clearly the choices facing a government which has spent hundreds of billions of pounds paying people to not work during a pandemic are difficult, but that is likely to be of little comfort to pensioners feeling the squeeze.

"And while the government has said it will reinstate the triple lock from next year, this is a reminder that relying on the state pension leaves you as a hostage to the policies of current and future policymakers."

Two increases to the state pension age are currently set out in legislation: a gradual rise to 67 for those born on or after April 1960; and a gradual rise to 68 between 2044 and 2046 for those born on or after April 1977.

The *Second State Pension Age Review* sought evidence on whether the increase to 68 should be brought forward to 2037-39.

"A rise to 68 is now considered potentially controversial because longevity is no longer rising," O'Connor says. "It is also very unequal between different parts of the country.

"The state pension has already risen quite dramatically in recent years and one of the main justifications for doing so has been rises in living standards contributing to greater longevity. That trend appears to have paused, but pressure on the government to fund the state pension grows with the population of older people."

Selby adds: "While the triple lock has dominated debate around the state pension recently, the state pension age is likely to be a key battleground as we head towards the next general election.

"Given the latest data suggests life expectancy improvements have slowed – and even gone backwards in certain parts of the UK – any decision to move the goalposts further away will inevitably cause uproar.

"However, the Treasury has been forced to borrow over £400 billion during the pandemic and will be scouring for revenue raising measures."

The Investing and Saving Alliance head of retirement, Renny Biggins, states that the increasing costs due to an aging population raises questions about how the state pension will be funded in the medium to long term.

"There will have to be a trade-off between other areas of government spending, or the government will need to introduce higher or new taxes, which highlights how sensitive the state pension is to political intervention," he comments.

"All future retirees with eligibility to a state pension entitlement will potentially be impacted. How they will be impacted will be dependent on the outcome of the review."

Growing importance

With people potentially being less able to rely on the state pension in later life, the spotlight has inevitably intensified on the importance of workplace pension saving.

"It's actually very hard to replace state pension income through workplace pensions and takes quite a high level of contributions throughout working life," says O'Connor.

"The need to increase contributions will have to be communicated to workers. Or else done for them. There is a strong argument for higher employer contributions, too."

Selby adds: "As the state recedes from providing pension incomes, a greater onus will be placed on individuals building up their own retirement pots.

"However, millions of people – including the self-employed – do not benefit from workplace pensions, while many of those saving at the minimum of 8 per cent of band earnings will not be putting enough to one side to fund the retirement they are hoping for."

With the rising cost of living, many employees are being forced to decide whether to extend their working lives or accept a lower standard of living and retire at their chosen age, notes Biggins.

"We should also be mindful of the trends occurring in the private sector over recent decades, including the sharp decline in DB provision," he continues.

"We should ensure that all reviews and changes to the state pension take in to account the overall retirement income targets that are deemed appropriate and the impact this has on auto-enrolment's ability to deliver on the income level that will be required from a private pension."

Affordability issues

Questions over the affordability of the state pension triple lock have been widely debated over the past year as the pandemic brought to light a statistical anomaly in the formula used to calculate the annual increase, explains Aegon pensions director, Steven Cameron.

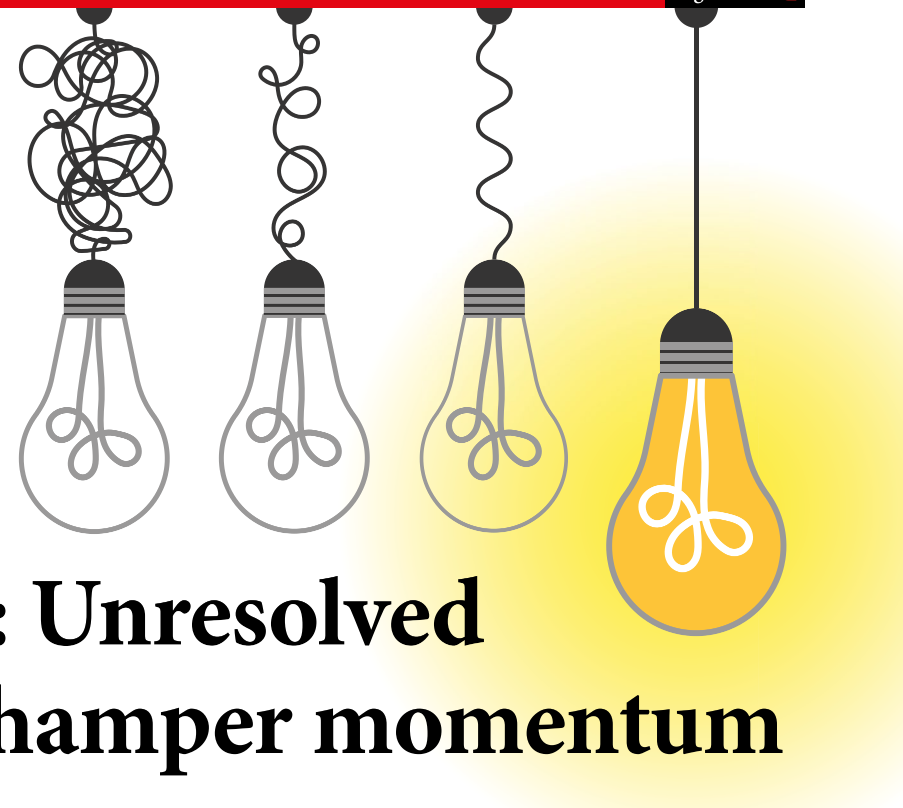
"During the pandemic, the earnings growth measure of the triple lock was distorted by people having been on furlough the year before and this would have granted pensioners an unrealistic increase of over 8 per cent in April 2022.

"Although the government has already committed to reinstating the triple lock for next year, the funding challenge they now face is that inflation is sitting at a 30-year high of 7 per cent and set to rise to the end of 2022.

"With the inflation measure of the triple lock based on September's CPI figure, this could mean that pensioners receive a bumper increase of around 8 per cent in April 2023. And with pensioners losing out on recent inflationary rises in the April 2022 uprating, it would be far harder to justify cutting this back in any way next year.

"The government's commitment to reinstating the earnings figure means the triple lock looks to have survived at least another year, but it's still to be seen if the commitment will survive in future years. Every 1 per cent rise in the state pension costs the government around £0.9 billion, so during a period of significant volatility where earnings are rising and inflation is increasing at unprecedented pace, the affordability of the triple lock may come under further questioning."

Written by Jack Gray



Summary
- Initial assumptions that schemes would choose to use GMP conversion have not materialised.
- Tax complexities have muddied the waters and hampered progress.
- Method 'B' GMP equalisation is emerging as the preferred route for schemes to take.
- The GMP conversion bill was recently granted Royal Assent.
- Employers have cited ongoing costs as a source of frustration.

GMP in 2022: Unresolved complexities hamper momentum

As the GMP conversion bill has completed its journey through parliament, trustees are navigating technicalities to implement solutions for members

Since the government issued guidance on GMP equalisation in April 2019, the topic has been an ever-constant reality amid a rapidly changing industry landscape. But as the complexities of equalisation exercises come to fruition, inflationary tensions are further compounding one of the most intricate areas of the pensions sector.

Keeping GMP in vogue

Trends are developing on multiple fronts in terms of which method of equalisation schemes are ultimately deciding to go ahead with, says Sackers partner, Claire van Rees. She says the initial assumption that schemes would choose to use GMP conversion has not materialised.

"As the complexities of implementation have become clearer, we're tending to see more of an even split between schemes deciding to use conversion, sometimes combined with liability management exercises such as a pension increase exchange, and schemes choosing dual records methods," she says.

One reason behind this is the cost of implementing GMP conversion. Van Rees says it is a "more expensive exercise from an adviser and service provider perspective," leading many to conclude that it's "not worth the spend" unless the benefit structure or circumstances of the scheme mean it is attractive for particular reasons.

"Unresolved questions around tax complexities have further complicated the picture on GMP conversion," she adds.

Punter Southall Governance Services' chief operating officer, James Double, notes that schemes are increasingly exploring the possibility of using method 'B' GMP equalisation – a process that compares both benefit streams each year and results in the higher of the two being paid.

Double explains that the "simplicity" of explaining this to members compared to other methods can "outweigh the additional cost of implementation."

"In quite a few cases, the additional cost is lower than first envisaged, which makes this a more viable alternative," he adds.

Buck principal and London retirement practice leader, Mark Williams, continues to see a leaning towards a year-by-year method for equalising GMPs, "especially the simpler 'B' form".

"This is perhaps driven by changing employer attitudes and the increased cost and complexity of implementing conversion," he says.

Williams adds that the "uptick in activity" could be due to the "track record of completed projects to learn from," meaning trustees can benefit from the efficiencies generated.

One constraint that has diminished recently is administration capability, says van Rees. "Most insurers and administrators can handle any of the methods and it is only for historical systems that choice is restricted," she says.

In the day-to-day implementation of GMP solutions, technical questions in niche areas are more commonly arising, says van Rees.

"For some schemes, depending on their particular circumstances, it can have a significant impact on GMP equalisation and so people are having to look at what the scheme has done in the past in rather more detail than is ideal," explains Van Rees.

"This, and other technical questions, can be quite scheme-specific in how they are relevant to GMP equalisation and so it all adds to the costs of implementation and makes it difficult to have a standardised approach to these projects."

Parallel to this, the progression of projects is bringing consultancies and advisers to the table. Collaborative work is done in as standardised a manner as possible to keep costs down, van Rees adds.

Parliamentary approval

Broadstone's head of GMP equalisation, Kylie Arbon, says the main development the pensions industry was waiting on was the GMP conversion bill to go through parliament.

The bill, which has now completed its journey through parliament and become an act, contains several amendments designed to clarify and streamline the GMP conversion process. The bill sets out to clarify the point at which conversion applies to earners as well as survivors, and sets out which employers need to give consent.

"It *[the bill]* should pave the way for more conversion exercises, which can help simplify the future running of schemes rather than a dual record approach which complicates it," Arbon says, although he notes that a dual record approach "can be considered most appropriate for certain schemes".

HMRC has also been issuing guidance, in particular relating to past transfers out. Double says that the recently published guidance will make the payment of top-ups where the value is under £10,000 more straightforward.

"They've confirmed a lump-sum payment can be made directly to a member after a 'relevant accretion,'" he says, although certain conditions must be met for this to be considered an authorised payment. While it only applies to post A-Day transfers – the date in 2006 when multiple tax systems were overhauled – Double believes the development will make the process of tracking down historic transfers "more straightforward" potentially creating a precedent for more top-ups to be "dealt with this way".

Cartwright's director of pensions administration, Julie Yates, adds that the conditions set out by HMRC are "not too restrictive", meaning the option will "save trustees time and money especially when a significant number of transfers have been paid".

But Gunnercooke pensions partner, Parminder Latimer, adds that trustees are also waiting on a consultation from the DWP, "detailing how employer consent and contingent survivor pension aspects of GMP conversion will work in the future".

Amid this ambiguity, uncertainties have arisen over particular cases and circumstances.

"One area that remains problematic is the tax implications of conversion for members yet to retire," points out van Rees. "In its latest newsletter on the issue, HMRC notes the need for further work to be done to determine an appropriate outcome and hints at the potential for changes to legislation."

Latimer acknowledges that the developments will involve "increased work and checks for scheme sponsors, trustees and administrators, particularly around tax implications". Additionally, identifying those with Lifetime Allowance Protections and vulnerable Pension Input Amounts that would be "triggered by the conversion" will be time-intensive.

Economic impact

As reported in *Pensions Age*, warnings were made over the impact of rising inflation on GMP conversions. Arbon says that as a consequence of the macroeconomic landscape, trustees are not "suddenly trying to push through exercises" for this reason, with "discretionary pension increases being more of a focus in that regard".

On the flip side, employers have signalled increasing expenses as a "source of frustration", particularly where the work involved "appears disproportionate to the ultimate benefit to members". Importantly, Arbon has not yet seen any employers asking to delay projects in response to economic developments.

The current economic situation is, however, causing concern for trustees, says Latimer, with increasing regulatory, governance and reporting burdens coming through various channels, notably the Task Force on Climate-related Financial Disclosure (TCFD) reports.

"With climate change continuing to be a real and present danger, as well the impact of the war in Ukraine and rising living costs, trustees of all schemes continue to be stretched in juggling their responsibilities to their schemes as well as recognising the increased financial strains on their scheme sponsors," says Latimer.

However, the current cost of living crisis could give precedent for trustees to "double their efforts", says Double. He says that if members are "knowingly being underpaid" then trustees should be doing everything possible to get the project completed to "ensure members receive the correct benefits, and back payments where relevant, at a time when extra income could be very useful".

As PTL client director, Dan Richards, says, everything related to GMP is "slow, expensive, and it affects a huge number of members in a very minor way and a small number of members in a major way". He adds that keeping momentum going tends to yield the best results, but given the waiting periods for regulatory direction, tackling the various issues "methodically" is the most sensible approach for the industry to take.

Written by Tom Higgins, a freelance journalist


LGIM
Consolidate with confidence
At LGIM, we value your members' futures the way you do.
Find out how we can support your value for money assessment at
lgim.com/scheme-consolidation

Sponsored by

LGIM

The ESG meme - When responsible investing and well-known brands collide: *Mixing younger savers with environmental, social and governance (ESG) issues conjures images of protest, divestment and social action. The reality is more complicated. We explore what happens when ESG imperatives and well-known brands come into conflict* **p38**

Is ESG the key to better engagement with pension scheme members?: *David Adams asks if the high profile of ESG issues offers pension schemes an opportunity to improve member engagement, benefitting schemes and members – as well as the environment and society* **p40**

ESG:

The power of engagement

LGIM co-head of DC, Rita Butler-Jones

LGIM

Sponsored by

For professional clients only. Not to be distributed to retail clients. Capital at risk.

The ESG meme: When responsible investing and well-known brands collide

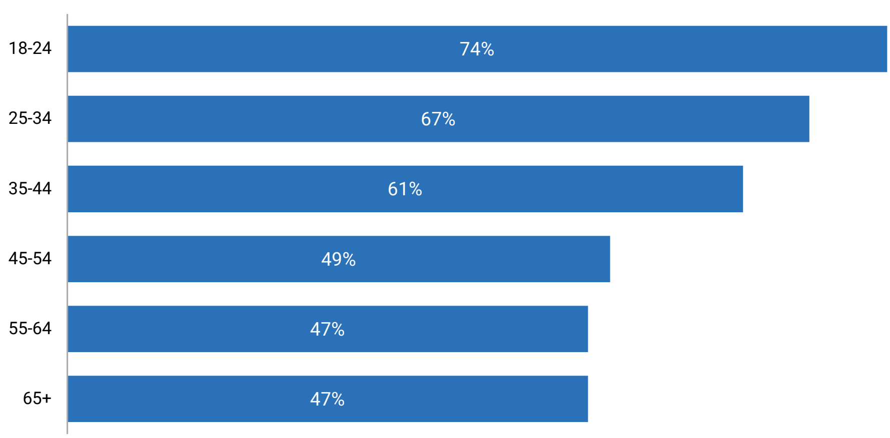
Mixing younger savers with environmental, social and governance (ESG) issues conjures images of protest, divestment and social action. The reality is more complicated. We explore what happens when ESG imperatives and well-known brands come into conflict

In LGIM's latest research[1] among 4,500 defined contribution workplace pension-scheme members across the UK and Ireland, we sought to find out what savers of different generations thought on diverse issues affecting ESG investing – from the climate to Covid-19. As in the previous two years, our results revealed a sharp divide.

For example, when asked if, in the long run, they think pension funds that have a net-zero carbon emissions target by 2050 will perform better than those that do not, three-quarters of Generation Z (born between 1997 and 2012) agreed. Conversely, less than half (48 per cent) of Baby Boomers (born between 1946 and 1964) said yes.

Younger savers are also prepared to translate their beliefs into their investments, with one 25-year old saver saying she would "disconnect" with her pension provider, if she found out that it was not changing environmental, social and governance practices on behalf of its members.

I believe pension funds which have a net-zero target will perform better than those that do not



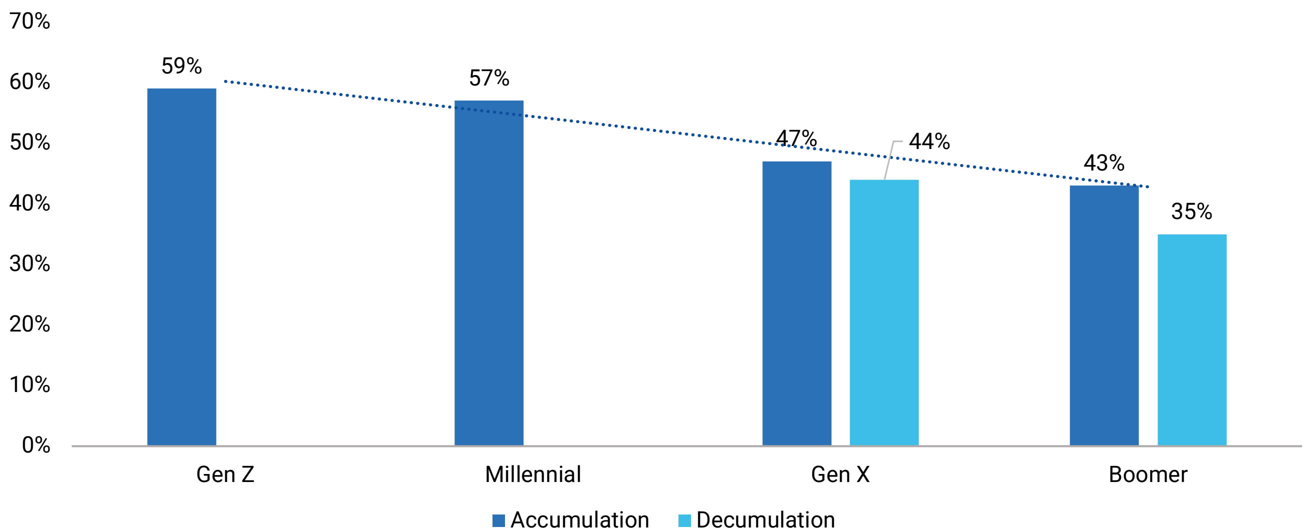
Source: LGIM, UK accumulation and decumulation data sorted by generation/age of respondents, January – February 2022.

So what is pulling the generations apart? It appears that news about ESG issues has an outsized impact on younger generations (Z and Millennials: born between 1981 and 1996). Nearly 60 per cent of Gen Z (59 per cent) and Millennials (57 per cent) in accumulation say they are more likely to want to divest, rather than engage, because of the things they have seen in the media, compared with just over four in 10 Boomers (43 per cent). Similarly, over half of Gen Z (52 per cent) and Millennials (54 per cent) agreed that pressure groups are taking a stronger stance on divestment versus engagement and that this was influencing how they felt as well, as compared with 45 per cent of Generation X (born between 1965 and 1980) and 43 per cent of Baby Boomers.

No use Boohoo-ing over spilt milk

But this is not the whole picture. When it comes to sinful brands with a strong name recognition amongst their peers, younger generations are happier to stay invested. For example, the percentage of 18 to 24-year-olds keen to take an engagement rather than divestment approach with *Boohoo, having explored their supply-chain and working-practice issues in a case study, is over double that of those in the 64+ age category (31 per cent vs. 14 per cent).

The way the media presents these issues makes me want to divest from companies with poor practices, rather than engage



Source: LGIM, UK accumulation and decumulation data sorted by generation/age of respondents, January – February 2022.

This may not be so surprising, when we consider that younger investors respond to big names. Whether it's the familiar FAANG (Facebook, Apple, Amazon, Netflix, Google/Alphabet)* tech stocks that reflect the online world they have grown up in and are touted by internet trading platforms, or the meme stock craze, younger investors are drawn to the brands they know and trust. Even in their daily consumption habits, where they favour familiar brands.

And with all the attention focused on environmental and social responsibility, some savers are experiencing fatigue, believing that brands are cynically constructing an ESG ethos, in order to burnish their corporate credentials. One female Millennial responded "go woke, go broke… I don't trust companies that put their image above their success when it comes to investments", when we asked how respondents would feel if they knew their pension was invested in companies with a perceived negative social impact.

Under the influence

So, it's not as straightforward as saying that younger investors are more 'switched on' to ESG, but perhaps more a case that they are more easily influenced; absorbing social media and the news environment around them. The flipside of this is the opportunity to make a positive association between pensions and social change, and to administer a wake-up call to those in accumulation. Sixty per cent in accumulation had not made the link between issues they see in the media and their pensions before, especially younger generations. Yet nearly two-thirds (64 per cent) felt more positive about LGIM and the companies involved having read the case studies, which was more concentrated amongst younger generations, with one female saver commenting that she was "glad LGIM is flexing its muscles"!

Most promisingly, the percentage of Gen Zers feeling better about LGIM after reading the case studies has more than tripled from 25 per cent last year to 77 per cent this year. Sometimes, it's as simple as letting members know what is going on. As one female Zer in accumulation noted: "I feel like it's good because I'm contributing without realising or trying, and it's something we should all do."

For more insights into how inflation, COVID and COP-26 have affected DC savers' ESG commitments, go to www.lgim.com/uk/en/capabilities/defined-contribution/esg-pensions-research/

Written by LGIM co-head of DC, Rita Butler-Jones

In association with LGIM

[1] LGIM research: Quantitative research of 4,500 defined contribution workplace pension savers across UK and Ireland, survey taken between January and February 2022.

Summary
• The rise of master trusts and increased use of digital technology should help boost pension engagement, especially around ESG and particularly among younger scheme members.
• It is important to remember that not every member is focused on ESG issues.
• In the future ESG may become even more important as a way of encouraging engagement, in part as regulators insist on schemes and the companies in which they are invested making more ESG-related disclosures.
• Ultimately, increased engagement in both pensions and ESG issues will be beneficial for scheme members and society in general.

Is ESG the key to better engagement with pension scheme members?

David Adams asks if the high profile of ESG offers pension schemes an opportunity to improve member engagement, benefitting schemes and members – as well as the environment and society

Most people agree that we should reduce emissions of CO2 and other greenhouse gases to try to mitigate climate change; and many of us are very worried about the consequences of a failure to do so. Recent years have also seen a growing focus among campaigners and some policymakers on the need to tackle inequality and other injustices; while businesses and society in general have suffered as a result of some incompetent, negligent or downright criminal governance of businesses and other organisations.

These are the wrongs that the environmental, social and governance (ESG) agenda is supposed to address. But while it is in all our interests to pursue those aims, the drive to do so may have another positive impact in the short term; persuading more people to engage with the way their pension savings are invested – and with the subject of pensions and retirement in general.

Financial pressures

This would have multiple benefits; and could be particularly useful at a time when many people are worried about their immediate financial situation, says Hymans Robertson head of DC engagement, Kirsty Moffat. "The cost of living has risen dramatically and for the average person pensions are a low priority – but we need to try to push pensions up that priority list," she says.

LGIM co-head of DC, Rita Butler-Jones, agrees: "Our research tells us that almost 60 per cent of those that have retired have done so with no plan for their retirement income. We know members don't feel confident about making retirement decisions, especially when investments are concerned; and we are seeing a high proportion stay invested in their accumulation fund into retirement. There's more to be done to get savers to engage with their pensions earlier in the accumulation phase."

She says some progress has been made in recent years. "We have seen great success from campaigns run using personalised video benefit statements." In addition, LGIM's annual member forum was attended by more than 18,000 members, either in person or on demand; and more than one in three members of the schemes with which it works have registered for online services.

Moffat also thinks member engagement has improved, thanks in part to the appearance of master trusts in the pensions landscape, which have forced other pension providers to improve engagement and introduce more digital services.

ESG awareness

The boost that ESG issues can add to engagement with pensions gained impetus during 2021, says Butler-Jones: "As a result of provider engagement, publicity surrounding COP-26 and the media focus on governmental and big business approaches to climate change, awareness reached new heights over the past year."

LGIM's research shows that the number of people who were aware of the term net zero increased from 75 per cent to 83 per cent during the course of the year; and 84 per cent of scheme members surveyed want to reduce fossil fuel exposure in their pensions – "and we also know members are interested in issues like gender pension gaps, diversity and inclusion," she adds. Interest in ESG issues in relation to pensions may also have been stimulated by initiatives such as the Make My Money Matter campaign. Research from YouGov in 2021 suggested that 65 per cent of pension savers believe their pension should be invested in a way that reduces the impact of climate change.

Butler-Jones says LGIM sees ESG as presenting "great engagement opportunities" for schemes that use digital technologies to engage with members. Some LGIM clients have had significant success using technology provided by Tumelo as a platform for engagement. "With the success we have seen with Tumelo, where most participants are people in the 25 to 34 age bracket, this is a breakthrough for bringing early savers into their pension journey," she says.

Elsewhere, The People's Pension now regularly surveys members to try to find out which ESG issues they see as most important, says B&CE (the provider behind The People's Pension) managing director, investments, Jon Cunliffe. But he thinks the inertia within the auto-enrolment process, which has been so effective as a means to bring workers into pension saving, is not conducive to active engagement. "This does make it difficult to understand the level of members' active interest in both ESG and where their money is being invested," he admits.

Similar work is underway at Nest. "Messages describing how savings are responsibly invested may be more powerful than talking to pension savers about their money being invested in assets like shares and property," says Nest director of investment development and delivery, Paul Todd. "Nest members tell us they want their pension invested responsibly; and they feel reassured when they hear about our investment activities, such as going tobacco free and supporting renewable energy.

"Our research suggests sharing this information can build trust with savers, presenting a real opportunity not only for pension schemes but for the whole financial industry."

Limitations

But that research also revealed limitations in using ESG to drive engagement. When asked which investment information they would find most interesting, more than 60 per cent of members said the financial returns their savings were earning, compared to fewer than 40 per cent who cited either specific companies in which their money was invested or the impacts of those companies' business activities.

Cardano and Now Pensions group head of sustainability, Will Martindale, describes a picture of ambition tempered with pragmatism when it comes to member engagement around ESG; and in relation to its own engagement with the companies in which it is invested.

For example, the master trust has engaged with the companies about their approach to gender inequality. While this, along with environmentally responsible investing, appears to be something of which most members approve, these issues still appear to be "on the margins in terms of savers' interactions with their pension scheme", according to Martindale. Now Pensions has only had "a few" interactions with members on sustainability issues during recent months.

"We need to be realistic," says Martindale. "When most people select a pension they're not actively engaging with the scheme in the same way they might with other financial services providers." Yet at the same time, it seems many members "would expect sustainability to be part of the investment process". "They may not be vocal about their views, but that doesn't mean they don't want their views taken into account."

Future developments

Most observers think that use of ESG to help drive member engagement will become more common in future. The Statement of Investment Principles now has to state how a scheme is taking ESG into account in its strategies and engagement with companies in which it is invested. Further ESG-linked reporting requirements are likely to be introduced in future.

Fulfilling these requirements should help schemes to engage with members, Cunliffe suggests. "We would expect there will be an increase in member engagement, as schemes want to highlight positive ESG actions, and members become more interested in the activities their money is funding."

In any case, he continues, this is what pension schemes should be doing. "Pensions are the primary way in which the majority of the public gains exposure to the stock market," he says. "With that comes the responsibility and ability to push for changes that can benefit society, while providing long-term investment returns.

"Increased member engagement can help nurture financial literacy and encourage members to save more for their retirement. Members of pension schemes should expect that those managing their money are taking steps to invest in ways that address climate change risks, while removing the funding of companies that are breaching international norms involving human rights, labour, the environment, and corruption."

In theory then, this is a trend that benefits everyone – particularly if it drives meaningful progress around the environment and social justice. It means pensions really can be a force for good.

Written by David Adams, a freelance journalist

In association with LGIM

Getting back to nature

Sophie Smith talks to Taskforce on Nature-Related Financial Disclosures (TNFD) co-chair, David Craig, about the group's new beta framework and what steps pension schemes should be taking

The TNFD recently launched a consultation on the beta version of its framework. Can you tell us a bit about the process, and how feedback from the consultation will be incorporated?
The first beta version of the TNFD framework is a groundbreaking first step by the market to tackle the risk of nature loss to the global economy and reduce their impacts on nature. The release marked the beginning of an 18-month process of consultation and development of the framework with a broad range of market participants and other experts. We are adopting an interactive iterative approach, like that adopted by the tech sector when developing software.

We have already seen a surge in interest from the market, with professionals from over 65 countries and territories exploring the framework via TNFD's interactive online platform.

Early feedback will be incorporated already in the next beta version of the framework, planned for release in June 2022 (v0.2). Further prototype releases are planned for October 2022 (v0.3) and February 2023 (v0.4), before the taskforce releases their final recommendations in Q3 2023.

How has the TNFD worked with the Task Force on Climate-related Financial Disclosures (TCFD)?
Building on, and aligning with, the work of standard setters and other disclosure initiatives is central to TNFD's approach. Forty-five per cent of our 34 taskforce members were also members of the TCFD, and 88 per cent of the organisations they work for are supporters of TCFD. TNFD's work builds on the TCFD framework, and the draft disclosure recommendations release in the first beta version of the TNFD follows the same four-pillar approach to disclosure as TCFD. TNFD has also aligned as much as possible with the language of the TCFD approach to provide market participants with the consistency they have been asking for.

For future beta releases of the TNFD framework, the taskforce will also develop guidance on nature-related scenarios that align with TCFD's approach, as well as a recommended approach to metrics and targets.

Has the TNFD worked with any broader industry players to further develop the standards?
Building a comprehensive approach to nature risk management is going to require input and alignment from a range of actors given different mandates, perspectives and capabilities. Therefore, TNFD works to ensure alignment with emerging standards and frameworks under development. In addition to drawing on the work of others in the framework development process, TNFD aims for our outputs to be integrated into standards in this space.

TNFD engages with standard setters through the consultative TNFD Forum and the TNFD Knowledge Hub, where GRI, SBTN, the SASB Research Team (which is now merging into the new International Sustainability Standards Board (ISSB)), and other organisations are amongst TNFD's knowledge partners. TNFD's network of knowledge partners also includes scientific experts, like the International Union for Conservation of Nature (IUCN) and the UN Environment Programme's World Conservation Monitoring Centre (UNEP-WCMC), to ensure our framework is science-based as well as market-led.

In addition, TNFD is in consultation with national and regional disclosure and reporting bodies and initiatives such as the SEC in the US, EFRAG in the EU and others. Several regulators and governments are members of the TNFD Forum. The Network of Central Banks and Supervisors for Greening the Financial System, which counts over 100 of the world's central banks and supervisors as members, is also a TNFD knowledge partner.

How has the TNFD responded to concerns that there are too many standards or definitions available when designing the framework, and could there be options for trustees to combine TCFD and TNFD reporting in future?

TNFD actively encourages integrated climate- and nature-related risk management and disclosures, rather than the development of dedicated nature-only risk management and reporting. Ultimately it is the goal to create integrated and global sustainability disclosures that look at climate and nature, and other sustainability factors, together. That is why we are working with a wide range of partners.

In addition to working closely with TCFD, TNFD will continue working closely with the ISSB, aligning with the global baseline for reporting and disclosure being developed.

While we are seeing a push for alignment and consolidation, we are also seeing an increase in the number of actors working actively on nature-related risks, as the issue becomes increasingly mainstream.

For example, we expect central banks and supervisors globally to take a more active role on nature-related risks going forward, after the NGFS in March stated that nature-related risks can be material to financial stability and should therefore be considered within the core mandate of central banks. It will be an ongoing coordination challenge for some time, but TNFD will continue to work with standard setters, as well as regulators like EFRAG, the US SEC and others, to ensure integration.

Do you think there is enough understanding around how nature and climate link, or is education needed?

The two crises of climate change and nature loss are tightly interconnected, and we must consider them two sides of the same coin. Businesses must move faster on climate, while bringing nature into the equation. The TNFD framework recognises both the interlinkages of climate and nature, and the unique aspects of nature-related risks and opportunities.

While TNFD's high-level draft recommendations are aligned with TCFD's, there are important differences in TNFD's draft guidance as to how organisations assess non-atmospheric nature-related risks that reflects the unique character of aspects of land, ocean and freshwater realms of nature.

In particular, an organisation's nature-related dependencies and nature impacts are location-specific. Location therefore matters significantly for the identification, assessment, mitigation and management of nature-related risks facing organisations, creditors and investors. This location-specific characteristic of nature-related risks and opportunities is reflected across all components of the first beta version of the TNFD framework.

What steps can pension scheme trustees take now to get 'ahead of the game' in addressing nature-related considerations?

Pension funds should absolutely start assessing and managing their nature-related risks already now. We believe the final TNFD framework will provide helpful guidance when it is released in Q3 next year, but the finance sector should not sit idle in the meantime. Nature-related risks are already here, and as we continue to lose nature globally at a rapid pace, they will only grow in the coming years. At the same time, we see commercial opportunities emerging as business develop solutions, like regenerative agriculture, water conservation technologies and biodegradable packaging.

Pension funds can immediately take the first steps of reviewing their portfolios and planned investments with nature-related risks and opportunities in mind: the tools and guidance to kick off that initial assessment and start internal capacity and resource building already exist. TNFD recently did a landscape assessment of nature-related data as part of our framework development process, and while gaps do remain, a lot of data is already readily available. With the TNFD data working group, we are also in the process of creating a catalyst that will incentivise both commercial and governmental data providers to close the gaps at speed.

I would however caution pension funds against thinking it brings them ahead of the game if they start looking at nature risks now. Even if they start today, they are already late – we all are. Scientists tell us we need to halt nature loss completely by 2030, and we are not remotely on track to meet that deadline. Like with climate, nature-related risks are systemic, and the response from pension funds and the rest of the finance sector must reflect that.

TNFD ultimately aims to support a shift in financial flows towards nature-positive outcomes. Much work will be required to achieve this, and we invite pension scheme trustees to bring their expertise to the table by getting involved in co-creating the framework.

Written by Sophie Smith

A show of hands

Summary
• Investor stewardship is rising up the agenda, with investors focused on areas within ESG.
• On climate, investors this season are pushing net-zero targets and the use of plastic packaging.
• On the social and governance side, diversity is a big topic, along with remuneration and cybersecurity.
• The Covid-19 pandemic has had an impact on what's important to investors, with more focus now on employees and the workforce.
• There is more to be done to align asset manager votes with the voting preferences of investors, such as pension funds.

With 2022's AGM season now underway, Natalie Tuck looks at the key issues important to investors this year

If you pay a visit to any asset managers' website you will come across its stewardship policy setting out how it holds its investee companies to account. Such a policy is an essential part of a modern-day asset manager, as the subject has risen up the agenda for its clients, such as pension funds.

In the UK, pension funds are encouraged to become signatories of the Financial Reporting Council's UK Stewardship Code, which was updated in 2020. Many asset managers are also signatories of this code, which includes guidelines on voting at AGMs, a key part of stewardship.

For example, asset owners should disclose their voting policy, including any house policies and the extent to which funds set their own policies and provide a link to their voting records, including votes withheld if applicable – demonstrating the importance of transparency in this area. With this in mind and the 2022 AGM season now upon us, what are they key issues that asset owners will be voting on this season?

The 'E' in ESG

When it comes to environmental, social and governance (ESG) factors, the first, environmental, is often the most talked about, so it is perhaps no surprise that it is a focal point for asset owners this AGM season.

On this, Aegon Asset Management head of ESG, Miranda Beacham, says: "The whole spectrum of ESG issues is important globally – UK investors and pension funds are possibly more vocal about it as the industry has been thriving here for decades."

A current key trend in this area is the goal to become net zero and Beacham points out that a growing number of companies are submitting climate plans to a vote. She adds that although many companies are aligning with net zero, they will have to provide clarity on how this will be achieved, "rather than simply a vague assurance that it will be reached at some point".

Agreeing, AXA IM head of RI coordination and governance, Clémence Humeau, says: "Climate change is increasingly on the agenda of AGMs with a growing number of companies submitting an advisory vote on their transition plans.

"We will assess the consistency of these plans against companies' climate strategy and will ask them to report on the intermediary achievement of the objectives during the AGMs. Moreover, our new policy's key focus is ensuring companies in climate exposed sectors have a net zero emission strategy, with short, mid- and long-term carbon emissions reduction targets."

According to Tumelo CEO and co-founder, Georgia Stewart, proposals on climate are up 42 per cent this year compared with 2021. Tumelo provides a platform for pension fund members to have their say on key issues at AGM season, and Stewart says that members are "firmly in favour of pro-environmental proposals".

All but two of the proposals on Tumelo's platform had more than 80 per cent voting in support (with the overall range of support being 71-100 per cent). For example, a vote on whether 'Kroger should report on its plastic packaging' had 94 per cent support; this was the environmental proposal with the most significant number of votes. The vote on whether 'DuPont should report on its plastic pollution' achieved 100 per cent support.

"Clearly, within E, plastic pollution is an emotive theme that investors are ready to rally to support," Stewart says.

Social and Governance

On the 'S' and 'G' side, Stewart says that investors are in favour of human rights proposals this season. "All had more than 70 per cent voting in support of the proposal, and all but two had more than 80 per cent. For example, should 'Apple publish a forced labour report' had 94 per cent support from investors on Tumelo's platform; this was the human rights proposal with the greatest votes."

In addition to this, Invesco global proxy governance and voting manager, Zoje Vataj, says that diversity, equity and inclusion (DEI) at the board level and in the workforce will continue to be a focus. She explains that investors are keen to see boards have a more rigorous process around board composition and refreshment.

"Through engagement, investors are seeking to better understand the skills and background of board members and how companies are thinking about future-proofing in terms of recruitment," she says.

Vataj also highlights executive pay as another important area. For example, in the US, because of lower support levels or failed say-on-pay proposals, Invesco expects to see more disclosure on actions being taken to address failed votes. Vataj also notes that across many European countries scrutiny of remuneration practices has increased as a result of discretionary adjustments to pay outcomes or one-off bonuses.

This is an area that is also proving popular with pension fund investors, according to Stewart: "There is a wide range of opinions on 'say on pay,' typically management proposals to approve CEO pay. Approval from investors ranges from 7-81 per cent. Some proposals receive support of around 50 per cent – one or two votes, either way, would tilt the balance. For example, 'will you approve Netflix's executive pay plan' received 47 per cent support."

One of the reasons for the focus on pay, says Beacham, is the impact of the Covid-19 pandemic: "Behaviours towards remuneration have been a key area of the pandemic. Particularly, those that have behaved responsibly and those that appear to have been effectively in it for themselves.

"Interesting this season is the bonus payouts – targets were often set at a time of poor visibility, and in hindsight often lacked sufficient challenge. The more responsible companies upped target ranges when it became apparent that they had been set with insufficient challenge. Some have exercised discretion and reduced outcomes."

Another impact of the pandemic, Vataj says, is that it has put workforce issues front and centre.

"Investors are keen to understand how companies are managing risks posed to their employees and broader operations which can impact voting on shareholder proposals and potentially even director elections," she says, adding: "The pandemic-induced 'great resignation' forced companies to focus on recruitment and retention."

Relating directly to the pandemic itself, Stewart notes that healthcare proposals have become important to investors. At the end of April shareholders of three big drug companies – Johnson & Johnson, Moderna and Pfizer – voted on resolutions filed by Oxfam that sought to widen access to the Covid-19 vaccine. The outcome of this saw 24 per cent of Moderna shareholders support the resolution and 27 per cent of Pfizer shareholders gave support. At the time of writing the Johnson & Johnson result had not been published.

Russian invasion of Ukraine

The invasion of Ukraine by Russia earlier this year saw immediate action taken by investors to remove Russian assets from their portfolios. However, the invasion will still be on investors' minds this AGM season.

Stewart says: "The whole world is watching the situation in Ukraine, and investors are becoming increasingly conscious of the part their money is playing. Investors want to know more about where their money is invested, what those companies are doing and where they are operating. Hence, we have seen companies like McDonald's, Cola and Unilever under pressure to pull their operations out of Russia."

Furthermore, Beacham notes that the biggest governance topic "racing up the risks agenda is cyber security, in light of the events in Russia/Ukraine".

"All investors will have already screened their holdings for any exposure whether directly or indirectly. Sanctions mean it will be difficult to exit these companies or indeed use any voting actions. So, most activity will be focused on the indirect exposure through company operations in the region. It is early days yet and difficult for companies to navigate the best course of action," she says.

Influence

Another important aspect of AGM season is how much influence investors, primarily pension funds, have on companies.

While Beacham notes that "it's in everyone's best interests to have their client wishes central to their thinking" she says that currently it is "difficult to give pension funds in pooled vehicles an active say during AGM season".

"However, through consultation with our clients and understanding their priorities before AGM season, we can be sure to take these into account when making voting decisions. Clear disclosure and follow up conversations enable those clients to hold asset managers to account for their actions."

Furthermore, Humeau adds: "We do make use of the voting information services of proxy advisers, their research being helpful to augment knowledge of companies and resolutions at forthcoming general meetings worldwide. However, all our voting decisions are based on our own corporate governance and voting policy. We will therefore often differ from service providers, especially in cases where our voting guidelines are stricter, or when engagement and dialogue with companies have provided us with additional insights in the specificities of the company's business."

This aligns with Stewart's response, who says that although the picture is improving, there is often misalignment between the wishes of pension funds/ providers and how the investment managers vote.

"We also regularly see asset managers voting in opposing directions on behalf of one scheme, effectively cancelling out any influence an underlying investor might have at all. Asset managers working on behalf of one of our schemes voted in opposition on 65 per cent of shareholder proposals."

Despite this, she is positive, with evidence suggesting that investors and trustees can play a role in changing asset manager behaviours. "For example, a vote on Kroger in 2020 received 93 per cent support from Tumelo investors but only 60 per cent from our asset manager partners.

"A similar ballot at Kroger in 2021 won 95 per cent support from Tumelo voters but, this time got 83 per cent support from our asset manager partners. We have seen a 40-50 per cent increase in alignment with member voting on key ESG proposals between 2020 and 2021 AGM seasons for some asset managers.

"Many more shareholder proposals were passed last year relative to the year before as both pension funds and their investment managers step up and drive good stewardship."

Written by Natalie Tuck

Ones to watch

Tumelo CEO and co-founder, Georgia Stewart, details some of the important AGMs to watch out for this season

Some of the most important AGMs that investors will be voting on this season include Meta, Amazon and Alphabet.

In May, investors will be voting on whether Meta should explore the potential risks of the Metaverse and seek shareholder approval. The shareholder who put this proposal forward to the AGM feels strongly that Meta betting its future on the metaverse will generate dystopian downsides. They also feel that they are dedicating significant resources to this without fully understanding the potential risks, putting their investment into the company at risk too. Meta, on the other hand, recommends voting against this proposal because they are committing to building features that will create economic opportunity, keep people safe, protect people's privacy and be inclusive for all. They plan on collaborating with policymakers and experts to build the Metaverse responsibly and say they are already funding research to help achieve that goal.

Investors will also be voting on whether Amazon should explore how it can reduce its use of plastic. Shareholders argue that Amazon is believed to be one of the largest corporate users of difficult-to-recycle flexible plastic packaging, with an estimated £465 million generated in 2019, yet they do not currently disclose how much plastic they use and are falling behind peer companies in their commitments. They are also facing legislation that could make them pay US $100 billion annually to manage their waste. However, Amazon state that these estimates are seriously flawed and overestimate their usage by more than 300 per cent. Given their current efforts into reducing plastic waste, they recommend investors vote against this report.

The AGM for Alphabet (Google's company) will be another important one this season as they vote on Alphabet reporting whether its lobbying activities support its climate commitments. Alphabet has stated its support for the Paris Agreement, which aims to limit global warming to 1.5 degrees Celsius, however, shareholders are concerned that Alphabet does not share how it ensures its lobbying practices align with those aims. They are particularly concerned that Alphabet could be giving money to third-party lobbying organisations that are impeding global emissions reductions. However, Alphabet thinks this report is unnecessary as they already publish extension lobbying disclosures which demonstrate their consistent support for strong climate policies.

DC Guide 2022:

Shaping the future

Featuring:

- The challenges that the industry should be considering when looking to build a strong base for future generations
- Helping DC members make better retirement decisions
- How pension schemes need to step up and help members with their today, as well as tomorrow
- Company profiles

Sponsored by

Summary
- DC savings play an increasingly important role in pension savings and have received greater focus from the industry as a result, particularly in light of the success of auto-enrolment.
- There is still much more to be done to ensure the market is properly supporting DC savers, particularly in relation to adequacy, engagement and decumulation.
- The DC market is still evolving and new considerations emerging, including around investment options and value for money.

Strong foundations

As the DC pensions market continues to grow, Sophie Smith considers the challenges that the industry should be considering when looking to build a strong base for future generations

DC pensions are fast becoming the norm for most Brits, with figures from the Office for National Statistics suggesting that increased participation in DC schemes has been the main contributor to overall growth in workplace pension participation since the introduction of auto-enrolment in 2012, and the dominant form of pension since 2019.

Indeed, Pensions Policy Institute (PPI) senior policy analyst, John Adams, notes that whilst DB pension schemes historically dominated private sector pension provision, the number of members in private sector DB schemes has fallen from around 8 million in 1967 to just 1.1 million active members by 2020.

"There are a number of reasons suggested for the decline in DB pensions including the cost of the schemes," he explains, "the variability of costs, including the sponsor's liability to make up any shortfall in the funding position, and how that reflects on the company's own balance sheet, the cost of administration and management of the scheme."

And HSBC Bank Pension Trust (UK) Limited trustee chief executive officer, Lisa Young-Harry, points out that not only is DC the dominant type of pension in the UK, from a member's perspective it is often the only type of pension saving of many employees, particularly younger members in the private sector.

"Consequently we are seeing a shift in industry and regulatory focus towards supporting DC members but, in our view, more needs to be done to help DC savers – as ultimately they shoulder at lot more responsibility on their savings."

Indeed, Pension and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, emphasises that whilst everything was effectively sorted for savers in the DB landscape, that's quite different for DC savers.

"There are lots of different choices that people can make, both accumulating and decumulating, that prompt a quite different conversation about what support schemes, employers and others should be providing savers to help them to make the best decision in their savings journey," she explains.

New considerations, and new concerns

Decumulation in particular presents a consideration that DB pensions did not, as Harrington-Clark warns that whilst auto-enrolment has utilised the power of inertia, lots of savers do not realise the choices that will face them in the future.

"Schemes can play a really vital part in helping people," she says however, suggesting that providers could consider offering a soft or real default solution at decumulation, to allow savers to make "all sorts of exciting and interesting choices", whilst also providing a 'worst-case scenario' solution for savers that do not want to engage.

Adding to this, Young-Harry argues that the industry needs to ensure members are supported with education throughout their time saving, so they have more trust in pensions and are prepared to make the right choice for their circumstances at retirement.

"Even for those with larger pots looking at drawdown, more support is needed, we'd like to see more focus from providers to offering a wider range of post retirement investment options (for example focused on providing different post retirement investment solutions such as targeting capital preservation with income drawdown or measured capital consumption over an agreed period)," she continues. "This needs to be accompanied with efficient and cost-effective transfers at the point of retirement."

This is echoed by Adams, who suggests that whilst the complexity of pensions may be a barrier to engagement, improving people's understanding could be a starting point to help give them the ability to engage.

"Increasing engagement may be a way for individuals to take more control and interest in their pension savings," he continues. "It may lead to increasing contributions and therefore making better provision for the future."

Ready and waiting

The industry is willing to step up to the challenge though, with over 30 million pension savers to be targeted as part of a new cross-industry campaign designed to boost people's understanding of and engagement with their pensions.

The campaign, led by the Association of British Insurers (ABI) and the PLSA, has already received backing from 15 providers and schemes, representing 41.5 million savers and customers, as well as support from the Department for Work and Pensions, with a collective investment of at least £1 million for the organisation over the next three years.

And whilst engagement is "really difficult to achieve", Harrington-Clark argues that campaigns such as this will allow the industry to share best practice and harness learnings for the greater good.

"We're not talking about complicated choices," she clarifies, emphasising that much of engagement focuses on the basics, such as helping savers to log in to their pension and see how much they have saved.

Ensuring savers are even aware of their pensions, particularly after changing jobs, can also be a challenge in itself, and whilst Young-Harry acknowledges that pensions dashboards could be key for this, she warns that it needs to have as much information on it as possible, and in an easily accessible way, for it to be successful.

Dashboards are not the only development, however, as Adams points out that small and orphaned pots have been an active policy area with a number of suggestions, including mechanisms where pensions are automatically tracked with the individual, or some other mechanism that ensures pots are held with providers that are appropriate for the individual's current circumstances.

A growing to-do list

A focus on costs and value for money has also been emerging in the DC space, particularly in light of regulatory action from The Pensions Regulator and Financial Conduct Authority.

However, whilst Young-Harry argues that providers and fund managers should be required to fully disclose all costs, she says that this needs to be done on the value it brings the members when accessing opportunities.

"For example," she explains, "while illiquid strategies are likely to be more expensive than more passive approaches, a great deal of diversification and growth potential can be provided through these allocations. With the current focus on low costs, some providers or schemes may be concerned about adding an allocation to illiquid assets, which increases cost to members."

Adding to this, Harrington-Clark says that whilst cost disclosures are a concern, there has already been improvements in terms of the information available, explaining that how this information is communicated and ensuring it is useful for savers is instead of growing importance, particularly in light of the individual decisions that can be made by DC savers.

"A lot of regulation in DC has focussed on disclosure rather than effective governance of a DC scheme or good communication," agrees Young-Harry, noting that the consultation on *Facilitating Investment in Illiquid Assets* has suggested that publicly disclosing and explaining default asset class allocation in the annual Chair's Statement may also help members understand the investments made on their behalf, and potentially engage with the projects they are funding, potentially driving up pensions' engagement.

"We need to realise that members do not read the chair's statement and it is not an engagement tool," she argues, "and instead focus on communications that's tailored for our members, timed when they hit a life event and is digestible and to the point."

DC savings have been thrown further into the spotlight amid the Work and Pensions Committee's ongoing inquiry into pension freedoms, whilst the role of illiquid investments in DC savings has been highlighted by the government's recent changes to the charge cap, and new forms of DC are also emerging with the creation of the collective DC scheme that Royal Mail is introducing.

There is clearly no shortage of considerations on the DC horizon, and that's without even mentioning ESG, but it is a challenge that the industry is surely ready for.

Written by Sophie Smith

Helping DC members make better retirement decisions

Sophie Moore and Richard Cook consider what employers and trustees can do to help members make the best choices with their retirement savings

Until they reach retirement, defined contribution (DC) scheme members can effectively choose to 'default' through their entire retirement savings journey. They can join their workplace schemes through auto-enrolment, pay default contributions into the default investment strategy and target the scheme's default retirement age.

But, as soon as members want to turn their pension pots into a retirement income stream, things get much more complicated. Members have to make complex, often irreversible decisions about their pension – and the outcomes of those decisions can have life-long consequences.

The choices introduced by the April 2015 'pension freedoms' are taking an annuity, drawdown, cash or a mix of all three. Only 10 per cent of members are now expected to purchase an annuity, according to our 2022 DC Pension Scheme and Financial Wellbeing Survey, and the majority want to invest their pension pots into a drawdown arrangement. That means they will need to choose when to withdraw income, and how much, as well as considering their own longevity risk.

Unfortunately, DC members lack support and can make poor choices at this stage. Our 2021 DC member survey found that one in three are not confident in their ability to make decisions about their financial future.

Research from the Financial Conduct Authority (FCA) also found that a third of people who go into drawdown without taking advice are invested entirely in cash. According to the FCA, people who had opted for cash could have boosted their expected pension income by more than a third if they had invested in a mix of assets. And those who chose annuities or drawdown might have been able to improve their pension income by around 10 per cent if they had shopped around.

The good news is that employers, trustees, regulators and industry bodies are starting to recognise that DC members are struggling. Simply leaving members to do their own research or offering basic signposting towards services such as MoneyHelper is no longer enough. The FCA wants to improve protection for consumers, including pension savers, in the retail financial market – and the PLSA has gone further, calling for a new statutory obligation on pension schemes to provide helpful guidance and signposting.

What are employers and trustees doing?

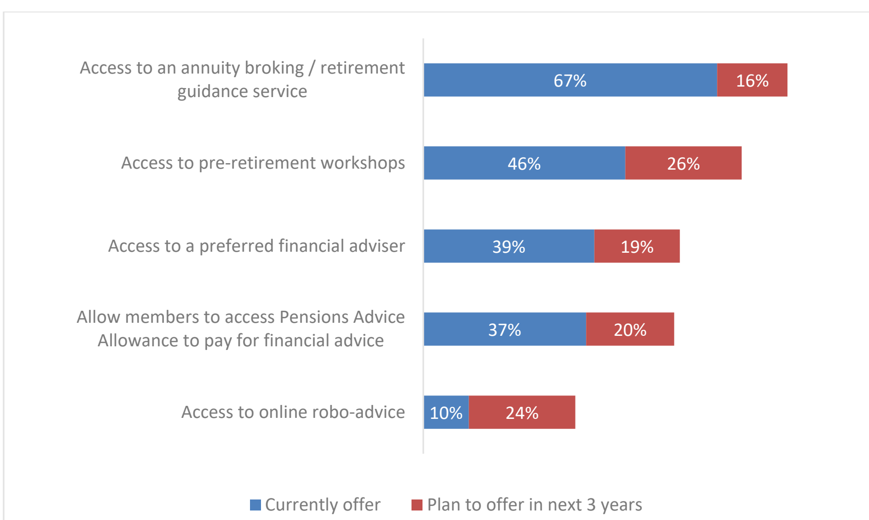
There are often simple 'quick wins' that can make a difference to members, such as improving communications that increase engagement and signposting members to help or support.

In our 2022 DC Pension Scheme and Financial Wellbeing Survey we explored how DC schemes support members approaching retirement.

The findings showed that even when schemes offer support, this might not always match members' needs. For example, most respondents provide a retirement guidance or annuity broking service (67 per cent), but some of these services have been in place for many years and have not kept up with the way people now access their pension savings.

Pre-retirement workshops are also a popular form of support, covering options from generic education through to one-to-one guidance sessions. However, our findings show that only about 20 per cent of members engage with traditional financial education programmes.

Across the market we are seeing schemes work harder to help members



[Aon 2022 DC and financial wellbeing survey]

find advice. It is not easy for individual members to find a reputable Independent Financial Adviser (IFA) at an affordable price, but companies and trustees are well placed to help them by selecting a 'preferred IFA' which they have vetted for quality.

Almost 60 per cent of schemes currently signpost members to an IFA firm in retirement, or plan to do so in the next three years. This usually means running a selection process to choose an IFA, then making contact information part of members' retirement journey. That way, the process of accessing advice becomes simple, efficient and cost-effective for members.

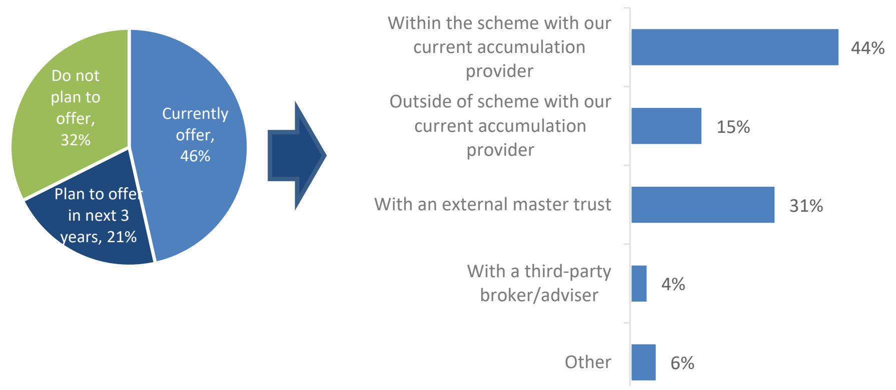
Only 10 per cent of schemes in our 2021 Member Options Survey cover the cost of member advice, but by partnering with a preferred IFA, all schemes can significantly lower fees on members' behalf. This could bring high street fees of £3,000 to £10,000 down to as little as £1,000 or less per member, which in turn encourages significantly higher take-up.

For schemes that allow members to use the Pensions Advice Allowance (PAA), this process becomes even more affordable. Members can take up to £500 from their pension pot tax-free towards the cost of advice. However, access to the PAA remains limited – our 2022 DC Survey showed that only 37 per cent of schemes currently allow access to the PAA, with 24 per cent planning to add this in the next three years.

Like financial advice, finding a suitable drawdown provider can be very difficult for members with little or no experience of high-street finance. But nearly six out of ten DC members expect to manage their retirement income in this way. The FCA found that almost everyone (94 per cent) who went into drawdown without taking advice, stayed with the DC provider that administered their pension pot during accumulation - whereas only 35 per cent of those who took advice did so.

Staying with the same provider is

Do you currently offer or plan to offer a preferred drawdown solution for members?



[Aon 2022 DC and financial wellbeing survey]

likely to be the 'path of least resistance' but it may not be the most appropriate choice. There are vast differences between drawdown products in terms of strategy, cost, flexibility and investment performance. Members may even assume because their current pension provider offers a drawdown solution that it has been assessed as appropriate for everyone in the scheme – but that is unlikely to be the case.

More schemes are now exploring the option of offering access to a preferred drawdown solution. Our 2022 DC survey showed that two-thirds of schemes currently offer or are planning to offer a preferred solution, a significant jump from around one-third in our 2020 survey. Most are doing so through their current accumulation provider, but a significant minority have opted to use an external master trust solution.

What can trustees do now?

There are straightforward steps that all schemes can take to help improve retirement decision-making for members.

Carry out a 'health check' of your current DC member support to understand what your scheme currently offers and where there are gaps.

Benchmark your scheme against the market and wider best practice. This can be an effective way of prioritising your areas of focus, and open-up discussion about the range of support to offer. Areas to explore might include:

- Education: do members need better financial education? Do they have the tools they need to make informed choices?
- Support: have you considered the support your members may need at retirement? What you might be able to offer them at lower cost?
- Retirement products: do members have support to access their pension savings via drawdown, both through a high-quality service and at good value for money?

As DC pension pots become the mainstay of people's retirement income, the pressure to help members navigate complex, high-risk decisions will also increase. Members cannot have a good pensions outcome if they do not understand how best to manage their pot in retirement, so schemes and employers must help them as a priority.

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

In association with AON

2022 DC Pensions and Financial Wellbeing Survey: https://aon.io/3KIfMKi

If 2022 is teaching us anything, it's this – pension schemes need to step up and help members with their today, as well as tomorrow

With the Office of Budget Responsibility (OBR) warning that living standards are set to fall at the fastest annual rate since 1956, our industry faces a fork in the road, writes Alison Hatcher, CEO of HSBC Tomorrow Master Trust. Given the parallel challenge of an impending pensions crisis, she adds, it's time to act today

From government to industry, we've all been singing from the same hymn sheet for years when it comes to the future of retirement in the UK.

New PLSA chair, Emma Douglas, sums the problem up perfectly: "We are walking into a pension crisis…the savings gap is a big societal problem. The current amount of money going into long-term savings, even with auto-enrolment at 8 per cent, is inadequate."

This dilemma is not just one privy to industry and government – the public has not been so blind to the issue as some might think.

Indeed, only last year 17.1 million working adults – 44 per cent of the UK population – said they think they will need to work beyond the state pension age. Worse still, over a million now consider retirement to be an unrealistic prospect *[source: Opinium]*.

One year later, inflation has already hit a 30-year high, with the OBR expecting "real household disposable income to fall at the fastest rate since comparable records began in the 1950s."

This comes in the wake of the Covid crisis, which has undoubtedly wrought serious financial consequences on a beleaguered member-base. If that wasn't enough of an engagement challenge in itself, we're now trying to persuade members to save more for the years ahead, just as they are hit with the devastating combination of rising costs and declining real wages.

A further £145-a-month hike to energy costs is predicted for October, that could lead to one in four UK adults unable to afford their gas or electricity bills by the end of the year *[source: Citizens Advice]*. With that in mind, we might safely predict that member expectations of a comfortable retirement will continue to fall, whilst planning for the future is pushed further down the list of household priorities.

What's to be done?

Value is now something most schemes need to demonstrate to sponsors, members and regulators. How is this to be achieved given the current economic backdrop? One stream of thought emerging is the belief that value can be delivered through three simple objectives:

1) Successfully educate members to save the right amount for their given circumstances

2) Deliver strong investment growth after charges

3) Ensure a smooth and safe process to change pension savings into pension income

All sensible and intuitive objectives. But are they sufficient in the face of today's financial headwinds? Let's examine each point in the context of what members are facing today:

- If members are struggling with their day-to-day finances, it seems improbable that any clever modelling or engagement strategy will shift their attention to longer-term financial matters.
- Strong investment is, of course, vitally important for providers, fiduciaries and members. The problem is, only one in three of those members knew their pension was even invested in the stock market before 2022, whilst two thirds weren't sure how much their pots were worth *[source: Hargreaves Lansdown]*. As attention continues to shift away from long-term financial planning, investment performance becomes a moot point.
- You can't argue with a smooth and safe pension conversion process. However, the average UK pension pot currently stands at just £61,897 (source: FCA), which is coupled with consistently low member engagement during the accumulation phase of retirement planning. Even if a scheme provides seamless to-and-through income options so that members no longer need to go through the time and costs of transferring to a third-party solution, it still won't be sufficient to change the basic equation of having to save a lot of money for a modest income. Amidst the financial pressures of these times, I hear echoes of "what's the point?".

Today and tomorrow thinking

HSBC Tomorrow, our workplace pensions Master Trust, is taking a different approach when it comes to value for members and member wellbeing.

In a nutshell, it's this…Talking to members about their pensions and long-term financial future alone has been tried, it's been tested, it didn't work and certainly won't work in the coming years.

We're serious about value for members. We don't see it as a yearly box-ticking exercise to satisfy regulations – value is something that each member needs to see and feel, and hopefully… well…value.

That's why we take a tangible approach to each of our members' futures – utilizing the power of technology to tackle multiple facets of their life and address the financial challenges they face today, as well as tomorrow and the years ahead.

We encourage saving behaviour in whatever form it takes through behaviour-based nudge communications. We empower members through open banking, spend tracking and budgeting alerts to help manage their daily finances. We also provide tools and support, like account-linked savings goals, to regularly motivate members to reach their financial goals.

We then engage with our members at the crucial moment they achieve a financial goal to encourage ongoing savings behaviours and promote an action that continues to improve their financial situation, whether it's for now or years down the line.

And when those years down the line arrive, our flexible, friction-free drawdown option saves our members time and money as they seamlessly move into retirement, while our digital platform continues to provide help and support.

In our view, an on-going, more tangible and holistic approach like this, not only helps members get their finances under control and reach important short and mid-term life goals, in the long run it can foster a whole new attitude when it comes to the value of saving.

In other words, helping our members save for their today, as well as their tomorrow, is also how we help them foster and grow a vested interest in their financial future.

Written by HSBC Tomorrow Master Trust CEO, Alison Hatcher
alison.hatcher@hsbc.com

In association with HSBC

Company Profiles

Aon

Aon exists to shape decisions for the better – to protect and enrich the lives of people around the world.

We provide our clients with advice and solutions that give them the clarity and confidence to make better decisions to protect and grow their business.

Aon is in the business of better decisions.

HSBC Tomorrow

Opening up a world of opportunity for our members

HSBC Tomorrow is a Master Trust that takes on the cost and regulatory obligations, as well as administrative and governance burdens, of running your workplace pension scheme.

Our objective is twofold. First, we help you deliver your pension obligations in a simple, streamlined and sustainable way through a partnership that brings peace of mind to your workforce.

Second, we treat our members like customers – delivering an enhanced tech-led experience that educates, engages and prompts members into action so they have the best chance to achieve the retirement lifestyle that's right for them.

Regulated by The Pensions Regulator since 2019, our offer is underpinned by four key pillars.

We enhance member outcomes

We offer funds specifically designed for members based on their needs and retirement goals, which also include strong ESG considerations. We also offer a range of self-select funds for those who want to make their own investment choices. As members enter retirement, our funds are aligned to reduce and provide lower fees.

We are part of HSBC Group

We are plugged into the wider HSBC Group, with its unique breadth of governance that is culturally embedded within a truly global bank. We're also financially strong, with significant financial reserves committed. Like you, our objective is to meaningfully enhance value for members and help them achieve the best outcome.

We enhance the member experience through financial wellbeing and personalised communications

Our adaptable and effective digital solution, which includes a range of financial wellbeing and forecasting tools, improves engagement and understanding, whilst enhancing value for contribution and better member outcomes.

We reduce costs

We leverage our agile outsourced model that HSBC has created, offering low fees for administration and investments. This means more money where it's needed - in members' pots.

HSBC Tomorrow Master Trust
8 Canada Square,
London,
E14 5HQ
Email: alison.hatcher@hsbc.com
Website: www.hsbc.co.uk/investments/master-trust

Summary
- The majority of sponsors kept up deficit reduction contributions during the pandemic.
- Wider business packages such as furlough schemes helped with this.
- Uncertainty remains for some sponsors as a result of the energy crisis and consumer confidence.

Under pressure

Maggie Williams explores the take up of deficit recovery contribution breaks to help sponsors during the pandemic, and the new macro pressures employers face now with making pension payments

Defined benefit (DB) scheme sponsors suffered unprecedented disruption in April 2020, as the early difficult days of the Covid-19 pandemic forced businesses to lockdown and even temporarily stop trading.

The knock-on effects for the strength of sponsor covenants and deficit reduction contributions (DRCs) were potentially disastrous, but The Pensions Regulator (TPR) offered businesses a lifeline, enabling them to suspend DRC payments for up to three months.

In fact, relatively few schemes took up the option of the break in DRC payments. Anecdotally, consultants estimated that only between 5-10 per cent of their client base chose to do so. "For those companies that needed it, it was a very helpful and sensible thing for TPR to do," says Mercer chief actuary, Charles Cowling. "Lockdown was a difficult but temporary blip, and there was no point in driving companies into insolvency if they could start trading again once the lockdowns were over."

The government's business support package of employee furlough schemes and recovery loans meant that most sponsors were able to continue to make DRCs. "In general, sponsors didn't see stalling DRC contributions as an easy win, or a way to reduce outgoings," says Hymans Robertson head of corporate DB endgame strategy, Leonard Bowman. "Many realised that taking a break would effectively store up problems for the future and that there were better ways to approach the crisis. Sponsors might have less control in the years ahead if they paused contributions. So, only companies with very serious cashflow issues took advantage."

An uncertain future

However, while Covid-19 is gradually becoming part of day-to-day life, trustees and schemes are now faced with a new set of threats. These include soaring energy prices, a cost-of-living crisis driven by soaring inflation – and ongoing global uncertainty, including the Russia/Ukraine war.

The impact of these on covenant strength and sponsors' ability to maintain future DRCs will vary from scheme to scheme, based on factors such as the business sector that the employer operates in. Bowman says: "One of the reasons that companies survived Covid so well was the global stimulus from governments, including in the UK. But similar stimuli may not be there in the coming years as we endure the energy crisis, for example. Inflation is generally capped or hedged in schemes, but for some sponsors it will need careful monitoring if it causes a contraction in consumer spending."

"Employers are in varied positions," agrees Aon head of UK retirement policy, Matthew Arends. "Some have seen trading pick up as the pandemic has eased so that DRC affordability is less problematic. Other employers remain under stress from pandemic effects, price rises, supply chain issues and other factors which limit the affordability of DRCs. Funding levels in schemes have generally risen since April 2020, but some pension schemes will still have material deficits, so reductions in DRCs are a distant objective."

"Most schemes are in reasonable shape, although a few are in real trouble," adds Cowling. "Schemes should be cautious and careful, look where the big risks are, mitigate them and offload liabilities. Trustees will need to keep close watch on the strength of the employer, understand factors that will affect them and be on the front foot."

Future plans

"Covid has made many companies take a step back in their business planning," says Bowman. "Sponsors are reviewing their corporate structure and asking how to take pension risk out of the future of the business."

Trustees' attitude to DRCs payments will also ultimately shape a scheme's future approach to its liabilities. "Some trustee boards are relatively sympathetic to reducing the remaining DRCs in response to improved funding levels," says Arends. "Others take a tougher line, potentially seeing as DRCs as one part of the bridge to full funding on a low risk or buyout basis. Equally, employers themselves may be content to continue contributing in order to reach a low-risk position sooner."

Arends also points out that many scheme valuations with effective dates in 2021 may not yet have been completed "and this is the most common route to revising DRCs." He adds, "we are seeing an emerging trend among sponsors

The DB Funding Code and deficit reduction contributions

The second consultation on The Pensions Regulator's (TPR) proposed DB Funding Code is expected in late summer 2022, delayed by Covid-19 and subject to close scrutiny within TPR.

Given the long road still ahead, it's no surprise that the proposed requirements of the code have had little effect so far on sponsors' approaches to DRCs and scheme funding. "We have seen very little effect directly as a result of the code consultation," says Aon head of UK retirement policy, Matthew Arends.

However, the second consultation may have more effect: "It remains to be seen whether and how TPR's thinking about the changes as a result of the responses to the first consultation – it is only at that point that it might begin to have an impact on behaviours."

The Association of Consulting Actuaries 2021 *Pensions Trends* survey asked employers about their views on the code's proposals. It explored the relationship between contributions and investment returns in recovery plans, as well as sponsors' views on 'bespoke' and 'fast-track' routes to scheme funding.

It found that 78 per cent of employers believe that even very mature schemes should still take the covenant into account in funding requirements – and 91 per cent want to be able to allow for anticipated additional returns in recovery plans.

Crucially, 69 per cent believe that employer contributions should not be required to bridge the gap between technical provisions and long-term funding targets, where additional returns are anticipated. "Fast-track journeys must not raid employers for cash that is already expected to come from investment returns," added ACA chair, Patrick Bloomfield.

The delay of the code also raised uncertainties from schemes approaching valuations dates.

However, TPR executive director of regulatory policy, analysis and advice, David Fairs, has made it clear that the new rules will only be applied to schemes' valuations after the code has been released.

where DRC affordability is not an issue. The company will negotiate that DRCs will end as soon as the scheme becomes fully funded on the technical provisions basis, even if this is between valuations."

Where schemes have experienced improvements in their funding positions, driven by a combination of deficit reduction and strong investment markets through most of the pandemic, they have been able to think about bringing forward de-risking plans.

"Buyout pricing is favourable and it could also be a good time for schemes revisit transfer value policies," says Cowling. "We are seeing a lot of clients considering this now, even if they weren't six months ago."

"Schemes and advisers have got much better at spotting opportunities for transaction," adds Bowman. "Buyout might still be some years away for many schemes, but everyone is moving closer – even if current economics means there will continue to be a lot of unpredictability."

The impact of the pandemic on DB schemes' funding position and long-term plans is now becoming clearer. "DRCs have generally returned to stability, although there is a spectrum. It is actually remarkable how well and how quickly sponsors have stabilised DRCs, even if their wider business plans are not back to normal yet," says Bowman. "Overall the situation is much better than we might have expected."

Global uncertainty is likely to continue to put DB schemes and their sponsors under pressure for the foreseeable future. Schemes have generally succeeded in weathering the pandemic well – but the significant role that government support packages played in ensuring business survival cannot be underestimated. Schemes may need to endure future financial shocks unaided.

Written by Maggie Williams, a freelance journalist

Acting against aggression

A spokesperson from the National Employment Savings Trust (Nest) speaks to Jack Gray about the action the scheme took following the Russian invasion of Ukraine, the assets it held and sought to divest from, and the challenges the scheme faced in reducing its exposure to Russian assets

Nearly three months ago, Russia shocked the world when it began its invasion into Ukraine. Pension schemes from across the UK sought to act quickly to reduce their exposure to Russian assets, with schemes such as Nest, the BT Pension Scheme, the Universities Superannuation Scheme and the Church of England Pensions Board among the first to take action.

The Pensions Regulator outlined its expectations soon after, calling on pension scheme trustees to be vigilant and speak with their advisers about steps that may needed to be taken, and stating that trustees should consider any action they may need to take to align with sanctions announced by the UK government.

Progress was hampered by the closure of the Russian stock exchange and heavy restrictions on foreign investors selling their holdings in Russian assets. Meanwhile, in light of the conflict, many schemes have re-evaluated their environmental, social and governance (ESG) approaches.

Speaking to *Pensions Age*, a Nest spokesperson details the process the scheme undertook to reduce its exposure to Russian assets and the ongoing challenges facing UK schemes looking to divest.

Can you detail what types of assets Nest divested from and what level of exposure the scheme had to Russian assets at the point of invasion?

Nest spokesperson: "Nest's investment in Russian assets has always been small; as of 25 February 2022 we put our exposure at less than 0.2 per cent of our assets under management.

"Our exposure to Russian companies and entities was through emerging market debt (bonds), emerging market equities, commodities and one dual-listed company in our developed market equity fund."

Did Nest have anything in place prior to the invasion of Ukraine that helped it during the process of divestment?

Nest spokesperson: "The environmental, social and governance (ESG) screens Nest has in place in our emerging market equity fund, particularly on strong corporate governance and reducing carbon emissions, meant our investment in Russian companies was much lower than it would have been if we were fully passive investors."

Why did Nest take the decision to divest from Russian assets?

Nest spokesperson: "The impact of sanctions and the removal of Russia's emerging market status means the prospects for the Russian economy are poor. Investors will also rightly be concerned about the respect for international law and property rights in Russia.

"We therefore concluded Russia was a no-go area for investors and on 28 February 2022 we instructed the relevant fund managers to remove our exposure to Russian markets. This decision was taken by Nest's Investment Committee.

"Our active fund managers for emerging market debt and commodities were already reducing Nest's investment in Russian markets before we instructed them to do so."

What challenges did you encounter during the process?

Nest spokesperson: "Overall, our fund managers have sold off the Russian investments they can and will remove the few remaining assets at the soonest opportunity.

"Their progress has been impacted by a number of factors, including a prolonged closure to the Russian stock exchange markets and while trading has partly resumed, there are heavy restrictions; for example, foreign investors cannot sell their holdings."

What types of assets were invested in, in place of the Russian investments?

Nest spokesperson: "Given Russian assets were always a small part of our portfolio we have not needed to implement a significant reallocation."

Written by Jack Gray

Under a McCloud?

Summary
• Remedying discrimination public sector pensions is set to cost £17 billion.
• Local government schemes face multiple challenges in complying with the McCloud ruling.
• Regulations are still unclear with some public sector workers threatening industrial action.

Following the McCloud ruling, Gill Wadsworth looks at the latest developments for public sector pensions

When Lord Hutton published his report on public sector pension reform, he made clear "special protections for members over a certain age should not be necessary. Age discrimination legislation also means that it is not possible in practice to provide protection from change for members who are already above a certain age".

However, following negotiations with trade unions in 2015, the government included a policy of transitional protection, meaning those within 10 years of retirement stayed in their legacy scheme as they had the least amount of time to prepare for the changes.

Just three years later, in 2018, the Court of Appeal found this policy to be discriminatory against younger members in some schemes; a decision known as the McCloud ruling that is set to cost the public purse £17 billion.

Following the ruling, the government said it would redress the balance by returning eligible members who were moved to the reformed pension scheme in 2015 back into their legacy pension scheme for the period between 1 April 2015 and 31 March 2022.

From 1 April this year, all members have been put back into the new scheme.

As members near retirement, they will be able to choose whether the benefits they receive from that eight-year period come from the legacy or the new career average revalued earnings (CARE) scheme. This is because some individuals will be better off under the old arrangements, while some profit from the allowances under the new plan.

Complications

This has created "complications at every turn", according to Aon head of public sector pensions, Alison Murray.

"Three and a half years on from the McCloud ruling, public service pension schemes are struggling to move on; it's important the discrimination is rectified but at every step complications seem to arise," Murray says.

Since the government is allowing members to choose from which scheme they accrue benefits over the period 2015 to 2022, Murray says those on the public sector pension scheme frontline have been left to manage millions of individual arrangements.

"Public service pension scheme managers not only find themselves clearing up someone else's mess but expanding copious amounts of time and resources in the process," she says.

Murray explains that in addition to giving members a choice of scheme, managers have to ask employers for data going back up to eight years – data she says no one expected would be needed – and recalculate benefits for members who have left employment over that period.

"Some will need to calculate historic member contributions, interest and tax and they need to communicate all of this in such a way that members can make an informed decision," she says.

Efforts to clear up the mess are progressing with various degrees of success.

Minutes from a National LGPS Technical Group held in March reveal some of the challenges local authority schemes face in collating and analysing data to help them comply with the McCloud ruling.

Essex County Council says: "There are a few employers where due to a change of payroll provider there is no way to obtain the data as contracts have ended and time limits have expired."

West Sussex County Council reports: "We have had a few employers/payroll providers tell us they would not give us the data in the way we requested as it was unreasonable. However, when we have pushed back, they have undertaken what was required."

To compound the workload, the government remedies overlap with the implementation of the pensions dashboard in what the LGPS sees as an unwelcome coincidence.

Minutes from the March meeting state: "The pensions dashboards timeline is too closely aligned with the timing of McCloud, which will hinder resourcing. Administering authorities are already struggling with resourcing for day-to-day administration without two major projects landing simultaneously."

According to Quilter NHS specialist, Graham Crossley, the difficulties are exacerbated by the government's decision not to enforce final regulations until October 2023.

Crossley says: "Members moved back to the reform scheme on 1 April but administrators have until October 2023 to put these mechanisms in place. So, while they might have moved back on paper schemes might not see any of the supporting information until well into next year."

In an effort to alert government to their struggle with compliance, this April the Local Government Association and Fire Brigades Union (FBU) wrote to the Home Office and HM Treasury.

Relating specifically to the Firefighters Pension Scheme (FPS), the letter makes clear their irritation at what they describe as a lack of government support: "We cannot express strongly enough our continued frustration at the government's failure, as expressed by HM Treasury and Home Office, to support Fire and Rescue Authorities in ensuring affected FPS members are placed in the position required by the Court of Appeal in December 2018 prior to implementation of remedy legislation."

The letter accuses government of reneging on arrangements made to help the FPS with the McCloud ruling, and says the Home Office has withdrawn guidance while HMT has opposed "any possible solution for scheme members other than waiting for final regulations in October 2023".

"This has left Fire and Rescue Authorities in a position of uncertainty and affected scheme members are actively preparing legal action once again," the letter states.

Costs

Schemes will also be expected to meet the cost of putting remedies in place. This March the government confirmed it will apply the cost of complying with the McCloud ruling to the public sector schemes' 2016 valuations.

Trade unions, including the Public and Commercial Services Union, the FBU, GMB, the Royal College of Nursing and Unite have filed for judicial review in a bid to overturn the changes.

Burke says: "In addition to the administrative complexities, industrial relations are under strain because the cost of any extra benefits due to McCloud assessed by the Government Actuary's Department means members will lose out on benefit improvements that would otherwise have been implemented via the cost control mechanism."

Last June a Public Accounts Committee (PAC) report revealed "evidence of public service pensions issues affecting delivery of frontline services, and independent schools opting out of pension schemes because of increasing costs".

PAC said there was "a danger of a perfect storm where some young people believe they cannot afford pension contributions because of high costs of living and retire with a reduced public sector pension as a result. Many younger workers will continue to pay rent in retirement because they cannot afford to buy a home and the cost of supporting this generation will fall on future taxpayers".

Burke says it is incumbent on schemes to ensure their workforces do not opt out of valuable workplace benefits despite the cost of covering the remedies.

"Effective communication is crucial. As the cost of living rises, scheme managers and employers must ensure public sector workers don't lose sight of the value of their pension and opt out or leave employment due to a lack of trust or understanding of pension issues," she says.

The possible negative impact on benefits – and the risk of opt-outs – may compound the expense some members paid out for advice on the tax advantages of switching from the new to the old scheme – or vice versa – much of which Crossley says is now obsolete.

"Understandably members are massively confused and a lot of them will be aggrieved because they have spent hundreds if not thousands of pounds over those seven years with tax advisers and accountants only to have to do it all again," he says.

Remedying discrimination in public sector pensions has already cost schemes and individual members dear, but as Burke concludes "with so much still unknown the end is still not in sight".

Written by Gill Wadsworth, a freelance journalist

COMMISION IMPOSSIBLE?

Summary

- The benefits of a permanent, independent pension commission to advise the government on pension policy and wider later life issues has long been subject to debate.
- Separating pension policy from political entanglement and being able to provide a long-term perspective are stated as some of the benefits a commission would provide, while others worry that a commission may be ineffective.
- The establishment of a pension commission seems unlikely in the near term.

Tom Dunstan examines the debate around the establishment of a pension commission and the current possibility of it happening

The establishment of a new, permanent pension commission has been a hot topic for debate within the industry for many years, most recently flaring up at a Work and Pensions Committee's (WPC) inquiry into later life saving. In March, at an evidence hearing for the third and final part of the committee's inquiry, WPC chair, Stephen Timms, noted that witnesses shared "contrasting views" as to whether a new pensions commission was needed.

Temporary pension commissions have previously been created, providing detailed analysis of the UK pension system in 2004 and recommending automatic enrolment in 2017.

The commission's past successes have suitably impressed many, so much so that some have requested a new commission with more staying power, but just how realistic is this call?

The current system

Currently, pension policy falls under the remit of both the Treasury and the Department for Work and Pensions.

Many believe that the current system is adequate. For instance, Pension Policy Institute head of policy research, Daniela Silcock, mentions how the current system implemented a previous commission's suggestion of auto-enrolment without the need for a permanent commission.

However, the current system is not without its criticisms, such as the natural short-term focus those creating pension policy – politicians – may have.

"Politicians can sometimes find it difficult to think long term", comments Age UK head of policy, Christopher Brooks.

LCP partner, Steve Webb states that while "we've all got our shopping list of flaws that don't work properly" within pensions policy, citing the example of tax relief often being considered complicated, ineffective and skewed towards higher earners, "I don't think a commission would fix that".

"The biggest flaw is the lack of cohesive philosophy. We've got lots of different aspects that seem to be designed to achieve different aims," Silcock adds. "We've brought in auto-enrolment but then brought in pensions freedoms. It means people are moving from one policy area *[at the accumulation stage]* where they aren't required to do much, with all the decisions being made for them, to one *[at decumulation]* where they're having to be quite proactive to avoid financial drawbacks".

To counter such flaws, some have suggested the establishment of a commission, a permanent body of independent experts to advise government on pension policy.

For instance, at an April WPC hearing, Now Pensions trustee board chair, Joanne Segars, said: "We certainly would support a new pensions

pensions commission being established."

Segars was chief executive of the NAPF (now PLSA) the last time the pension commission debate strongly flared up in the industry, in 2015. Research it published in April of that year, as part of its joint campaign for an independent pensions commission with the Association of British Insurers and the Trades Union Congress, found 84 per cent of people support an independent pensions commission and 85 per cent think it should be politically neutral and impartial in its recommendations to the government.

Eight in 10 were in favour of a permanent commission, which would last more than one parliamentary term, and that would endure future political cycles and provide independent, expert advice to all future UK governments, regardless of their political make-up.

How would it work?

However, as the idea of a permanent commission remains in theory, there is little concrete understanding of how it would work.

"What a pension commission is and what it would do means very different things to different people. I don't think everybody has the same picture in their mind when someone says pension commission," Silcock says.

Some, such as the PLSA, have voiced their own opinions about how the commission could be set up.

"We envisage a commission consisting of a small group of senior commissioners, whose knowledge and expertise would enable them to represent the interests of savers, employers, and the pensions industry," comments PLSA director of policy and advocacy, Nigel Peaple. "The commission would undertake detailed research and analysis of evidence, taking an open and consultative approach to its work, and gathering information through wide-ranging research and consultation."

According to Peaple, a commission would primarily focus on identifying the objectives of the UK pension system, especially regarding pensions adequacy, and whether people are likely to achieve the retirement income they want.

"However, by necessity, it will also need to look at other issues with an impact on retirement income, for example, the ability of people to work in later life and the role that non-pension saving, and property wealth may be able to play in providing some retirement income," he says.

"It could also look at the extent to which savers have access to free or low-cost guidance and whether they are supported in the decisions required to achieve good retirement outcomes."

Peaple also suggests the commission reports to parliament on a regular basis, such as every three to five years, "with an assessment of the UK pensions and retirement landscape, making recommendations for appropriate changes where necessary, for example on whether the current level of automatic enrolment contributions is fit for purpose".

Commission pros and cons

A key benefit of a pensions commission is its ability to suggest pensions changes independent of political manoeuvring.

Silcock describes support for a commission as "probably a symptom of people's frustration as there is a lack of coherence from the government", while Webb adds that "it's because sometimes policy has got stuck".

Brooks suggests the appeal of a commission would lie in its independence: "It's quite attractive to a lot of people, the idea of having an independent body *[to government]*".

Those on the opposing side of the debate highlight a commission's potential ineffectiveness.

Webb points to the previous commission to make this point: "We've had a mini commission in 2017 with industry grandees, experts, people who are well respected. They spent a year, had working groups, took evidence, produced a report, which everyone thinks it's a good report and here we are five years later and nothing has been done. So for people saying we need another commission we had one and we've got nowhere in five years so why would another one be any different?"

Brooks also warns that "unless a commission has a really clear remit or is trying to tackle an urgent problem then I really don't think it will be all that helpful".

A matter of if or when?

However, there may be some circumstances under which a commission could be set up. For instance, Webb states: "I think if there was a change of government a commission could be set up. Sometimes new governments come in and they don't immediately have detailed policy proposals so its just possible a new government would set up a commission."

Although, Webb adds "the flip side of that is, if you've spent the past 10 years in opposition and you finally get to do something, do you really want to subcontract that"?

While the idea of a pensions commission continues to cause strong opinions, for now it remains commission impossible.

Written by Tom Dunstan

In association with

DC roundtable

Optimistic about DC developments?

The latest DC developments, including value for money, illiquid investment, engagement, transfers and dashboards, are explored by a panel of experts in our latest DC roundtable

Chair: Do we feel the pension industry is bustling with ideas to improve DC? Or do we think there's too much stopping us innovating?

Moore: I'm really excited by the DC space. Particularly around investment, there's tonnes of good innovation coming into the market. Compared to just a few years ago, we've seen big advances in things like DC strategy design and platform access. We are also seeing a lot of product development, particularly in the passive equity space and around responsible investment solutions, such as ESG indices, which are specifically designed to improve the ESG footprint, and better availability of climate aware indices and climate transition funds.

Better integration of illiquid assets has been in the spotlight recently, with the launch of the long-term asset fund regime. I guess we'll have to wait and see whether that's successful. We've got a bit of a chicken and egg situation where providers are waiting to see whether demand comes through in order to launch vehicles. But on the flipside demand might not appear until there are more available products and investors can get comfortable.

Innovation in default strategy design has been helped by master trusts bringing real scale to the market. I think the gap is now post-retirement investing, which needs to balance income, growth and security, and I can see a role for deferred annuities and CDC. Cognitive decline is going to become more of a problem, particularly as members get older and are accessing an income through drawdown, and we need solutions which help protect against that. There's some complex but interesting challenges and the potential to benefit a lot of members, and it feels like an exciting time for DC. So, I'm an optimist.

Chair: Keith *[Scott]*, how about you?

In association with

DC roundtable

CHAIR

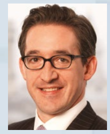
Richard Butcher, Client Director, PTL

Richard joined PTL in 2008. He became managing director in 2010. Immediately before he was at PTL, he ran his own small independent trustee and consultancy business. Richard has been involved in pension scheme governance since 1985 and has worked with, or as, a pension scheme independent trustee since 1989. Richard is a Fellow of the Pensions Management Institute, and a former elected member of the PMI Council. He is an accredited professional trustee. In 2017 he was appointed chair of the Pensions and Lifetime Savings Association (PLSA).

PANEL

Sophie Moore, Associate Partner, Aon

Sophie advises DC pension schemes (£20 million to £2 billion plus) on all aspects of strategy and governance. She enjoys taking a collaborative approach to working with her clients, and brings a wealth of experience in delivering practical solutions, having joined Aon in 2005 and worked in both actuarial and DB investment roles prior to her current DC focus. She is part of Aon's DC Investment Committee, which meets regularly to consider DC issues and agree guidance for the wider business. She also leads Aon's DC relationships with professional trustee firms.



Matthew Swynnerton, Partner, DLA Piper

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

Donna Walsh, Head of Proposition Deployment, Standard Life

Donna has responsibility for the deployment of Standard Life's workplace propositions. She has been heavily involved in the company's workplace developments over the past 10 years and is passionate about improving the experience for members, employers, trustees and advisers. A qualified actuary, Donna has more than 20 years of experience across a variety of roles with Standard Life. She is a regular contributor to the pensions press and a popular speaker at key pensions industry events.

Stuart Walters, Trustee Director, 20-20 Trustees

Stuart joined 20-20 Trustees in October 2020 and has worked in the pensions industry for over 30 years. His previous employers include Wincanton logistics and TPT Retirement Solutions; where he built a unique skillset in corporate and trustee roles to help navigate sponsors and trustees through the pensions landscape. Stuart has run his own trustee business and created and led trustee teams to over 40 defined benefit/contribution schemes including a master trust DC. He has also managed an in-house DC trust scheme with assets of over £350 million.

Keith Scott, Trustee Director, Law Debenture

Keith brings the unique perspective of having been a trustee, corporate pension director and investment manager. He has considerable DC experience with a focus on investment strategy and ESG and is committed to improving member outcomes. Keith spent 17 years with IBM in various corporate pension and trustee roles. He also spent five years at BMO Global Asset Management. He is currently a trustee on five schemes including a large trust based DC scheme in the retail sector and acting COO for a large hybrid scheme in the banking sector.

DC roundtable

From a governance perspective, what's exciting you?

Scott: I'm going to be a bit more pessimistic, Richard *[Butcher, Chair]*. I don't disagree with all the things Sophie *[Moore]* said. The thing I worry about with DC is that I think we need some help from the government, in that we need a more stable framework for DC. The thing that constantly undermines DC is the constant tinkering and mucking about. If you compare it to the ISA framework, for example, it's a very stable framework, very simple, everybody understands it. It's been the same for a long time; people trust it. When you talk to people, they have more faith in their ISAs than they do in their DC.

Swynnerton: The increased layer of regulation is something we've been dealing with in DB for 20-30 years. It's happening in DC as well. However, I suppose the 2015 pensions freedoms was probably the last real major shift. There does often seem to be a conflict between policy in terms of the drive towards increased auto-enrolment which utilises inertia, which can seem at odds with pension freedoms, for example.

That said, I don't think there has been a big change to pensions taxation for some time. At one point it was such a politicised issue that successive governments would tinker with taxation a lot. I'm not sure we've seen that as much recently.

I would mention CDC as an area for innovation though. It's also an area where there do seem to be some significant barriers. So, it seems, at present, to favour large employers only, and I think there's probably a lot of interest in it for smaller and medium-sized employers. But that just doesn't seem like that's going to be viable at the moment with just single connected schemes being available.

Chair: Would you say you're detecting a demand for this at the employer level?

Swynnerton: It's very early days, but I think there's been some research published that indicates that there is demand for it in the smaller employers as well as the larger ones.

Chair: Donna *[Walsh]* are you getting a demand for this?

Walsh: We have seen a minimal amount of demand from our clients for CDC. However, we have been doing some research ourselves across the market to find out, more broadly, whether there is a demand for this. Following this research we are looking at, to your point Matthew *[Swynnerton]*, what the barriers are, the advantages of this, the opportunities from DB to CDC, and what, if any, are the opportunities from DC to CDC?

On the point on whether the industry is bustling with ideas to improve DC outcomes, as an industry, across providers, clients, trustees, advisers, and the government, we've got lots of ideas. The key question is which of them are going to have the biggest impact on member outcomes.

We are in a good place with auto-enrolment with more people saving into pensions than ever before and we would like to see this extended to younger members and people on lower incomes. Helping them to understand their retirement savings, build confidence and empower them to make financial decisions can have a significant impact on their retirement outcomes too. We have launched our Phoenix Insights Longer Lives Index, which covers over 16,000 UK adults, exploring expectations for and confidence in their financial wellbeing in retirement. Over the five critical factors of financial wellness in later life, savings, work, housing, health and financial support from and to friends and family, confidence in savings is the lowest.

Some key findings include, two in five people are not confident they'll have enough savings to support them in later life; 36 per cent are not saving enough to meet their retirement goals. There's a disconnect between the perception and the reality. One in three reporting high levels of confidence in their savings actually face a substantial savings shortfall, our modelling shows they're over £100,000 short. Half of this group are 45-65.

With 28 per cent of people expecting to be paying rent in retirement, and of those, 50 per cent are not confident that they can afford that at retirement we need to consider how housing costs can be factored into the PLSA Retirement Living Standards.

So, for me, we've got more people into saving, which is great, but more needs to be done around how we help them with their financial decisions across all life stages.

Walters: It's the 10th anniversary of auto-enrolment, so we should acknowledge its success in significantly

In association with

DC roundtable

boosting membership in DC schemes. Back then, many employers amended or replaced their pension offering. There's been a lot of constantly evolving change in the DC landscape, so I think it's fair to say that there are many schemes out there that are now quite outdated.

Financial wellbeing is hugely important, from the employer's point of view looking at the employee value proposition. It's not just about retirement savings, it's understanding the needs of a diverse workforce and also looking at things like debt, short to medium savings, and how people feel about their financial position.

In addition, along with all of the governance challenges that keep coming through, I think it's no surprise that there's a drive towards consolidation and tapping into economies of scale. Overall the foundations are there, but there's still much more to do in the DC space.

Chair: The innovations I'd like to see are those that result in people contributing more. It doesn't address the affordability question, but that's somewhat out of our control.

Value for money

Chair: Let's talk about value for money (VFM). Value, or improving value, is around fine-tuning the system. What do we think of the two regulators' joint effort on value for money?

Swynnerton: It's laudable that the regulators are coming together and trying to collaborate and VFM, in principle, seems like a good thing. I guess the challenge in standardising VFM is quite subjective in nature, meaning that standardisation is incredibly difficult to do. So, when they're looking at standardising investment performance, there's no accurate way of doing that. There's no single way of assessing risk. There's no single way of assessing what good value means, and on top of all that, I suppose it's not necessarily just the cost and the value that's important, it's also making sure that this is achieved without sacrificing the customer service element.

Chair: You risk creating a system that can be gamed. If you tell trustees what you will do is assess investment returns, investment risk, quality of service and quality of communications, then you risk the provider saying that's what's important, this is where we'll invest our money, so we'll ignore all of the other things that trustees might otherwise feel free to roam across when assessing value for money.

Walsh: I completely agree with Matthew *[Swynnerton]* in the subjectivity piece, and also with standardisation of measurement of different areas. So, a good example would be in service. Different providers have different measurements for service levels. How do you measure in a consistent way the quality and impact of conversations, the quality and impact of communications, digital experience, guidance given and so on.

Moore: We keep coming back to getting the industry in general to try and move away from just this focus on costs. Member outcomes after charges are more important than the charges themselves.

Looking back over the past couple of years, certainly there's now more recognition from trustees and sponsors that it's not just about the headline charges, and we can see that coming through in things like changes to the charge cap to allow schemes to integrate illiquids, which wouldn't be possible in a purely cost-constrained environment.

Defining value is not particularly easy and there are still challenges around the new prescribed value for members framework. There could be a significant cost for some of those smaller schemes currently impacted if they're going to do this properly.

Walters: Trustee decision making can be very subjective and the art is building consensus around the table. Then we've got the regulator's prescriptive value for money test. It's almost like a binary yes or no answer to whether you are going to carry on as an individual scheme or you're going to consolidate. It doesn't quite sit naturally with the fiduciary duty of a trustee.

Of course, it's not easy to run your own scheme and if you've got a healthy budget, you can focus on some of the most important areas for the employer, such as integrating pensions into a financial wellbeing strategy and creating an employee-centric culture.

In terms of a drive to consolidation, there's the possibility of a capacity crunch or captive market as more and more assets consolidate. It might then become a timing issue in terms of moving to a master trust at a competitive price. So we have potentially competing forces

In association with

Standard Life 2020 TRUSTEES LawDebenture

DC roundtable

between the values and ethos of an employer versus the commerciality of a master trust.

Illiquids

Chair: One of the consultations that's currently around is around on increasing the charge cap so that illiquid investments can be more easily held. Do you think that will add to value, or is that just a distraction?

Moore: I think for trustees, it's not just going to be about cost holding things back. There's going to be concerns around liquidity. We also see that in a platform framework. Platforms will often push back from blending in more illiquid assets, because they view it as a high operational risk, similar to that encountered when we saw a lot of property funds gating. DC platforms need a big change of mindset in order to get comfortable with illiquid investment, which is where using target date funds to do this is easier.

Scott: I don't think the charge cap has been the limiting factor on adding things like illiquids. If you look at most big schemes and big master trusts, they're well below the charge cap. There's plenty headroom. If you wanted to add 10-15 per cent to your default fund of illiquids, there's plenty of room in terms of charges. It's been the liquidity issue that's worried trustees, and particularly with, as you say, the property funds last year and experiencing that, and gating.

Engagement

Chair: Let's go onto some areas of engagement. Stronger nudge towards Pension Wise, that's coming down the line. What have we got to do to prepare for that? How can we help employers and members navigate all of the options that are available to them?

Walsh: We know that people are living longer lives. That doesn't necessarily mean they're living better lives, and as an industry we can help change that. We commissioned some research from the Social Market Foundation and found that more than two-thirds of 50-64 year olds don't know how much they'll need in retirement. There are 13 million people in the UK in that age group. We're only seeing 14 per cent of 50-64 year olds actually using Pension Wise. A third of those people are unsure how to use the information that they do get from Pension Wise as well.

So, I think as an industry we need to do more to plug this guidance gap. We're part of Phoenix Group, the UK's largest long term savings and retirement business, which is calling for a few things. We're calling for a government-led industry working group, pulling together regulators, the advice community, providers, and consumer groups, to assess the complexities and look to how we address this as an industry; to enable everyone to get sufficient help and support when they need it.

We're working with the FCA on this and would like to see collaboration with stakeholders to develop effective reforms to the regulatory framework for advice and guidance to enable implementation of solutions. Can the FCA give more concrete examples of what 'common sense' help providers can give to customers in some specific areas to help. And finally, we would like to see the scope of Pension Wise expanded so it offers broader support and includes earlier ages.

Moore: We ran a workshop on this recently and the research showed that 30 per cent of members approaching retirement didn't know how they were going to take their benefits. When members do get to retirement, only 10 per cent are taking an annuity, so there's a question around the relevance of solutions that are in place. For the larger proportion of members who choose to enter drawdown, most are staying with the existing provider and there's not much evidence of shopping around. So, members kind of sleepwalk into retirement, taking the path of least resistance, not engaging with where they're investing, and can be losing out as a result.

One statistic from our Aon DC survey that was quite surprising, was as many as 70 per cent of members are looking to those in charge of schemes to tell them what to do. So, we've got this situation where, as well as members wanting and needing support because it is a really complicated decision when they get to retirement, there's an expectation, which might even go as far as perceived responsibility, around providing help with retirement decisions, which as far as members are concerned, is already sitting with trustees and sponsors.

The solution is not just going to be one form of communication, one form

In association with ptl AON DLA PIPER

DC roundtable

of support, it's going to be the whole member journey. Making sure that as members get closer to retirement they're getting reminders, they're getting clear integrated communications across both DB and DC towards guidance, as well as towards signposted solutions, access to independent financial advice, and maybe robo-advice is part of that. We have helped a number of DC schemes put a preferred financial adviser service in place for their members approaching retirement.

Chair: Stuart *[Walters]*, do you struggle as a fiduciary with the concept of the difference between advice and guidance

Walters: No, not at all. I feel very passionate in this area. I've delivered numerous group presentations and one-on-one sessions under different employment sectors such as schools, care homes, warehouses, manufacturing plants, distribution centres and charities. You simply can't beat taking pensions to the people. I can't say enough just how well engaged people become when you start talking to them. Pensions is a very emotive subject.

Now, I appreciate that employers often won't have the resources to do that, so you've got to find the best way of replicating being in person. This is where I believe technology has a huge part to play in delivering multi-channel communications throughout the working life. I'm a firm believer in providing focused and relevant support to help boost member engagement and improve decision making, preferably delivered via the economies of scale that master trusts bring.

Scott: It's always been a huge frustration in DC schemes that members are not more engaged and particularly when you compare it with other countries like the US and the 401K plans, or Australian superannuations. You can go to a barbecue in the US where people stand around talking about the 401K plan. I've never been to a barbecue in the UK with people standing around talking about their DC scheme.

Part of the problem is we keep calling them pension schemes. We need to get rid of that word pension, because they're not pension schemes; they're long-term deferred tax savings plans. You're building up a pot of money, and we need to convince people of the value of that pot of money so they contribute more to it and they take an interest in it. But the problem is we keep sending them these statements once a year saying you'll get this very small amount when you buy an annuity. Well no, they're not going to buy an annuity. Most defaults are pointed at drawdown as a solution now.

Walsh: If you can engage people early on and help with what matters to them today, it can help build trust and confidence in their longer-term savings. So helping them with saving for their first home, debt management or budgeting, for example, can help build confidence in financial decision making and support the virtuous circle of increased planning supporting increased confidence, including their retirement saving.

Transfers

Chair: Another interesting area where there's a grey line is of course on the new transfer regulations and the amount of work we have to do there. Who wants to give a view on the new transfer regulations?

Swynnerton: Well this is a topic that is coming up at all the trustee meetings I'm attending at the moment. What's surprising about it is the real divergence of approaches, both in relation to the proposals being made by administrators to address the regulations, and also the views being taken by trustees and providers in relation to their willingness to accept risk in this area.

I'm a member of the Pensions Scams Industry Group technical committee and we're currently working on our updated Code of Good Practice, which will hopefully provide some much-needed guidance to the industry in respect of some of the trickier areas in relation to the new transfer regime. In that group are a number of people from various different disciplines within the pensions industry and its clear that there's a big difference between how providers are addressing these regulations compared to trustees, and how they deal with transfers generally compared to trustee boards.

There are different approaches in relation to the use of discretionary transfers and green (or clean) lists and the general willingness to take decisions on behalf of trustees. The issue in relation to green lists is that the policy intent behind the regulations is that it should be possible for trustees and administrators to use green lists. But due to the way in which the regulations have been drafted, it isn't possible without a technical breach of the regulations. This is because the regulations effectively say you can only use a green list if you're satisfied on the balance of probabilities that the receiving scheme doesn't contain overseas investments, which is an amber flag. Overseas investments is defined very broadly and also any receiving scheme will almost certainly contain overseas investments, which means that you can't be satisfied on the balance of probabilities that the receiving scheme doesn't contain the overseas investments amber flag. As a result, the member would need to be referred to MoneyHelper, even if the receiving scheme was clearly legitimate.

So, in a nutshell, the decision that trustees face is whether to adhere to the policy intent and use a green list, but risk a technical breach of the regulations, push everything to MoneyHelper and risk MoneyHelper being overwhelmed, delays being caused and complaints being received? We're seeing real divergence in views on trustee boards in terms of approach on that dilemma.

The second area where we are seeing markedly different approaches is in relation to decision-making. Pension scams have been around for over 10 years and administrators have been generally happy to undertake due diligence on behalf of trustees and take decisions in relation to transfer requests. Now we've got new regulations which formalise what's required, we're seeing a real aversion from some administrators in relation to decision-making in relation to red and amber flags which are revealed by the due diligence. Some administrators are insisting that all such decisions are referred to the trustee board so that the trustee has to take the ultimate decision as to whether to block a transfer if there's a red flag or refer the member to MoneyHelper if there's an amber flag.

Some providers, however, particularly the very large providers and insurers, are saying that they will take these decisions under delegated authority. As you can imagine, this approach is generally preferred by trustees.

Walters: You're right. There's much more onus being pushed on to the trustee, and I've seen it myself in terms of administrators, they're less willing to make decisions themselves. Surely as an industry, we can come up with one green list across the whole industry that we can work to, rather than having to monitor what different administrators are doing with their own green lists.

Swynnerton: I think it would be ideal. I think the problem is that, in order to do that, somebody has to accept responsibility for maintaining it. Also, I think the other concern is the hassle the entity maintaining it will get from the genuine, legitimate schemes that aren't on it, who may feel they are tainted in some way if they are not on this green list, not to mention scammers.

Moore: There's so much resting on scheme administrators to take charge, to use their wider knowledge and experience on identifying the lower risk transfers and pushing them through really efficiently. Otherwise, there is a risk that everything gets referred to trustees and that just becomes impossible to deal with.

So, say 95 per cent of transfers or more will not be an issue. This is going to be a minority issue and you could get this big backlog of trustees having to try and make decisions on something they don't necessarily have the qualifications for, or they shouldn't be asked to do. Linked to that is a member education piece to make it clear to members what's going on in the background and why their transfer may be taking so long, because that's where a lot of the member frustration is going to come from, if they're not realising the checks schemes need to undertake.

Walsh: We've taken a decision to treat statutory and discretionary transfers exactly the same, applying the new regulations to both. We were originally concerned about MoneyHelper being inundated leading to long process times, however we've not seen that materialise.

I agree with the points made about the regulations being contrary to the policy intent when we look at green lists. This is an area where risk tolerance will need to be balanced against member experience.

From the end of November, when the new regulations took effect to today (end March) we've had 80 MoneyHelper referrals with 25 per cent of those people have completed their safeguarding appointments and only one has opted not to proceed to the transfer as a result.

Once people do access their retirement savings, they can still be

In association with ptl AON DLA PIPER

DC roundtable

targeted by scammers. There's not going to be a silver bullet for scams. Transfers are one important part of the issue.

Chair: This is a really good example of a good bit of legislation where the unintended consequences are the difficulties of implementation. What we now have is a power as trustees that we were asking for, for donkey's years. We just have to work our way through the practical implications of getting out of this.

Dashboards

Chair: We also have virtual aggregation through the pensions dashboard. The consultation came out at the beginning of the year. What do we think? What do the panel think are the key items for schemes to consider?

Scott: It looks like it's really going to happen now. It's not going to be kicked into the long grass again. I mean, it's quite an undertaking in terms of getting all this data. For schemes, the key thing you need to think about is getting their data in the right state that we can do this. I'll still be amazed if this works. It's a laudable idea and it's great for people to be able to go on the dashboard and find all their pensions, it's fantastic. But whether all of that data is all going to come together quite the way they think it will, I don't know.

Walters: I think beyond dashboards as being just a technical data project. Thinking about it from the member point of view then, yes, this must be a good thing if the dashboard is user friendly and the output is informative. Of course, you'll be able to trace your lost pensions and potentially be able to consolidate lots of different pension pots. However, it will all come down to how good the functionality is.

There will be a number of questions from employees but who do they turn to? When it comes to financial knowledge, education etc, employees often place trust in their employer. You've also got the pension scheme provider, you've got Pension Wise and you've got the dashboard. How best can we co-ordinate all of those sources of information for the benefit of the member?

Walsh: We are, and have always been, supportive of the pensions dashboard. We have been working closely with the Pensions Dashboards Programme (PDP) and the three key considerations are sourcing the data across different scheme types and complexities, keeping customer data secure across the whole journey and agreeing accountability; who is liable if things go wrong?

With the technical challenges being worked on by the PDP and reaching a conclusion now it is time to really understand the design for members. We need to ensure it is something they can engage with, understand and get real value from.

Moore: There's a number of outstanding questions, on the DC side, that are already being worked through. One is around matching. What rules schemes are going to be able to adopt to maximise matching whilst minimising all the false matches? I was chatting to our specialist team the other day, they are expecting, say, five million searches a year, so 14,000 a day. Each person checked against something like 100 million pension records, so 1.4 trillion checks a day. So, some are going to go wrong. PASA have issued guidance for trust-based schemes, suggesting matching on surname, date of birth, NI number, with an 'all or nothing' match, but is that going to work for DC? We've got the same issue around matching for small pots, so we will have to see whether the industry and government can use dashboards as a way to crack that issue before we get overwhelmed with millions of small pots that absorb billions of pounds in cost.

Then there's an interesting one around new SMPI assumptions that are being discussed in the run-up to dashboards. At the moment, they continue to convert pots at retirement using a single life annuity with no spouse's pension. It's understandable as it's showing the highest possible number but isn't comparable to DB quotes *[which tend to be inflation linked and with spouses]* and not many buy annuities in practice. So there's a question around whether we need to quote something that is linked to income drawdown, or a projected total fund value, which could be simpler to calculate and understand, but clearly there is a more risk attached to drawdown compared to annuities.

Walters: It would be good to include the state pension in the dashboard too so that all retirement income sources are under the same system.

Chair: Yes, it doesn't really make sense without the state pension.

Future

Chair: So far, we've looked at the stuff that's right in front of our nose. But what do we think is on the horizon?

Swynnerton: Recently, we've all seen big shifts in people's job patterns with the gig economy and people changing jobs much more frequently these days. The industry needs to catch up a bit. It feeds into things like the dashboard, consolidation and small pots. It's likely that the shift in working pattens is only going to increase and that seems like it's going to be the area which we should try and address. It remains to be seen whether dashboards and consolidation will happen in a way that supports those different working habits.

Scott: One of the things I worry about the most actually is this resurgence in inflation because there's more and more assets that provide a negative real yield, so we don't keep up with inflation. We've been rescued a little bit over the past couple of years because equity markets have been so strong, so returns have been relatively good. But I worry about going forward, how are we going to keep members up with inflation, particularly members who are coming out of equities and starting to move towards drawdown and go into other assets?

I think that leads us back a little bit to our discussion of illiquids and other sorts of assets where we need to widen the breadth of assets that we're looking at, because we have to find things that are going to keep up with inflation. We can't just use government bonds and investment-grade credit because it's not going to work.

Moore: The inflation issue is still relevant post retirement, particularly with the challenge of how members make income drawdown last. I think delivering better member retirement support needs to be on the horizon, hopefully near term. There are already lots of 'quick wins' schemes can look at. And innovation in post-retirement decumulation solutions, which is something we are exploring and developing at Aon. What can we do there to help members? Over time more and more DC-only members are going to be reaching retirement, and there is potential to have a real positive impact on people's futures.

Walsh: Our research shows differences in confidence, motivations and outcomes based on factors such as gender, cultural background and social mobility. It is important to understand these different dynamics to engage people in a way and with solutions that will truly resonate with them. DEI will and should be taken into consideration more in proposition designs and communications, increasing personalisation and relevance to ultimately help increase member engagement.

Chair: I think I've got two on my mind or my list of things that are on the horizon which I don't think we're entirely considering at the moment. The first is increasing longevity, which obviously has an impact on adequacy, but also, and less obviously, has an impact on the number of vulnerable customers that we're dealing with. We're asking, because of freedom of choice, for people to be making very sophisticated decisions much later in life. Cognitive decline kicks in on average from the age of 75, and with increasing longevity, we're going to have more vulnerable people making those sorts of decisions.

So, what's the infrastructure that we're providing, and do we have sufficient capacity to be able to support those people?

Second is the growing financial divide, the difference between the wealthy and the poor. At the moment, the top 10 per cent of the population own 44 per cent of UK assets. The bottom 50 per cent own just 9 per cent and that gap is

growing. It's exactly the same in income. The gap is growing.

There's all sorts of knock-on impacts of that, health, wealth and economic opportunity. That's going to create lots more vulnerable members. So, the question is what are we doing to help those people who are at the lower end of the wealth divide to try and adequately provide.

Swynnerton: If I had to pick one thing, well, I'd like to get the transfer regulations sorted because it's something close to my heart and an issue that I'm currently spending so much of my time helping clients with.

Scott: If I was to pick one thing it would be to increase contributions. The one thing we could do to address a lot of the problems you talked about, Richard *[Butcher, Chair],* is contributions. So, increasing particularly employer contributions for auto-enrolment. Because that's what will really ultimately make a difference of how much money people have got when they retire.

Walters: I'm a firm believer in making auto-enrolment compulsory. I agree the contribution rates need to be ratcheted up. I would like to see the ability for employees to flex their finances along their career journey around debt, short to medium savings and longer retirement savings. They all interact with one another to varying degrees at different stages of life.

Rising high

Pensions Age asks: With inflation rates continuing to soar to unwelcome highs, how worried should pension investors be, and what can they do to address these worries?

Pension investors with robust investment strategies that adopt inflation hedging and are exposed to a diversified set of risk and return drivers should be less anxious. In particular, many UK defined benefit schemes invest in assets (or overlay their assets with hedges) that increase in value as future inflation expectations increase. Therefore, to the extent that they are fully hedged against changes in inflation, there could potentially be very little impact on funding levels. To the extent that schemes are not fully hedged, this is something that should be considered along with other risk exposures. Given the recent highs in inflation, schemes with a cap on pension increases are likely to have experienced some outperformance of their hedging assets relative to the liabilities. This could represent a good opportunity to recalibrate the inflation sensitivities across the assets and liabilities and take some profit. The impact that higher inflation has on the rest of the portfolio will be a function of the quantum and nature of the risky assets held. Ensuring that the risky asset portfolio is diversified and has a reasonable balance of real assets should help protect against the impact of persistently higher inflation.

Momentum Investment Solutions & Consulting partner, Raj Goswami

Higher inflation, when accompanied by rising interest rates, can actually improve DB scheme funding levels. This is because all liabilities fall when interest rates rise but only those linked to inflation will rise when inflation and market expected inflation rise. There are also caps on some inflation increases.

From a trustee perspective, this can create opportunities to de-risk, as a number of Cartwright clients have done in recent months, by increasing interest rate and inflation hedge ratios by buying LDI, gilts and the ultimate hedge for DB pension schemes – bulk annuity policies.

Schemes can also look to other asset classes that aren't directly linked to their liabilities but do provide inflation-linked sources of return (and diversification from equities and other asset classes), such as long lease property and commercial ground rents.

In addition to the assets classes already mentioned, many multi asset funds also hold assets that have different levels of expected inflation linkage, such as property, gold, commodities, infrastructure, farmland, timber, overseas inflation-linked government bonds and inflation swaps.

DC scheme members can also invest in these asset classes where funds holding them are available to members as investment options within their scheme.

Cartwright senior investment consultant, Tom Hawthorn

High inflation, which has caused a rapid rise in bond yields, has been negative for equities this year. However, much of the pain has been felt in large cap, secular growth stocks and in particular the US technology sector.

This is because these companies are expected to compound their earnings many years into the future and the increase in the discount rate applied to these earnings which the rise in bond yields creates will lower the present value of these cashflows, causing share prices to adjust lower. At The People's Pension we have less exposure to secular growth stocks than the broad market and a higher weighting in value and cyclical stocks.

While further weakness in equities driven by rising bond yields will be a challenging environment for investment returns on an absolute basis we would expect to benefit in relative terms. To sum up, pension investors worried about inflation remaining untamed by central banks should consider reducing their exposure to interest rate sensitive equities.

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

High single-digit inflation is proving more persistent than initially anticipated. However, the countervailing forces of globalisation, demographics, de-unionisation and technology, not to mention hawkish central bank inflation targeting, should keep prices in check over the longer term - a timeframe well within the average DC investor's investment time horizon.

As inflation is but one risk to factor into investment decision making, DC investors, in seeking to generate inflation-busting returns in the long run, will not be well served by making wholesale changes to their portfolios. Rather, sensible diversification remains key. After all, while equities per se are a reliable long-term inflation hedge and a principal driver of DC returns, this isn't necessarily true in the short term. That said, an actively managed focus on quality growth stocks in sectors such as energy, raw materials, industrials and financials should fare better as an inflation hedge than a whole-of-market indexed approach.

Thankfully, in contrast to past episodes of inflation spikes, there is now a preponderance of accessible asset classes that potentially offer a natural, implicit or explicit inflation hedge. These include index-linked securities, commodities, real estate, real estate investment trusts and infrastructure. Of course, DB scheme members have less to worry about than those in DC, given the index-linking of benefits, albeit with a low to mid-single digits inflation cap being typically applied to deferred benefits and pensions in payment.

Columbia Threadneedle Investments head of pensions and investment education, Chris Wagstaff

UK CPI is forecast to average 7 per cent in 2022 (RPI 9.4 per cent) then fall towards 2 per cent in 2024, this is an international phenomenon often ascribed to three factors: supply/demand mismatches as impeded delivery-chains fail to serve a re-opening world, wage rises incentivising individuals back into the workforce, and commodity price increases resulting from the war in Ukraine.

Forecasters expect a normalisation; however, we see some forces shaping a very different environment to the low-inflation post-GFC era: Deglobalisation, demographics shrinking the workforce, and decarbonisation. This does not suggest inflation remains near 10 per cent, however, it poses the risk that it takes longer to plateau and could do so at 3-4 per cent.

This presents a challenge for policy makers with members of the BoE, Fed and ECB acknowledging the need to temper inflation via tighter policy and this may have negative consequences on growth.

Government bond valuations are at risk given low inflation-adjusted yields, corporate bonds are vulnerable to growth-dynamics as the cycle ages, and whilst equities can benefit from real earnings power, the technology companies that dominate many indices may command lower valuations as the discount rate applied to their future earnings rises.

Security selection and risk management can help navigate this environment and exploit its opportunities. High-dividend stocks have historically performed well during inflationary periods and currently look attractively valued. Emerging market local currency bonds have compelling yields relative to other bonds, however, we would buy short-maturity bonds and hedge their currency risk to reduce volatility.

Investors must be prepared to take some risks as cash is certain to lose value in real terms, however, the investments which benefitted from the pre-Covid era of stimulus and low inflation may no longer work. A mindset shift is required.

Ninety One portfolio manager, Jason Borbora-Sheen

Pensions history

What the institutional investor wants to know

15 May 1978 found George Ross Goobey standing in for BP chairman, Sir David Steel, who had been down to be the lunch time speaker at the Financial Times Conference.

Ross Goobey drew his audience's attention to the fact he was billed as president of the National Association of Pension Funds so that his remarks would be slanted to the pension fund point of view. He made no apology for this for pension funds had, because of their rapid growth in size caused by inflation and by number, recently surpassed the life assurance companies as the largest institutional investors.

As he had now retired from active day-to-day management of a pension fund, he had needed to research 'What the pension fund investors wanted to know' about North Sea oil and gas. The first reaction that he felt he should report to the conference almost suggested "that they didn't want to know".

He thought this attitude arose for a variety of reasons. Firstly, pension fund investors were very long term and some of the Jeremiahs who had been holding forth on North Sea oil and gas had conveyed the impression that the bonanza might be very short lived. Secondly that pension funds had not yet quite broken down the belief that they must only put their trust funds into established enterprises and must therefore not indulge in venture capital, which was why the majority of pension fund involvement in North Sea oil was through established avenues like BP.

Thirdly, pension funds in general had not reacted to the possible investment opportunities provided by North Sea oil and gas because it was such an obvious political arena.

The full text of the talk can be found in the George Ross Goobey collection at: www.pensionsarchive.org.uk/our-collections

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

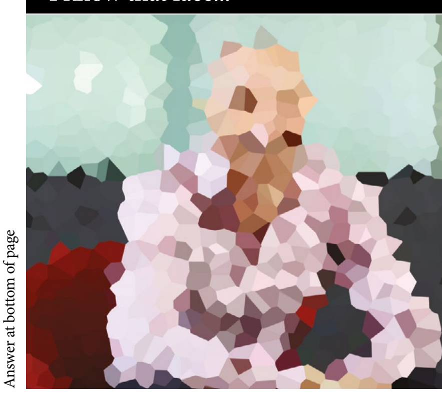
Wordsearch

P	U	B	L	I	C	S	E	C	T	O	R	H	C
E	S	P	B	E	L	W	S	K	D	A	E	L	P
Z	D	T	A	R	S	R	E	I	P	C	C	Y	L
R	Q	C	A	E	V	R	C	R	L	P	N	E	T
E	R	Z	L	T	K	R	L	L	I	L	E	T	O
G	A	U	Y	I	E	S	D	H	A	T	R	H	V
U	R	G	A	X	D	P	S	U	A	T	E	D	Z
L	Z	S	M	I	T	D	E	T	D	B	F	S	V
A	A	T	U	P	R	R	R	N	E	L	N	B	B
T	A	W	U	A	S	P	U	D	S	A	O	S	R
I	L	D	W	A	Z	Z	U	R	R	I	C	O	O
O	V	E	H	V	H	U	E	C	Q	W	O	A	L
N	T	Q	C	O	M	M	I	S	S	I	O	N	Y
S	W	S	E	M	E	H	C	S	C	D	T	U	S

COMMISSION
CONFERENCE
DC SCHEMES
DRCS
GMPS
PUBLIC SECTOR
REGULATIONS
RULES
STATE PENSIONS
STEWARDSHIP

I know that face...

Answer at bottom of page



I know that face... Answer: Sackers senior partner, David Saunders