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How to best secure member data with the constant threat of cyber attacks

ESG
How to prevent, or respond to, being invested in an ESG crisis

Auto-enrolment
Looking back on 10 years of auto-enrolment

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October 2022

PENSIONS Age

The leading pensions magazine

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Editorial Comment

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They say the best way to get over your fears is to face them head on.

Well my trepidation towards change should be well and truly cured now, having seen both of our country's leaders replaced in quick succession.

These changes, although just days apart, were managed in very opposite ways – one a sad but dignified exit and handover of the reins (or should that be reigns?) and the other a much less sad end and a much less calm transition of power.

It may only just be October, but Halloween came early this year, judging by how spooked the markets got following new Prime Minister Liz Truss and Chancellor of the Exchequer Kwasi Kwarteng's very-much-a-Budget-in all-but-name last month. The result of which saw the value of the pound tumble in value against the euro and dollar, sparking panic.

OK, so the pillars on which our country stands may currently be shaking in its foundations, making it quite frightening to be in the midst of all this rapid change. But never mind, let's look over here to the predictable, reassuring arms of the pensions sector.

Oh dear. It seems to have joined the carnage.

As I write this, the longest-serving Pensions Minister, Guy Opperman, has been ousted by the new regime, and after what feels like *years,* his replacement has still yet to be officially announced (despite all the online rumours and unnamed sources 'confirming' the new minister).

Here we hope for a new Pensions Minister who will live up to and build upon the work of their predecessors, the former Pensions Ministers in recent memory who were clearly very knowledgeable and passionate about the role and driven to implement positive change – even if it couldn't be delivered as quickly as they may have liked.

I'm sure Opperman's departure is felt all the more by the pensions industry generally sharing my reluctance to embrace change.

What makes change so scary is the uncertainty of what's to come. Therefore, in this issue of *Pensions Age*, on page 49, we face this fear by considering a worst-case scenario – for example, that your scheme's investments have become entangled in an ESG scandal and, if so, how to respond (and ideally mitigate this risk in the first place).

However, change doesn't have to always be bad, just because we're seeing so much current evidence of this – after all, maybe Charles III will turn out to be even more beloved than his mother, maybe it turns out that Truss and Kwarteng knew what they were doing with the economy all along, and maybe the new Pensions Minister ends up staying in the role and improving the sector for many years to come.

"We hope for a new Pensions Minister who will live up to and build upon the work of his predecessors… who were passionate about the role and driven to implement positive change"

So, with a new positive mindset reverberating around this *Pensions Age* 'looking ahead' themed issue, we consider how the pensions industry can make the most of the rise of influencers, to tackle the growing challenge of false information on social media *[see page 74]*.

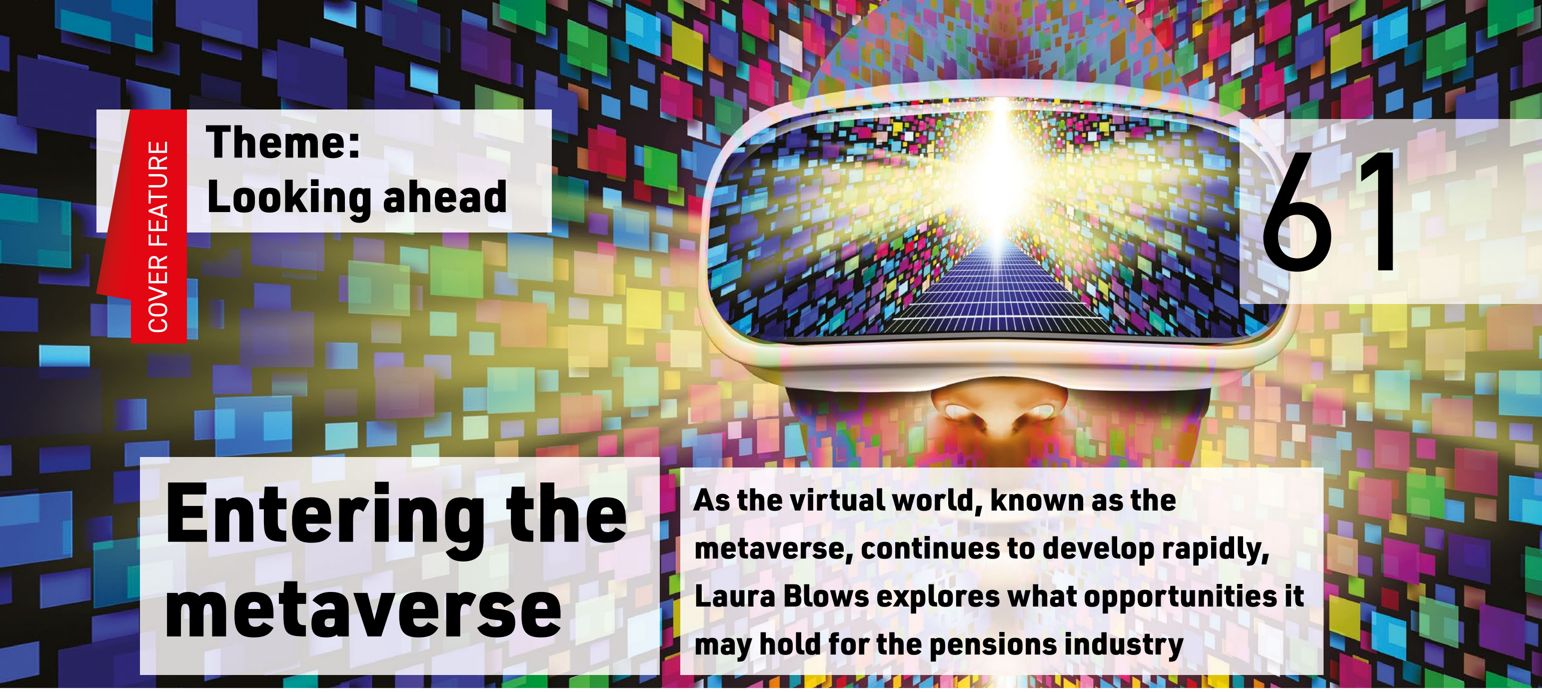
We then look further ahead in our cover story on page 61, contemplating the possibilities the new and emerging 'virtual worlds' will have for the pensions industry to engage with savers.

Also embraced are the changes starting to occur in the at-retirement space, as we explore on page 78 how the industry is responding to the growing needs of pensioners for flexible retirement savings products.

These changes and more will be discussed at the major conferences taking place this month – the PLSA's annual conference held in person for the first time in two years, in Liverpool, and our *Pensions Age* Autumn Conference taking place in London at the end of the month.

I'll see you there. Until then, I'll be reading *Feel the fear and do it anyway.*

Laura Blows, Editor



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Theme: Looking ahead

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Entering the metaverse

As the virtual world, known as the metaverse, continues to develop rapidly, Laura Blows explores what opportunities it may hold for the pensions industry

News, views & regulars

Features and columns

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Features & columns

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Dateline - September 2022

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

1 September The **government** launched a consultation on plans to require Local Government Pension Scheme (LGPS) administering authorities (AA) to assess and report on climate-related risks, in line with the Taskforce on Climate-related Financial Disclosures (TCFD).

2 September The **High Court** dismissed the judicial review of the decision by the UK Statistics Authority (UKSA) and Chancellor to align the Retail Prices Index (RPI) with the Consumer Prices Index including owner occupiers' housing costs (CPIH) from 2030. The judgment also means that the Chancellor will not be required to pay compensation as a result of the indexation change.

6 September UK defined benefit (DB) pension schemes became 100 per cent funded on a long-term target basis for the first time since aggregated records began, according to **XPS Pensions Group's** funding tracker. The XPS DB:UK tracker revealed that the aggregate funding level of UK pension schemes on a long-term target basis was 100.2 per cent as of 31 August 2022, based on assets of £1,623bn and liabilities of £1,620bn. According to the tracker, DB scheme funding levels against long-term targets fell by a further £69bn over the month to 31 August 2022, shifting from a £66bn deficit on 31 July to a £3bn surplus. The funding improvements were attributed primarily to rising gilt yields during August, partially offset by a small rise in long-term expectations of inflation. This added to the improvements in long-term positions that have been seen over 2022, now in excess of £330bn for the year.

6 September Chloe Smith was named as the **Secretary of State for Work and Pensions** in Prime Minister, Liz Truss's, cabinet. The MP for Norwich North was previously Minister for Disabled People, Health and Work, and succeeds Thérèse Coffey, who became Health Secretary and Deputy Prime Minister.

20 September Guy Opperman is no longer **Pensions Minister** following Prime Minister, Liz Truss's, ministerial reshuffle. He was the longest serving Pensions Minister in the UK's history but was not reappointed by Truss. Confirming the decision on Twitter, Opperman said that he was "no longer a minister" and that he will be focusing on his constituency, his duties as a backbench MP and his new baby.

20 September Chancellor, Kwasi Kwarteng, confirmed plans to "accelerate" reforms to the pensions charge cap, in an effort to "unlock" pension investments into UK assets and high-growth businesses. The measures were announced as part of the emergency **'mini-Budget'**, alongside a number of tax cuts. The change aims to give DC pension schemes the "clarity and flexibility" to increase investment into UK businesses and productive assets, and to deliver higher returns for savers. However, industry experts warned that the changes are unlikely to be the 'silver bullet' hoped for. The high levels of borrowing announced in the mini-Budget also prompted concerns amongst the industry, with suggestions that this could push up interest rates, potentially causing "significant" challenges for schemes with liability driven investment (LDI) portfolios. The impact in the markets was seen quickly, as the interest rate on 20-year UK gilts rose to just over 3.8 per cent before the Chancellor stood up, increasing further to around 4 per cent as the markets reacted to the statement.

21 September The Department of Health and Social Care (DHSC) announced plans to change elements of the NHS Pension Scheme, in an effort to help retain doctors, nurses and other senior NHS staff, and increase capacity.

21 September XPS Pensions Group acquired the entire share capital of Penfida Limited for a total cash consideration of £11.6m. This includes £7.9m on completion, and a contingent deferred consideration of up to £3.7 million, subject to business performance and the continued employment of key employees.

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

23 September The Pensions Regulator (TPR) warned employers to ensure they are complying with their ongoing automatic enrolment duties, after inspections revealed a number of common errors. While firms successfully enrolled eligible staff into a pension and made contributions, administrative errors with their ongoing pensions duties put staff at risk of not receiving the pensions due, TPR said. The regulator suggested that the use of incorrect earnings threshold is one key error which can lead to employers needing to make costly backdated contributions, as well as miscalculations on maternity pay, encouraging employers to consult TPR's online information.

27 September The Financial Conduct Authority (FCA) announced plans to look at "transforming" the advice and guidance rules, with plans to carry out a holistic review of the boundary between guidance and advice to help the FCA understand how to reduce the regulatory burden while continuing to provide the right level of consumer protection.

27 September TPR published a new action plan to improve diversity and inclusion across trustee boards, after "worrying" new figures revealed that just 10 per cent of DB and 14 per cent of DC schemes record any trustee diversity data.

28 September The Bank of England announced plans for temporary and targeted purchases in the gilt market at an "urgent pace", in an effort to "restore orderly market conditions" and financial stability following an unprecedented surge in gilt yields. The interventions were welcomed by TPR, which stated that it was monitoring the financial market situation "closely" to assess the impact on DB funding.

28 September Figures from **HMRC** revealed that a total of £10.6bn was flexibly withdrawn from pensions in 2021/22, up from £9.58bn in 2020/21, with the total value of flexible pension withdrawals since the introduction of pension freedoms in 2015 now exceeding £59bn. A record £3.6bn was flexibly withdrawn from pensions in the most recent quarter from 1 April and 30 June 2022, marking a 23 per cent increase on the same period in 2021 when £2.9bn was withdrawn. The figures also prompted renewed calls to scrap the lifetime allowance (LTA), after revealing an 11 per cent increase in LTA charges in 2020/21.

30 September The Work and Pensions Committee (WPC) urged the government to consider boosting future saving rates "before it is too late", and to introduce legislation for the 2017 Auto-Enrolment Review reforms "no later than the beginning of the next session of parliament". Although the WPC acknowledged that the middle of a cost-of-living crisis is not the time to task people to pay more into their pensions, it argued that the government should start building a consensus on the need for change now, to avoid a future "catastrophe". The WPC's report, which was published following its inquiry into pension saving, warned that despite the introduction of auto-enrolment (AE) 10 years ago, more than 60 per cent of people are at risk of missing out on an adequate standard of living in retirement. It found that people over 40 who have had limited time to build up their pension pot through AE are particularly at risk if they do not have access to a DB pension. In light of this, it recommended that the government set out its plans to build a new consensus on adequate retirement income and what the pensions system should be designed to achieve. It also encouraged the government to consider whether an increase in minimum contributions is possible in the foreseeable future.

News focus

Opperman leaves role as Pensions Minister; successor will have 'much to do'

The UK's longest-serving Pensions Minister, Guy Opperman, has left the DWP. But industry experts have warned that the new minister will have a lot on their plate, following calls for tax change and recommendations from the Work and Pensions Committee

Guy Opperman is no longer Pensions Minister following Prime Minister, Liz Truss's, ministerial reshuffle.

His departure was confirmed following the end of the national mourning period, with Opperman stating that he was "no longer a minister" and that he will be focusing on his constituency, his duties as a backbench MP and his new baby.

He became the longest-serving Pensions Minister on 11 June 2022, having surpassed Steve Webb's total of 1,822 days. He thanked Department for Work and Pensions (DWP) officials who worked "tirelessly to ensure UK pensions are secured for the future".

"There remains much for my successor to do, from expanding automatic enrolment (AE), to professional trustees, proper measurement of value for money, expanding superfunds, illiquid investment and CDCs, and ensuring we have a much better system for individual defined contribution retirement planning," he stated. "I will be fully supportive of the new teams and forever grateful to have had the chance to serve."

This is not the only recent change at the DWP, as Chloe Smith was also named as the Secretary of State for Work and Pensions earlier in September.

The MP for Norwich North was previously Minister for Disabled People, Health and Work, and takes over from Thérèse Coffey, who has become Health Secretary and Deputy Prime Minister.

While the position of Pensions Minister is yet to be confirmed, the new cabinet is already at work with Chancellor, Kwasi Kwarteng, delivering a mini-Budget on 23 September.

The mini-Budget confirmed plans to "accelerate" reforms to the pensions charge cap, in an effort to "unlock" pension investments into UK assets and high-growth businesses.

The change aims to give DC pension schemes the "clarity and flexibility" needed to increase investment into UK businesses and productive assets, and to deliver higher returns for savers.

Kwarteng stated: "To drive growth we need new sources of capital investment, to that end I can announce that we will accelerate reforms to the pension charge cap so that it will no longer apply to well-designed performance fees. This will unlock pension fund investments into UK assets and innovate high growth businesses.

"It will benefit savers and increase growth, and we will provide up to £500m to support new innovative funds and attract billions of additional pounds into UK science and technology scale ups."

However, Pinsent Masons pensions partner, Carolyn Saunders, argued that the changes, while likely to help some, are unlikely to be a "silver bullet".

B&CE, the provider of The People's Pension, director of policy, Phil Brown, also stressed that reforms to the charge cap "do not alter the fact that trustees control how pension schemes invest".

Industry experts argued that the Chancellor should instead turn his focus to pension tax issues, as Punter Southall Aspire chief executive, Steve Butler, pointed out that while the recent fiscal statement "took an axe to almost every other form of tax", pensions taxation was left untouched.

In particular, Aegon pensions director, Steven Cameron, argued that the pensions lifetime allowance (LTA), which has been frozen at its 2020/21 level of £1,073,100 until 2026, should be reviewed, warning that if left unchanged, it could cause "real and long-term damage" to the UK pension system.

These concerns were shared by AJ Bell head of retirement policy, Tom Selby, who pointed out that the lifetime allowance has "been at the heart of the current NHS crisis", with thousands of staff forced to retire early or risk being hit with a punitive tax bill.

Selby also clarified that while HM Treasury has proposed a specific solution for the NHS Pension Scheme *[see page 14]*, the lifetime allowance presents wider challenges for both UK savers and the wider economy."

Calls for changes to the LTA have also grown following recent figures from HMRC, which revealed an 11 per cent increase in LTA charges in 2020/21.

According to the data, a total of £382m was paid in charges by 8,610 people whose drawings on their pensions exceeded the LTA limit in 2020/21, up from £344m in the year before.

These figures also revealed that a record £3.6bn was flexibly withdrawn from pensions in Q2 2022, marking a 23 per cent increase on the same period in 2021 when £2.9bn was withdrawn.

A total of £10.6bn was flexibly withdrawn in 2021/22, meaning the total value of flexible pension withdrawals since the introduction of pension freedoms in 2015 has exceeded £59bn.

The "dramatic" figures prompted concern within the industry, with LCP partner, Steve Webb, highlighting the figures as "the clearest sign yet that people are turning to their pensions to help them with the cost-of-living crisis".

"It would be worrying if the only way people could cope with the cost of living crisis was by ravaging their living standards in retirement," he said.

"Without action to prepare the ground now, many people will feel the reality of this coming catastrophe in their later years"

Addressing these concerns is likely to be high on the priority list for the incoming Pensions Minister.

Industry recommendations will not be the only issue for the new minister, however, as the Work and Pensions Committee (WPC) has also urged the government to boost future saving rates "before it is too late".

The comments were made following WPC's inquiry into pension savings, which concluded that despite the success of AE, more than 60 per cent of people are at risk of missing out on an adequate standard of living in retirement.

Although the WPC acknowledged that the middle of a cost-of-living crisis is not the time to task people to pay more into their pensions, it argued that the government should start building a consensus on the need for change now, to avoid a future "catastrophe".

In light of this, it recommended that the government set out its plans to build a new consensus on adequate retirement income, and what the pensions system should be designed to achieve, by March next year. It also suggested it consider whether an increase in minimum contributions possible in the foreseeable future.

Additionally, the WPC said the government introduce the necessary legislation to implement the 2017 AE recommendations "no later than the beginning of the next session of parliament".

It also encouraged DWP to work across government and with stakeholders to agree a definition of the gender pension gap and a target to reduce it, alongside further recommendations to support the self-employed and gig economy workers.

However, the inquiry found that a better evidence base is needed to understand the issues surrounding pension saving gaps, with WPC recommending that a new office be set up, tasked with building and maintaining an evidence base.

"The blunt truth is that many employees need to save more but do not realise it," WPC chair, Stephen Timms, stated. "The government must urgently consider how to boost saving, including examining the case for increasing minimum contributions, before it is too late. Without action to prepare the ground now, many people will feel the reality of this coming catastrophe in their later years."

Written by Jack Gray and Sophie Smith

Pensions industry pays tribute to Queen Elizabeth II

The world, including the pensions industry, has come together to pay tribute to the woman who dedicated her life to serving the people of the Commonwealth, with industry campaigns paused as a mark of respect

Pension engagement campaigns that were due to run in September were postponed as a mark of respect following the death of Queen Elizabeth II on 8 September 2022.

Although the Pension Attention Campaign was launched in the week prior to the Queen's passing, the decision was made to pause all campaign activity until the conclusion of the national mourning period.

In an update, the campaign said it had taken the decision in consultation with its sponsors and partners, including the Department for Work and Pensions (DWP), Pensions Awareness Week and others, based on available guidance.

The Pension Attention campaign stated: "We will continue to work with the Pension Awareness team and all our partners to ensure the success of the campaign season through the autumn.

"Our thoughts remain with the Royal Family and all those who knew and loved our Queen."

Alongside the postponement of the Pension Attention campaign, Pension Awareness Week activities and events have also been put on hold.

Pension Geeks, which runs the initiative, announced that Pension Awareness live shows and activity due to take place had been postponed as a mark of respect. The week of live shows will now take place from 31 October to 4 November 2022. The decision was taken following discussions with its sponsors and partners, including the Association of British Insurers, the Pensions and Lifetime Savings Association, the DWP and others.

Campaigns are not the only things that have been postponed, with some pension and investment companies putting the publication of research and reports on hold during the period of national mourning.

More broadly, people from across the pensions industry have also paid tribute to Queen Elizabeth II.

Her Majesty ruled for 70 years, the longest reigning monarch in British history, spanning 15 Prime Ministers, from Winston Churchill to Liz Truss.

"Through her sense of duty and her tireless contribution to public life, she has set an inspirational example"

The world, including the pensions industry, came together to pay tribute to the woman who dedicated her life to serving the people of the Commonwealth.

"Queen Elizabeth II was an extraordinary woman and we are grateful for her lifetime of service to our nation," said Work and Pensions Secretary, Chloe Smith. "We mourn her today and our thoughts are with the Royal Family."

The Pensions Regulator chief executive, Charles Counsell, said the regulator joined with the nation and those across the world to mourn the Queen's death.

"Through her sense of duty and her tireless contribution to public life, she has set an inspirational example to so many for so long," he added.

Money and Pensions Service (Maps) chief executive officer, Caroline Siarkiewicz, extended her thoughts and sympathies to the Royal Family on behalf of Maps, stating that the Queen touched the lives of so many people and that she had been a devoted servant.

Meanwhile, the board and employees of the Pension Protection Fund (PPF) expressed their sorrow and extended their deepest condolences to the Royal Family, recognising her lifetime of dedicated service to the country and the Commonwealth.

"The Pensions Management Institute (PMI) are saddened to learn the passing of Her Majesty Queen Elizabeth II," the PMI wrote.

"The Queen has reigned for longer than any other monarch in British history, a truly loved and respected figure across the globe."

Former Pensions Minister, Ros Altmann, said it was "devastating news": "We have lost a wonderful monarch who dedicated her life to public service and upheld highest standards or dignity, courtesy, decency and honour. A real loss to our nation."

Alongside the rest of the pensions industry, *Pensions Age* extends its deepest condolences to the Royal Family and mourns the loss of Queen Elizabeth II.

Written by Jack Gray

Bank of England announces gilt market interventions

The Bank of England announced gilt market interventions after Chancellor Kwasi Kwarteng's emergency mini-Budget prompted a "seismic" response in the gilt market, with intense sales prompting "huge demand" for cash to support derivative structures popular amongst pension funds

The Bank of England (BofE) has announced plans for temporary and targeted purchases in the gilt market at an "urgent pace", in an effort to "restore orderly market conditions" after a surge in gilt yields.

Gilt yields faced 'unprecedented' increases following the Chancellor's fiscal statement, with the interest rate on 20-year UK gilts rising to just over 3.8 per cent before the Chancellor stood up, increasing further to approximately 4 per cent amid market reaction.

This prompted calls for pension scheme trustees to 'brace' for a new market environment and review whether their collateral buffers remain adequate, with concerns that some schemes may not be well prepared for liability-driven investment (LDI) collateral calls, after years of falling interest rates.

Indeed, intense selling in both the conventional and index-linked gilt market subsequently prompted "huge demand" for cash to support derivative structures popular amongst pension funds, Aegon Asset Management head of rates, Sandra Holdsworth, noted, with the BofE therefore announcing the plans to stop "a vicious spiral".

In its statement, the BofE said that the repricing of UK and global financial assets had become "more significant", and was particularly affecting long-date UK government debt.

"Were dysfunction in this market to continue or worsen, there would be a material risk to UK financial stability," it stated. "This would lead to an unwarranted tightening of financing conditions and a reduction of the flow of credit to the real economy."

The BofE therefore announced new interventions, confirming that it is "ready to restore market functioning".

As part of this, BofE will carry out temporary purchases of long-dated UK government bonds from 28 September, to "restore orderly market conditions".

"Were dysfunction in this market to continue or worsen, there would be a material risk to UK financial stability"

The purchases will be carried out on "whatever scale" necessary, and will be fully indemnified by HM Treasury.

The Pensions Regulator (TPR) welcomed the BofE's intervention, confirming that it is also monitoring the situation in the financial markets "closely" to assess the impact on DB pension scheme funding.

"We again call on trustees of DB schemes and their advisers to continue to review the resilience and liquidity of their investments, risk management and funding arrangements, and plan accordingly to protect the interest of scheme members," TPR stated.

However, BofE stressed that the purchases will be "strictly time limited", with auctions to run until 14 October.

Industry experts have therefore stressed the need for pension scheme trustees to take 'urgent' action.

Speaking to *Pensions Age*, Mercer partner and investment consultant, James Brundrett, urged trustees to "take action now", explaining that schemes need to be able to weather a "significant rise in yields, where it might be double what was expected before".

Longer-term changes may also be needed, as LCP partner, Dan Mikulskis, noted that while LDI has worked well for last decade, the industry now needs to ensure it is fit for the next 10 years.

"It's clear we are in a different interest rate environment now to the one we have operated in for the past decade and the industry will need to adapt," he continued. "Trustees will wish to ensure these programs are resilient, in particular they will wish to review things like the margin of safety being employed in these strategies, and the operational plans in place to cater for various scenarios. They will need to stress test against a new range of different severe scenarios."

XPS Pensions chief investment officer, Simeon Willis, agreed that "lessons will have to be learned", suggesting that the experience has shone a particular light on the intricacies of managing liquidity when using leverage for risk management purposes, in particular within pooled funds.

Written by Sophie Smith

DHSC announces new measures to tackle NHS pension crisis

Health Secretary, Thérèse Coffey, announced a number of new measures designed to help tackle growing concerns over the impact of pension tax issues on the NHS backlog, stressing that a "true national endeavour" is needed to help support the NHS

The Department of Health and Social Care (DHSC) has announced plans to change elements of the NHS Pension Scheme, in an effort to help retain doctors, nurses and other senior NHS staff, and increase capacity.

Introducing the policy paper, *Our plan for patients*, Health Secretary, Thérèse Coffey, stressed that a "true national endeavour" is needed to tackle the NHS backlog, supported by efforts to "make it easier" for clinical professionals to help the NHS.

As part of this, Coffey said that the DHSC has dedicated itself to "correcting" NHS pension rules regarding inflation to retain more senior NHS staff.

The paper also included measures to "encourage" NHS trusts to explore local solutions for senior clinicians affected by pension tax charges, such as pension recycling.

In addition to this, it outlined plans to implement permanent retirement flexibilities and extend existing temporary measures to allow more experienced staff to return to service or stay in the service longer.

Despite the new measures, the British Medical Association (BMA) has argued that further changes may be required, particularly in the Finance Act.

Proposed changes to the Finance Act were recently raised in a letter to the government, written prior to the *Our plan for patients* policy paper, in which BMA chair of council, Philip Banfield, called for measures to be taken to avoid a loss of NHS staff over pensions rules.

Furthermore, commenting in response to the Coffey's plan, BMA GP committee chair, Dr Farah Jameel, stated: "Without concrete action on recruitment and retention - most urgently an amendment to the Finance Act to address the perverse impact of inflation on pensions, leading doctors to retire early this year – we are simply not going to have the numbers to provide any service let alone fulfill any of the ambitions stated here.

"Without concrete action on recruitment and retention...we are simply not going to have the numbers to provide any services"

"If the new Health Secretary had met with us before this announcement we could have suggested a workable strategy to address the unfolding crisis before us for this winter and beyond – instead we have in reality minor tweaks that will make no tangible difference to patients struggling to access care."

Industry experts have also suggested that changes may be needed more broadly, with Hymans Robertson partner, Chris Noon, suggesting that the Treasury should "dust of the review of pension taxation that it came close to implementing in [2016]."

"Interventions like this continue to highlight the inappropriateness of the pension taxation system," he continued.

"The complications of the annual and lifetime allowances make it difficult for many individuals to save for retirement and ultimately have political consequences like we have seen with NHS staff in recent years."

In other news, the government has launched a consultation on plans to require Local Government Pension Scheme (LGPS) administering authorities (AA) to assess and report on climate-related risks, in line with the Taskforce on Climate-related Financial Disclosures (TCFD).

The consultation from the Department for Levelling Up, Housing & Communities (DLUHC) suggested that the LGPS' scale and market power as one of the largest pension schemes in the UK give it "an opportunity to drive change through the investment chain through asset managers to investee companies".

AAs are already required to consider factors that are financially material to the performance of their investments, including environmental, social, and corporate governance (ESG) considerations.

However, the proposals aim to build on this further by ensuring that the financial risks and opportunities arising specifically from climate change are properly understood and effectively managed, and that AAs report transparently on their approach.

Written by Tom Dunstan and Sophie Smith

TPR shares diversity action plan following 'worrying' research

The Pensions Regulator (TPR) has published a new Equality, Diversity and Inclusion action plan, after research revealed that just 10 per cent of DB and 14 per cent of DC schemes record any trustee diversity data. TPR also issued a warning to employers, after inspections revealed a number of common errors

The Pensions Regulator (TPR) has published a new action plan to improve diversity and inclusion across trustee boards, after "worrying" new figures suggested that trustees are not prioritising this area.

The "concerning" research revealed that just 10 per cent of DB and 14 per cent of DC schemes record any trustee diversity data.

Both DB and DC schemes were more likely to record trustee gender and age, although DC schemes typically gathered a wider range of data in addition to this, with between 8-10 per cent of DC schemes collecting gender identity, sexual orientation, disability, ethnicity, religion, and educational attainment, compared to 5 per cent of DB schemes.

However, this data may not be being properly utilised, as TPR found that two-fifths (40 per cent) of DB schemes and nearly half (47 per cent) of DC schemes did not identify any uses for the trustee diversity data which they captured.

Around 41 per cent of DB schemes and 30 per cent of DC schemes said that they had not collected trustee diversity data as they had not thought about it, while 35 per cent of DB schemes and 43 per cent of DC felt there was no need to capture this information.

The regulator also found that the majority of DB schemes don't intend to start collecting trustee diversity data in future, with 74 per cent of DB schemes that did not capture diversity data having no plans to do so, while the remaining 16 per cent were unsure.

TPR executive director of regulatory policy analysis and advice, David Fairs, highlighted the findings as demonstration that trustees have a "long way to go towards embracing the importance of diversity and inclusion", stressing that "the status quo is not acceptable".

"Trustee boards that are not diverse risk knowledge gaps, entrenched ideas, biased thinking and poor decision making which puts savers at a disadvantage," he continued.

"We would recommend that all pension schemes take time to review the factors they have in place in the context of high inflation"

"We want to see trustee boards with a wide range of perspectives, knowledge and skills and where everyone has the opportunity to contribute and challenge from different perspectives."

The Equality Diversity and Inclusion action plan therefore outlines the steps TPR, in partnership with the Diversity and Inclusion Industry Working Group (IWG), will take to encourage trustees to recruit diverse candidates and create a culture of inclusion.

As part of the plan, the regulator will set "clear" expectations on diversity in its upcoming Single Code of Practice, as well

as publishing guidance in partnership with the IWG to help trustees meet these expectations, to be published "at the end of this year or in early 2023".

In addition to this, TPR will develop a mechanism for how it will collect and use diversity data in the longer term to measure success, and engage directly with trustees to identify the barriers to diversity and highlight best practice.

Earlier in the month, TPR also issued a warning to employers to ensure they are meeting their auto-enrolment duties, after recent inspections revealed a number of common errors.

In particular, TPR found that while the inspected firms successfully enrolled eligible staff into a pension and made contributions, administrative errors with their ongoing pensions duties put staff at risk of not receiving the pensions due.

In light of this, TPR urged employers to ensure they do not skip important steps in complying with their ongoing duties and to consult TPR's online information.

It identified the use of an incorrect earnings threshold as one key error that can lead to employers needing to make costly backdated contributions, as well as miscalculating maternity pay.

TPR also published updated guidance ahead of the introduction of new climate requirements, which came into force from 1 October.

The amended regulations require trustees in scope to calculate and report on a portfolio alignment metric, which gives the alignment of the scheme's assets with the Paris Agreement goal.

Written by Sophie Smith

High Court dismisses RPI/ CPIH judicial review

The High Court has dismissed the judicial review of the decision by the UK Statistics Authority (UKSA) and Chancellor to align the Retail Prices Index (RPI) with the Consumer Prices Index including housing costs (CPIH) from 2030. Concerns over the broader impact of rising inflation have also persisted, despite a slight fall in inflation rates

The High Court has dismissed the judicial review of the decision by the UK Statistics Authority (UKSA) and Chancellor to align the Retail Prices Index (RPI) with the Consumer Prices Index including owner occupiers' housing costs (CPIH) from 2030.

The judgment means the Chancellor will not be required to pay compensation as a result of the indexation change.

The court case to decide whether the decision to change the way RPI is calculated began in June, after the trustees of the BT, Ford and Marks & Spencer (M&S) pension schemes were granted the judicial review at the end of 2021.

The review was based on three key arguments from the claimants, including concerns that the UKSA's RPI decision was "unlawful", and that UKSA failed to consider the impact on legacy users.

It also argued that UKSA failed to consult the public on the RPI decision while the proposal was still at a "formative stage", and that the Chancellor failed to consult with legacy users on the issue of compensation.

However, the court rejected all three of the grounds raised by the claimants.

In addition to this, the court confirmed that a declaration will be made that the decision will not cause the cessation clause in index-linked gilts issued from 2005 to be triggered.

The pension schemes said that they were "disappointed" by the judgment and that they would be considering the judgment further, including whether to seek permission to appeal.

Responding to the judgment, a spokesperson for the schemes said: "We are disappointed that the UKSA has been allowed to align the RPI with CPIH from 2030 without proper consultation and consideration of the impact such a decision will have on schemes holding RPI index-linked bonds and the retirement incomes of their members.

> **"This decision will leave millions of pensioners in DB schemes with RPI linked benefits poorer"**

"Many investors, including pension funds, bought index-linked gilts in good faith and now face losses of £90-£100bn. This decision will leave millions of pensioners in DB schemes with RPI linked benefits poorer through no fault of their own and facing substantial decreases in their year-on-year income. Women will be particularly impacted since they live longer and retire earlier."

Since the judgment was published, research from the Pensions Policy Institute (PPI) has suggested that savers are facing increasing uncertainty around their pension as a result of the inflationary reform, alongside the current economic conditions. It argued that the growing gap between RPI and CPI is generating increased uncertainty about how both schemes and their members may be impacted by the reforms, and making planning for mitigation more complex.

Concerns around rising inflation rates have also persisted more broadly, despite the Office for National Statistics revealing that annual CPI had fallen from 10.1 per cent to 9.9 per cent as at 14 September 2022, while RPI reached 12.3 per cent.

Canada Life technical director, Andrew Tully, warned that the slight fall in inflation will do "little to reassure households across the country who are struggling to come to terms with increased prices and higher bills".

XPS Pensions also pointed out that due to caps on inflationary increases, most pensioners will not see a corresponding rise in their annual pension, potentially missing out on around £25,000 of missed retirement income over their lifetime as a result.

"Pension schemes should explore options to support their members through this challenging period," XPS actuary, Tom Birkin, said. "Those who are able should consider whether they can provide financial support to their members, via additional increases to pensions above the caps in place."

However, Tully suggested that "there will be some positive news in the coming months for retirees", as it is "highly likely the state pension is on track to increase by a record amount in April 2023".

Written by Sophie Smith

Mothercare pension deficit falls to £60m

The group's latest financial results revealed improvements in the scheme's funding levels, with the company also agreeing to reduce deficit recovery contributions in light of this

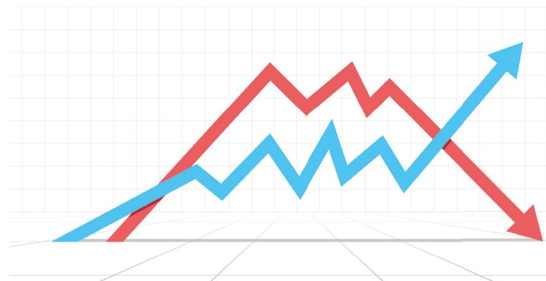
Mothercare has revealed that its overall defined benefit (DB) pension scheme deficit had been reduced to £60m by 30 June this year, as the company also confirmed that it has agreed to reduce deficit recovery contributions (DRCs) in its latest full year financial results report.

This was based on total assets of £330m and total liabilities of £390m.

In order to support Mothercare's new debt financing arrangements, the company has reached a formal agreement with the trustee board for a further reduction in DRCs.

The revised recovery plan now sets out aggregate contributions of £29m in the financial years March 2023 to March 2027. This represents a £30m reduction in the aggregate cash payments that were to have been made in that period under the previous arrangement.

The scheme also had a temporary surplus at the financial year of £12.4m, compared to a £25.6m deficit in 2021. Mothercare said this was due to corporate bond yield increases.



"Over the year changes in the financial market conditions resulted in the discount rate increasing by 85 basis points and long-term inflation expectations increasing by 35 basis points," said the report.

"The combination of these resulted in a reduction in the liabilities by £36m, with the increase in inflation partially offsetting the increase in the discount rate. An allowance was also made for the potential impact of the Covid-19 pandemic on future improvements, which resulted in a fall in life expectancies, reducing liabilities by £6m.

"The returns on the scheme assets were however lower than expected, resulting in an asset experience loss of £7m and the company contributions over the year exceeded the income statement charge by £3m."

Although Mothercare previously suggested it would not be able to pay the first instalment of DRCs due to reduced cash generation following the suspension of its Russian business, Mothercare chairman, Clive Whiley, clarified that the company has now turned a corner.

Written by Marek Handzel

NEWS IN BRIEF

The **Barloworld UK Pension Scheme** has completed a £484m full scheme buy-in with Just Group, insuring the benefits of around 3,000 pensioners and 1,800 deferred members. Just Group reinsured approximately 50 per cent of the liabilities in the scheme with an external reinsurance partner. The lead transaction adviser was LCP, while Isio acted as scheme actuary and investment adviser to the trustee.

XPS Pensions Group has launched a new service, Xpedite. The service is designed for pension schemes with assets under management (AUM) below £100m, and seeks to streamline buy-in and buyout transactions to help schemes increase insurer engagement. XPS worked closely with UK insurance providers to develop the service, while law firm DLA Piper assisted in establishing the service by negotiating pre-agreed contacts with the insurers that offer more favourable terms than those that smaller schemes normally receive.

The **Institutional Investors Group on Climate Change (IIGCC)** has called for input on the development of its Climate Resilience Investment Framework. In its paper, *Working towards a Climate Resilience Investment Framework*, the group stated that the framework should address asset risks, portfolio risks and systemic risks.

The combined assets under management (AUM) of the 300 largest pension schemes have grown to a record high of $23.6trn in 2021, according to research from the **Thinking Ahead Institute.** The survey showed that while total AUM has reached record highs, growth has slowed from 11.5 per cent in 2020 to 8.9 per cent in 2021. However, the TAI suggested that this "was to be expected after a very strong performance in asset markets over 2020".

Appointments, moves and mandates


Richard Birkin

Isio has announced the promotion of three new partners.

Richard Birkin, Andrew Craig and Calum Brunton Smith have all been promoted to the role of partner, and will each take on specific roles to enhance Isio's position in existing markets and support growth in new areas. Birkin will take on a new role heading up the Birmingham office, leading the DC consultancy team. Craig will be based in the new Bristol office and will be driving the organisation's new Reward and Benefits offering. Brunton Smith will focus on Isio's investment advisory business from the Glasgow office, where he has already "played a key role in growth of Isio's advisory business".

Redington has been appointed as strategic investment consultant to Centrica's DB pensions scheme.

In April 2022, the trustees of Centrica's schemes announced plans to move to an outsourced chief investment officer (OCIO) model with Schroders Solutions. In addition to strategic investment insight, journey planning and risk management, Redington will oversee the implementation of the OCIO's agreed strategy and provide ongoing oversight and recommendations relating to the evolution of the relationship. This comes after Nick Lewis's appointment as managing director in July. Centrica pension schemes' trustees chair, Allan Whalley, said: "After a rigorous selection process, it was clear that Redington's experience in helping large pension schemes achieve maximum value from OCIOs made them the right provider to support us."


Tom Neale

Entrust has announced the appointment of a trustee director and trustee associate.

Tom Neale has been appointed as trustee director and Callum Rees has joined as trustee associate. Neale joins from TPT Retirement Solutions, where he spent three and a half years as head of integrated risk management, and Rees joins from Isio, where he spent the past four years working as an assistant manager. Speaking on his appointment, Neale said: "I am excited to join Entrust as it is a successful business I have admired from afar, and I see a lot of potential for us to keep growing. I believe the skillset I bring will complement the existing great team at Entrust."


Eve Read

Smart has appointed Eve Read as senior director of strategic delivery

In her new role, Read will lead Smart's UK proposition team as it builds new features for the Smart Pension Master Trust, as well as contributing to the development of Keystone, the company's global Platform-as-a-Service. Read brings two decades of experience as employee benefits consultant at Mercer, which included setting up and running the firm's UK DC consulting business. Read was positive about her appointment, commenting: "It's great to be joining Smart at such an interesting time for the business, with so many important things that I can actively help the company to deliver."


Phil Redding

SECOR Asset Management has announced a further enhancement to its UK team with the appointment of Phil Redding as senior adviser.

Redding has held a range of positions across both business development and consulting and brings with him over 40 years' pension and investment experience. Most recently, Redding was executive director at Cardano and, prior to that, was head of business development EMEA at Aviva Investors. Redding has also worked at Credit Suisse, Zurich, CIS, and Scottish Mutual and spent his formative years as a pensions consultant at Hogg Robinson Benefit Consultants. Redding's appointment was welcomed by SECOR managing principal, Tony Kao, who said: "The UK fiduciary market is an exciting space to be operating in. We are fully committed to the UK market since joining in 2011 and we will continue to appoint expert individuals, like Phil, to work alongside us and challenge our thinking. Phil is very well known and respected in the pension and fiduciary space, with a wealth of experience and knowledge. We are looking forward to working with him to further enhance our capabilities."

Redding was similarly positive about his appointment as he said: "I'm looking forward to contributing to SECOR successfully growing their presence in the UK market and supporting, helping and working within an excellent team. Their skill set, background and experience, especially their history as an in-house pension scheme manager, coupled with their subsequent evolution and development, make them ideal for the UK market."


Kirstin Spanos

Pi Consulting has appointed Kirstin Spanos as scheme secretary and governance specialist.

Spanos has over 20 years' experience in the finance and pensions industry, including a significant amount of time at The Pensions Regulator, where he was one of the leaders of the master trust authorisation team. Commenting on the appointment, Pi Consulting head of trustee executive services, Lisa Riordan, highlighted master trusts as "an important area of development for Pi", adding: "We already have extensive experience in his market and Kirstin will help us develop this expertise further. We are delighted that Kirstin has chosen to join us."


Emma Osborne

The People's Pension has appointed Emma Osborne to its trustee board. Osborne joins seven existing trustee directors and will oversee the running of the workplace pension scheme, which currently has assets under management of more than £17bn. She has spent much of her career in institutional investment management, including as head of quantitative investment management and derivatives for Credit Suisse Asset Management and chief investment officer for the international assets of Chubbs Corporation. Osborne has said of her appointment: "I'm delighted to be joining the trustee board of The People's Pension."


David Hynam

David Hynam has been appointed as **LV=** chief executive.

Hynam brings experience in the UK insurance sector, including as chief executive officer of Bupa's UK and global markets, UK CEO of Friends Life and chief operating officer of AXA. His appointment was welcomed by LV= chair, Simon Moore, who commented: "In securing the services of David Hynam, LV= has acquired a truly market-leading chief executive. He is the ideal candidate to help LV= continue to build a strong and sustainable future as a mutual life and pensions business and that our mutual values thrive for the benefit of our members."


Euan Miller

The West Yorkshire Pension Fund (WYPF) has appointed Euan Miller as managing director.

Miller joins WYPF from the Greater Manchester Pension Fund (GMPF) where he was assistant director of pensions, funding and business development and succeeds Rodney Barton who retires after 12 years of leading the organisation. The appointment was welcomed by WYPF director, Rodney Barton, who commented: "Euan Miller brings with him wide-ranging experience of pensions, scheme funding, risk management and pooling of investments, with GMPF being part of the Northern LGPS Pool."


Jackie Noakes

Phoenix Group has made two appointments to it executive committee, with Bríd Meaney promoted to Heritage CEO and Jackie Noakes joining as chief transformation officer.

Meaney takes over the role from Life Companies CEO and heritage group director, Andy Moss, who retired after 18 years at the company. Meaney joined the Phoenix Group in 2021 and has worked closely with Moss since then and, prior to joining, served as partner for the KPMG Advisory business for more than a decade. Noakes' role of chief transformation officer is a new position created by the company, which will require Noakes to lead Phoenix Group's change capability, and drive and oversee the group's change projects. Noakes brings her experience as group chief operating officer for the Bank of Ireland to the role as well as her experience in senior roles at both Legal & General and American Express. The appointments were welcomed by Phoenix Group CEO, Andy Briggs, who said: "I am delighted to announce the appointments of Jackie Noakes and Bríd Meaney who will be joining the Phoenix executive committee. They are exceptional leaders and also make us more diverse. The delivery of our change and transformation agenda is critical. Jackie brings extensive experience of shaping and delivering strategic business change, as well as leading and implementing technology enabled business transformation. I am confident that her leadership skills and expertise in this newly created role will further strengthen our ability to achieve the goals we have set for the business."

View from the PLSA: Paying attention

The PLSA and the ABI are proud to have launched a new, nationwide saver engagement campaign, uniting the industry behind a single message to 'Pay Your Pension Some Attention.'

Running through the autumn, the success of the campaign hinges on a collaborative effort from across the financial services sector. We want to reach people and help them understand how easy it is to keep track of their pension.

That's why we challenged Grime artist and Bafta award-winning TV personality Big Zuu to produce a new track and accompanying video.

The attention-grabbing song directs people to *Pensionattention.co.uk* for basic information on how pensions work.

We know the track will not be to everyone's musical tastes, but we expect it to have the power to generate conversations in the home and among friends and family.

We encourage you to get behind the campaign in whatever way they can, from sharing campaign materials on social media, to taking a selfie in front of a one of the digital billboards we'll be running at train stations, there are any number of creative ways you can help.

There are downloadable resources available via the partner page of the website. These include images for social media, logos and some guidelines for how to get involved.

As people face difficult financial choices this autumn, it is more important than ever that they have confidence in their workplace pension and understand how to keep track of it.

PLSA deputy director of policy, Joe Dabrowski

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: Inflation and opting out

In June 2022, this column highlighted the impact of rising inflation on the increases paid to pensioners in payment. In the four months since this article was written we have seen the supply and demand for energy costs and raw materials drive up the UK inflation rate – tipping it into double-digits and economists expressing concerns about how quickly it will rise during the winter months, and when and where it might peak.

At present, for many UK households the biggest concern is not saving for retirement but worrying whether they will be able to afford rising energy bills and the cost of feeding their families. This may result in savers deciding to opt out of their pension arrangements to meet this immediate budgetary crisis. Whilst auto-enrolment provisions will mitigate this, such a decision would still create a break in pension savings of up to three years. Even a decision to reduce pension contribution levels carries a risk for future income in retirement and there is a real risk these savers will not revisit this decision and increase their contribution rates once the economic outlook improves.

Decisions made now increase the risk of future pensions poverty and may have a lasting effect on individuals and society.

PMI president, Sara Cook

View from the AMNT: Recognising the value of the MNT

'Tell me and I forget. Teach me and I remember. Involve me and I learn.' – Benjamin Franklin.

The recent employment case, *S. Folarin v Transport for London*, has highlighted the problems faced by member nominated trustees (MNTs) in carrying out their trustee duties effectively.

The case hinged on a technicality in present legislation that, although recognising the need for MNTs to be provided with sufficient resources (including time off) to carry out their defined duties, does not define precisely what these resources should be. This lack of definition led the employment tribunal to effectively conclude that Folarin had no statutory right to a reduced workload because of her trustee duties. They also ruled that it was "reasonable for the respondent to expect the claimant to carry out at least some of her responsibilities outside core working hours".

The present legislative framework leaves open to 'interpretation' what resources a trustee needs. Some employers recognise the importance of having an active MNT and provide sufficient resources; regrettably, others see it as impinging on their right to manage.

Evaluating the benefit of MNTs to the company should be about worth, not cost. Esteeming MNTs demonstrates to employees that the company recognises the importance of a pension scheme to their financial wellbeing and the necessity of having their nominee representing their interests in the fund.

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

Putting the 'trust' in master trusts

Mark Condron considers the role master trusts have to play in the success of auto-enrolment

This year, we mark the 10th anniversary of the rollout of auto-enrolment. Since its introduction, more than 10.6 million workers have been enrolled into a workplace pension[1]. Considering the UK labour market is estimated to cover around 32 million people[2], this represents great progress and a positive shift in saving for retirement.

Over this period, we've also seen growing numbers of employers placing their trust in master trusts to help their employees improve their financial futures. Having recently celebrated our own 10-year birthday at The People's Pension, we've seen our scheme grow to nearly six million members over the past decade to become one of the UK's largest private master trusts – an amazing achievement.

So, what's driving more pension savers towards master trusts? Looking at the wider market, it's clear to me that there are a number of 'push' and 'pull' factors influencing this trend.

For one, master trusts offer several features that are becoming increasingly attractive for employers and members. This includes low charges, transparency and incredibly high standards of governance and oversight.

At the same time, there's a 'push' created by the increasing governance on single employer DC schemes. We've seen, for example, further scrutiny on schemes to demonstrate they're offering improving value to their members. The government has made it clear that if they're failing to do so, they must make sweeping changes or wind up and consolidate with a pension provider.

Many master trusts have the economies of scale and frameworks in place to quickly adapt to these new challenges. However, no two master trusts are the same, and employers will need to think carefully about which scheme will benefit them and their employees most in the long and short term.

Having served on the trustee board at The People's Pension over the past two years, I've learned a lot about how we differentiate ourselves to best meet our members' needs.

Coming into the role, I knew that the governance requirements for such a large master trust would be high. The strength, depth and quality of the framework we operate has been way beyond my expectations. The trustee board is supported by our excellent in-house pensions management team, who have very high standards and take a great deal of pride in what's been achieved so far.

These high standards extend to the options and services we offer to our members. For example, our rebate on our annual management charge helps give back £12 million to savers each year – rewarding them for saving more.

Our carefully selected range of investment options gives people more choice to select a pension fund that's right for them. We've been meticulous in our design of fund choices to ensure we offer a very clear range for members, but without overwhelming them with hundreds of options.

We also work hard to ensure that we're investing in companies who demonstrate good practice. Many people talk about doing this, but we've actually divested £226 million[3] from companies failing to meet our strict environmental, social and governance (ESG) standards, and are continuing to do so to better protect our members' money.

As a profit for member scheme with no shareholders to pay, we can focus on offering great value for money to members. We want to help them make good decisions so they can benefit from the money they've worked hard to save.

It's a privilege to now be taking over from Steve Delo as chair of the trustee at The People's Pension. Steve has been instrumental in developing The People's Pension to where it is today. To grow the scheme to nearly six million members – and accumulate more than £17 billion in pension savings – since its inception 10 years ago has been an incredible accomplishment.

We're now at an important point in our evolution and continuing to build on this success as the UK pension system develops. This will involve more tools to help members make better choices, and providing more support as members move towards and through retirement.

As more people choose to move their pension savings to a master trust, I'm confident that if they choose The People's Pension, they'll find that we have the right structure and people in place to meet this growing demand.

Written by The People's Pension chair of the trustee, Mark Condron

[1] Review of the automatic enrolment earnings trigger and qualifying earnings band for 2022/23: supporting analysis - GOV.UK (www.gov.uk)
[2] https://commonslibrary.parliament.uk/research-briefings/cbp-9366/
[3] The People's Pension divests £226m - The People's Pension (thepeoplespension.co.uk)

VIEW FROM TPR: Avoiding mistakes

We're warning employers to ensure they do not skip important steps in complying with their ongoing duties and to consult TPR's online information.

Earlier this year we carried out a series of in-depth compliance inspections of more than 20 large employers across the UK. The inspections highlighted a number of common errors employers are making.

While the inspected firms successfully enrolled eligible staff into a pension and made contributions, administrative errors with their ongoing duties put staff at risk of not receiving the pensions they are due.

The firms, which are across the transport, hospitality, finance and retail sectors, have now corrected or are working to correct errors, including making backdated contributions.

Most employers are meeting their automatic enrolment duties, however administrative mistakes can put staff at risk of missing out on their pensions and employers at risk of unintended non-compliance. Correcting these mistakes can be costly for employers because as well as needing to make backdated payments for staff receiving incorrect contributions, they can also lead to financial penalty.

While the errors, which are in respect of calculating pensions contributions and communications to staff, are technical in nature – these types of oversights can indicate broader non-compliance issues.

Key errors include using incorrect earnings thresholds so employers should consult our guidance on this. Employers should also check government guidance on maternity pay as miscalculating this can impact pensions contributions.

The Pensions Regulator
Making workplace pensions work

TPR director of automatic enrolment, Mel Charles

VIEW FROM THE ABI: Retirement support

Savers need more support to have the retirement they expect. Providers should be allowed to offer it.

Many consumers struggle to make critical decisions about saving, investing and accessing their pensions. They underestimate how much they need to save into their pensions, don't take advice and guidance when accessing their pensions, and often do not have a plan for managing their pension pots. Providers have consistently made the case that consumers need more support, but their hands are tied due to strict rules on advice and guidance.

Under the FCA's new Consumer Duty, providers are required to avoid causing foreseeable harm and to support customers to pursue their financial objectives, such as ensuring they save enough for retirement or a dependent is provided for. Despite the requirement to do more, providers are still limited in how they can communicate with their customers. Any guidance that is tailored to a particular individual can be interpreted as personal recommendation and classed as advice, with a higher regulatory bar.

There is an increasing focus on the need for more support to help people receive a retirement income for life, including DWP's DC decumulation call for evidence. We will explore in greater detail opportunities to signpost disengaged customers to solutions that can deliver good outcomes, however, a change to advice rules is needed for more support to be put in place.

ABI

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

VIEW FROM THE PPI: The role of annuities

As future pensioners will rely more on DC savings and less on the guaranteed income from DB and the state pension, the role of annuities in providing security in retirement is likely to grow. This represents both a challenge and an opportunity for industry. New PPI research shows that innovation and flexibility will be required if the changing needs and wants of pensioners are to be met by providers.

As people age, their wants and needs will change and the ways in which they will access their DC pension pot will change with them. For example, some people will want to pay off debt or supplement their income in early retirement, while in later life the need to fund care costs and the desire to leave a bequest may be a priority.

This means that timing annuity purchases with changes in need and the optimal price opportunity will see most people needing support throughout retirement. Prompts to advice and guidance during retirement will become increasingly important for future pensioners.

The PPI report shows that most people will benefit, for at least a portion of their retirement, from using drawdown or a combination of drawdown and a guaranteed income. Products that combine these approaches and allow the flexibility needed to meet changing wants and needs can play an important role in allowing people greater security in retirement.

PPI senior policy researcher, Mark Baker

PENSIONS POLICY INSTITUTE
PPI

Sustainability stays strong in emerging debt markets

In an otherwise ugly environment for bond issuers and investors, the future for emerging market debt looks unquestionably green

Rising global interest rates and volatile markets have weighed heavily on both supply and demand of bonds, particularly in emerging markets (EM). Yet one segment has remained surprisingly resilient. Our research shows that bonds with a tilt towards environmental, social and governance (ESG) factors have continued to increase in popularity among issuers and investors. This should prove supportive for EM debt more broadly, paving the way for better structural development of the asset class. In the first half of 2022, EM borrowers issued a total of US $81.9 billion of ESG-labelled bonds – an increase of 2 per cent compared to the same period of 2021.

The resilience of ESG-labelled issuance in EM stands in stark contrast to what is happening in the wider fixed-income universe. For emerging markets generally, issuance dropped 48 per cent (although Asian local currency supply bucked the trend, rising nearly a quarter). Meanwhile, overall global debt issuance dropped 14 per cent to US $4.8 trillion during the first half of the year compared to 2021, according to Refinitiv.[1]

Emerging markets tend to have more work to do on ESG factors than developed peers, which is one reason why investors particularly welcome ESG-linked issuance from them. That in turn underpins demand, which can appeal to borrowers. Sometimes they also benefit from a 'greenium' – the potential that investors may be willing to pay a premium for such bonds, resulting in lower yields and thus lower borrowing costs for the issuers.

ESG-labelled bonds have proved particularly popular among investment grade-rated issuers (which accounted for over half of all issues in the first half of 2022). For investors, they can thus offer comparable yields to developed market high yield debt but with a significantly better credit risk – a particularly attractive proposition amid heightened market volatility and rising rates.

Green priorities

Drilling deeper into the issuance data, corporate borrowers in particular have strongly embraced the benefits of ESG-labelled bonds. In the first half of the year, EM corporates issued around 40 per cent more ESG-labelled bonds compared to the same period in 2021, totalling some US $56 billion.

Such bonds remain particularly popular with financial and energy firms (about 54 per cent and 7 per cent of the total year-to-date, respectively) but the trend has broadened into other sectors as well, such as industrials, utilities and cyclical consumer companies.

After the strong issuance in the past two years, ESG bonds now make up about 7.5 per cent of the JP Morgan Corporate Emerging Markets Bond Index. Perhaps as a result of the widening universe, we have noticed that in general 'greeniums' have declined, although this varies a lot by sector and even issuer. Greeniums are typically lower where there is more supply of ESG bonds, like for some Korean utilities or Chinese financials where we have seen increased issuance. In areas with limited choices, such as in Indonesian green sukuk bonds, greeniums can be high and persistent.

Chile's example

Among sovereigns, Chile remains one of the leaders on ESG debt, having issued green, social and sustainable bonds. We see Chile as an example of an issuer with a clear focus on sustainability and would expect this to continue given its strategic aim to reduce carbon emissions, as well as the social pressures that have arisen following the pandemic. Notably, some of its issues have been in local currency – in contrast to most of the rest of the universe, which is denominated in dollars or euros. This could be a potentially interesting growth area.

We expect the growth of ESG-labelled bonds within EM to continue. Research from Pictet Asset Management and the Institute of International Finance suggests that annual ESG-labelled bond issuance in emerging markets could reach US $360 billion by 2023. This, in turn, will help emerging economies to generate more of the capital needed to meet the United Nations' Sustainable Development Goals by 2030.

In our own emerging market debt funds – both sovereign and corporate – ESG considerations are integrated into fundamental analysis and decision making. While we do not automatically favour ESG bonds, we assess each issue on its own merits, and our exposure to such debt is organically growing.

Overall, the trend should help emerging markets to develop and become more sustainable – which is good news both for the economies and for those who invest in them.

Written by Pictet Asset Management head of emerging market fixed income, Mary-Therese Barton

[1] Data for non-SDG issuance from Refinitiv, https://www.refinitiv.com/perspectives/market-insights/global-capital-markets-hit-the-brakes-in-h1/

Soapbox: Loyalty above all else

After five years, with a very brief intermission amid mass Conservative MP resignations, Guy Opperman has announced that he will be leaving his role as Pensions Minister. The longest-serving Pensions Minister was relieved of his duties on the day Queen Elizabeth II died, although the news was not announced until the period of mourning was over. His dismissal was the latest in a string of ministerial movements undertaken by Prime Minister, Liz Truss, that prioritised loyalty over competence and stability.

As a Rishi Sunak supporter during the Conservative leadership election, Opperman backed the wrong horse. Although it has not been disclosed as to why Opperman was not reappointed as Pensions Minister, it is hard to see another reason than his public support for Sunak. He was mid-way through several policy initiatives, including defined benefit (DB) pension funding rules and auto-enrolment reform, and had a good understanding of the industry and a passion for pensions.

Truss's desire for rewarding loyalty over competence and stability was also highlighted in her cabinet appointments. All of her cabinet ministers backed her over Sunak in the latter stages of the leadership contest, if not before, while only one person who will be attending cabinet, Attorney General for England and Wales, Michael Ellis, backed Sunak.

While it can, fairly, be argued that Opperman could have achieved more during his time as Pensions Minister, it cannot be denied that he was hampered by forces out of his control, namely Brexit and Covid-19, that halted the progress wanted by all in the industry. This progress has been delayed further by Truss's decision not to reappoint him as Pensions Minister.

A recent poll conducted on our Twitter account found that 45.5 per cent of respondents felt that his tenure was limited by broader issues, while 36.3 per cent viewed it as a success and just 18.2 per cent saw it as a failure.

One thing that I don't think can be denied was that Opperman genuinely wanted to make positive changes in the pensions landscape for members and industry alike. He was vocal and engaged, and while he drew criticism at certain points during his tenure, he was clearly a capable minister who brought governmental stability to the sector.

In a wider picture of political and economic instability in the UK and around the world, I feel it is likely that most of the pensions industry would have preferred the stability of Opperman over a return to the revolving door of Pensions Ministers we were experiencing before his appointment.

His achievements over the five years are commendable. The Pension Schemes Bill 2021 brought in much-needed climate-related requirements, the framework for pensions dashboards and collective defined contribution schemes. And while progress on other areas like automatic enrolment reform was slow, his efforts were clearly affected by parliamentary time being taken up by the Covid-19 pandemic and Brexit.

I think, in time, the industry will remember Opperman's time positively.

Written by Jack Gray

VIEW FROM THE ACA: The importance of tax relief

In evidence to the Treasury Select Committee inquiry examining whether the current suite of tax reliefs represent good value for money, we have detailed the good value that pension tax relief provides, whilst at the same time pointing out where tweaks in legislation have weakened the regime.

Pensions tax relief continues to be a bedrock of incentives to save and we believe will remain vital for the next generation of pensions savers. However, we believe significant improvements can be made, both to reflect previously identified technical flaws and also to help refine a more flexible pensions and savings environment in these challenging times.

We believe future reform of pensions relief should focus on refining incentives for the next generation of savers. For younger generations in particular that already face competing savings needs in areas such a housing, student loans and resilience requirements, there is a risk recent negative economic shocks crowd out pension saving.

For pension tax relief to be effective, people need confidence that the regime will be stable and that they can make the long-term commitment over decades to build up a secure retirement income. Especially given their now wider population coverage, we believe tax relief limits, but particularly the lifetime allowance, should be restored to a more appropriate level with automatic annual indexing built in and respected.

ACA chair, Steven Taylor

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Growth and resilience – is infrastructure the answer?

Soaring inflation, rising interest rates and widespread labour strikes. Sound familiar? The UK currently feels eerily reminiscent of the 1970s. However, pension investors today have options not available 50 years ago

Is history repeating itself? Some may recall the dire economic situation the UK was in during much of the 1970s. Although an easy comparison to make, the reality is that the UK is nowhere near this point (yet). However high inflation and rising rates are a present-day fact with investors exploring solutions able to provide a predictable income stream and a degree of protection.

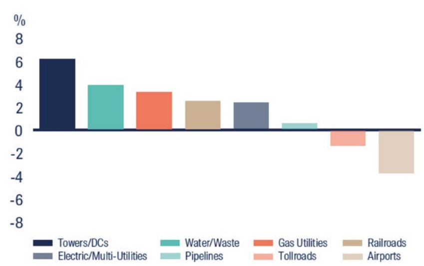
An investment safe haven

Where might they look? An area of strong investor interest recently has been real assets. For investors seeking refuge from 1970's style hyper-inflation and rapidly rising interest rates, within the world of real assets, infrastructure is worthy of consideration.

Many of the core characteristics of infrastructure provide a natural defence. Infrastructure's tangible assets, often delivering essential services such as transportation and energy, provide natural resilience to economic headwinds. The fact many infrastructure operators have regulated business models allowing real returns, ensures they are price makers rather than price takers. Inflation fuelled higher input costs are able to be passed through to the end-customer.

This relative defensiveness is clear from the chart below. Based on the worst monthly market downturns over almost 15 years, it shows how different listed infrastructure sectors outperformed global equities overall. The time interval shown does not cover the recent Covid period and the relative performance may therefore differ for this period.

Outperformance vs MSCI World during the 15 worst down months 2007 - 2020



Source: Bloomberg, First Sentier Investors

Rising concerns about rising rates?

For many infrastructure companies this is unlikely to be a major issue. Given the long-duration nature of their assets, often the debt capital employed within their businesses will be long dated. Many infrastructure companies have taken the opportunity to lock in their debt financing at very low rates and over an extended period. Rising interest rates will likely have minimal impact.

The defensive characteristics of infrastructure are further supported by high barriers to entry. Setting up a rail freight network, building out a data network or constructing a new airport terminal is highly capital intensive - an active deterrent for new entrants. The sheer capital commitment required to become a competitor allows robust pricing for incumbents also.

Resilience and growth

Infrastructure is not just a defensive choice, it leverages many long-term societal and economic themes. Parallels with the 1970s look even shakier with an appreciation of the intrinsic growth profile of the asset class.

Decarbonisation of energy generation, transport electrification and 5G data rollout – these are not transitory events but multi-decade investment opportunities dependent on infrastructure providers. For pension funds, these long-term drivers, together with the defensive market characteristics of the asset class, should make infrastructure a key consideration and a highly attractive area of investment.

History is not repeating itself

Anticipating rampant inflation, rising rates and economic recession is understandable, but history is not always an accurate predictor of the future. For those prepared to consider investing in infrastructure assets the future is bright, with the 1970s safely relegated to the dim and distant past!

Written by First Sentier deputy head of global listed infrastructure, Andrew Greenup

In association with First Sentier Investors

Diary: October 2022 and beyond

PLSA Annual Conference 2022
12-13 October 2022
Liverpool
Held across two days, this event will bring together more than 1,000 pension professionals for a programme of worldclass keynotes, roundtable discussions, and educational sessions. Returning to Liverpool in-person for the first time since before the pandemic, delegates will be able to once again take advantage of crucial face-to-face networking opportunities, such as the drinks reception and conference dinner.
For more information, visit:
plsa.co.uk/events/

Pensions Age Autumn Conference
31 October 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. The event will be an opportunity to reflect on how well the industry has risen to recent challenges and learn from those funds and providers that adapted successfully.
For more information, visit:
pensionsage.com/autumnconference/

Pensions Age Scotland Conference
9 November 2022
Waldorf Astoria, Edinburgh
The Pensions Age Conference is coming to Edinburgh for the first time. This conference will provide delegates with the updates they need to manage their schemes going forward, and highlight new developments in the pension space, in relation to regulation, investment, scheme design, technology, communication and more. Delegates will also have the opportunity to network with their peers, and share ideas.
For more information, visit:
pensionsage.com/scotlandconference/

Pensions Age Awards 2023
21 March 2023
Great Room, Grosvenor House, Park Lane, London
The Pensions Age Awards, which are celebrating their 10th successful year, aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. Entries are open for all UK pension schemes and provider firms serving pension schemes in the UK until 23 November 2022.
For more information, visit:
pensionsage.com/awards

Visit www.pensionsage.com for more diary listings

Month in numbers

290,000

Private sector defined contribution (DC) assets remained unchanged over Q1 2022, despite a record increase in active membership of 290,000, figures from the Office for National Statistics (ONS) have revealed. The latest ONS data showed that private DC active membership rose by 290,000 from 31 December 2021 to 31 March 2022, while private and public sector defined benefit (DB) and hybrid (DBH) active membership fell over the same period by 90,000 and 60,000, respectively.

£313.8bn

The aggregate surplus of DB pension schemes in the UK increased by £59.5bn to £313.8bn at the end of August, according to the Pension Protection Fund's (PPF) 7800 Index.

35%

Annuity rates increased by 35 per cent over the past year, reaching their highest level in more than a decade, Hargreaves Lansdown has found. A 65-year-old with a £100,000 pension can now get an annuity income of £6,637 per year.

VIEW FROM THE SPP: Is buyout still the gold-standard?

Ever since I started in pensions, buyout has been the holy grail. But should that be the case for all (or even the majority) of schemes? Improved funding levels mean that, for many, endgame is now a realistic prospect.

I empathise with trustees' concerns around wanting to spend their members' hard-earned savings on augmenting benefits (especially given high inflation and the cost-of-living crisis) rather than handing these over to an insurer's bottom line.

I also hear companies' desires to unlock and share in the upside. Some corporates feel this is only fair given it is their cash and covenant that has supported schemes for so long.

For sure, buyout is not the only endgame in town anymore. "Connected Covenant" endgame solutions can help stakeholders get the right balance between maximising security and value for money. Traditional corporate covenant structures can be diversified and de-risked through third party capital, superfunds, captives and more – all eager to deploy their capital.

Buyout will be the right strategy for many schemes and has its role in protecting members. But insurers and the FSCS do not provide a 100 per cent guarantee. And for many schemes, buyout comes with an opportunity cost of not pursuing a richer outcome.

Covenant is core to determining whether buyout is the right strategy.

SPP covenant committee member, Atul del Tasso-Dhupelia

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

A week in the life of: PLSA chief executive, Julian Mund

It may sound cliché, but there is no such thing as a standard week at the PLSA.

Ever since the Covid-19 restrictions were relaxed, my weeks have varied, as I'm sure many others have found. For starters I have no set days for coming into the office; it depends on the meetings I have in my diary and what work I need to prioritise. The additional flexibility has helped me to enjoy a healthy mix of work and family time and making more time for exercise.

Living just outside Tunbridge Wells, those days that I'm in the office will see me leave the house by 7:45am so I can make it to the office for 9am. The train journey gives me time to listen to some music whilst reading a book. The latest one I finished was *Oh William!* By Elizabeth Strout, which I highly recommend.

Monday

After grabbing a skinny flat white and bowl of porridge from across the street, my week tends to start the same once inside PLSA towers. After reviewing the days papers and clearing my inbox, Monday mornings start by meeting with my PA, Angie, and Ceri – our chief finance officer – to talk about the week ahead and our latest financial position. This leaves me time to spend in the afternoon to comment on various work taking place across the organisation that colleagues want my input on. This can be anything from signing-off media lines and board papers to inputting on plans for key projects such as the Pensions Attention campaign we are working on with our colleagues at the ABI, or our flagship Annual Conference taking place in Liverpool during October.

Tuesday

I'll kick-off my Tuesday by going for an early morning run. Getting out into the fresh air to get the blood moving is really important to me. This gets my mind focused ahead of our weekly meeting of the PLSA management team which ensures we are joined-up across the organisation and can take decisions on arising business.

The evening is my opportunity to take my son to football training. You don't get to be the next star for Aston Villa without putting in the hours on the training pitch!

Wednesday

As the mid-point of the week approaches, I'll be aiming to meet with some of our key stakeholders. This might include taking part in a hybrid meeting of the PLSA Board to discuss everything from our policy progress to our finances and upcoming events.

I'll also be looking to work with our membership team to meet with PLSA members or other stakeholders. Over the year we do hundreds of these meetings, which are invaluable exercises as they allow us to listen to what members are grappling with and learn how we can help them.

Internally, I'll slot in regular catch-ups with our policy, research, media and government affairs teams to gauge our progress in raising our profile. This is always a welcome part of my week as it's great to hear how much we do and how effective it is.

Thursday

Thursdays will tend to see me make the journey into London to spend some much-needed time in the office. One project that is keeping me busy is our plans for the PLSA turning 100 next January – a significant milestone for the organisation which sees us looking ahead to how various trends will impact the industry and what policy settings will be needed to ensure the UK's retirement savings system is fit for purpose for the next 100 years.

Elsewhere, I'm spending time judging the high-quality entrants for our Retirement Living Standards awards. I find this extremely rewarding as it shows just how the industry is using the standards to promote better retirement outcomes for savers.

Friday

By the Friday, like everyone, I'm ready for the weekend. I'll usually start the day playing an early morning game of badminton with my wife before coming together with a number of the PLSA team to discuss the content on the programmes at our big conferences to ensure it hits the spot for delegates.

Then, as my week winds down, arguably my most important task awaits. Sorting out my fantasy football team before the weekend!

My weekends are about spending time with my family.

Saturday

Saturday mornings are again spent at football training with my son, while I'll often go for a walk in Tunbridge Wells during the afternoon to get some coffee and a granola bar in one of the many indie-coffee shops. This has the added bonus of stopping me finding out the Aston Villa score for a few more hours!

Sunday

That just leaves Sunday for more football with my son in the morning followed by a nice afternoon family walk or settling in to watch some football.

With the weekend drawing to a close, my wife and I tend to binge a TV show – such as the new *House of Dragons* series – before getting ready to see what the next week will bring in the world of pensions and the PLSA.

Q&(PLS)A

PLSA chair and Aviva director of workplace, Emma Douglas, chats to Tom Dunstan about her theatre obsession, hidden jewellery crafting skills, and love of Kate Bush

What's your employment history (including jobs outside of pensions)?
I've mainly worked in pensions, lucky me! After university I fell into financial services. I did a graduate traineeship at Target Group which was taken over by TSB. I found my way into DC pensions after taking a role at J.P. Morgan and, from there, I moved to Threadneedle and was co-head of the DC business there. Then I moved into BlackRock sales, but again it was on the DC pensions side, then to Mercer where I was running their Mercer Workplace Savings Business. Then I moved onto Legal and General where I ran the DC business and I'm just coming up on a year of running the workplace business at Aviva.

What's your favourite memory of working in the pensions sector?
It's all the PLSA conferences. They have been so much fun. It's so nice to be somewhere where the industry is together and debating. There are loads of great people to meet and it's a really sociable occasion.

If you did not work in pensions, what sector do you think you would be in instead?
I would work in the theatre as I used to produce a lot of shows for the Edinburgh Fringe and even the New York Fringe, so it would definitely be either a producing or directing role in the theatre.

What was your dream job as a child?
I've always been a massive fan of drama and the theatre so it would have been some form of theatrical career but not necessarily on stage. Building a production from behind the scenes or directing, that's always been something I've been interested in.

What do you do in your spare time?
I like to go to the theatre; you might notice a theme emerging here! My husband is a theatre producer so that means that he's quite often aware of what are the hot shows to see so we go to the theatre quite a bit.

Do you have any hidden skills or talents?
I do have a hidden talent in being able to create jewellery. I've made various gifts such as rings, bracelets, necklaces, all different kinds of jewellery and given them as gifts to friends and family at Christmas. I've done a bit of silversmithing as well as bead work.

Is there a particular sport/team that you follow?
I'm massively keen on England whenever they're playing, but particularly in the rugby.

If you had to choose one favourite book, which one would you recommend people read?
Middlemarch by George Elliot is probably my very favourite because there's always something different to find in it, in each read through.

And what film/boxset should people see?
My very favourite film is *Room with a View*. It's just so beautiful it just makes you want to visit Italy.

Is there any particular music/band that you enjoy?
I'm a huge fan of Kate Bush and I was very lucky to see her live in concert in 2014, that was an incredible experience.

What would be your dream dinner party guests?
There's lots of historical figures I can think of, but for me I would love to have dinner with my family who aren't around anymore. It would just be lovely to get the family back together again.

Is there an inspirational quote/ saying that you particularly like?
The one that I always tell my daughter is a very simple one, "follow your dreams", and I really hope that one will resonate with her. It would either be that or "pay your pension some attention!"

Written by Tom Dunstan

Continuing to grow

Matt Richards provides an update on the bulk purchase annuities market

Market commentators at the start of 2022 predicted annual market volumes close to the record-breaking volumes seen in 2019. Whilst we now don't expect volumes to reach quite this level, the 2022 bulk annuity market has not disappointed. Insurers have been kept extremely busy, as more and more schemes approach their endgame and begin engaging with insurers to plan for their future.

There is a general expectation that the bulk annuity market will continue to grow over the coming years. Market predictions come in comfortably above £30 billion of DB pension risk transferred for the year, with many predicting potential risk transfer volumes hitting in excess of £50 billion or £60 billion before the end of the decade.

Alongside the general expansion of the market, there has been a clear shift in the types of bulk annuity transactions coming to market. Historically, a popular route to full insurance begun with an initial pensioner buy-in transaction, with a phased buy-in approach over time until full scheme insurance was achieved. Today, an increasing number of schemes are approaching the market looking to insure full scheme liabilities as part of their first transaction. In the current market environment, we expect this trend to continue.

The chart below shows a cumulative summary of the premium volumes based on the types of requests we have received over the last couple of years.

The graph demonstrates the trend I've described, as you can clearly see full scheme transactions have boomed this year.

So why is this happening?

Demand for insurance is increasing. Most schemes consider insurance as the gold standard and therefore end-game strategy and so the demand has always existed, but affordability has been a key challenge. The current market environment, plus investments made by sponsors to their pension schemes, have aggregated to materially increase scheme funding. This means that many schemes are much closer to buyout than they may have anticipated, and have unexpectedly been looking to lock in security for their members in 2022.

Rising interest rates has resulted in a reduction in overall scheme Technical Provisions, and although inflation is at historically high levels, rules based caps on inflation mitigate the inflationary impact on funding, and so improvements have generally been seen across the board.

Many schemes are likely to have a LDI strategy in place, with some degree of hedging, but schemes are not perfectly hedged. As a result, not all schemes will be winners in these market conditions, but there have certainly been favourable tailwinds for a number of schemes.

In the bulk annuity market, favourable market conditions and innovation are leading the way to some of the most competitive insurance pricing seen to date.

Insurers have benefitted from an increase in credit spreads and rates to assist with their pricing. This, coupled with the continued growth and strength of the reinsurance market where competition is fierce, means schemes are benefitting as a result. For example, the provision of quotations covering deferred members is now relatively commonplace and many insurers have flow treaties with reinsurers that means that they can price efficiently and competitively.

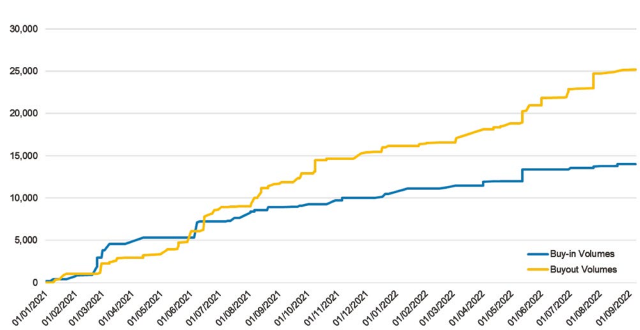
Over the past few years we have also seen the use of asset backed reinsurance increase significantly in the market – a tool which helps insurers to transfer higher volumes of risk from the pension scheme landscape into the insurance sector in a more capital efficient manner. I expect this trend to continue.

Are there any constraints to future growth?

Several insurance providers have talked about their ambitions in the bulk annuity market, which are way in excess of the volumes being written to date – there is clearly appetite for the market to grow.

Capacity within the market is a key constraint, and Standard Life, along with other insurers continue to hire to meet increasing demand.

All in all, the market is growing rapidly, and insurers and reinsurers alike are preparing through innovation and resourcing to be ready for the expanding market demand.



Source: Standard Life – Cumulative Premium Quotation requests since 1/1/21, excludes very large (>£2bn) and small (<£50m) transactions

Written by Standard Life senior business development manager, DB solutions Matt Richards

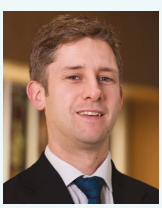
In association with Standard Life Part of Phoenix Group

Pensions Age Autumn Conference: A sneak preview from our keynotes

31 October 2022 | The Waldorf Hilton, London

The Pensions Age Autumn Conference is back again this year, and will welcome speakers and delegates from a broad range of disciplines across the pensions sphere. Taking place in London's stunning Waldorf Hilton Hotel, chaired by the esteemed Robert Branagh, CEO of the London Pension Fund Authority (LPFA), the one-day event will cover topics across the DC and DB arena

We asked our keynote speakers for a sneak preview of what they are planning to cover at this popular one day event.



Opening Keynote Speaker: What's next for pensions – the view from the ABI
Rob Yuille, Head of Long-Term Savings Policy, Association of British Insurers

"My speech at the *Pensions Age* conference will be about the new Pensions Minister's in-tray, from the ABI's perspective. As I write this, details of the personnel and their exact responsibilities are limited, but reports are that this is a broad remit, with some outcomes likely beyond their control, and only around two years before the next election.

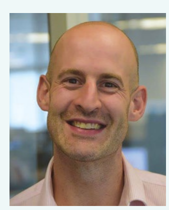
The minister arrives with a very clear growth agenda from the new administration, accelerated changes to the charge cap to deliver, and pensions affected by turbulent markets. With tax changes that could leave DWP playing catch-up, and a state pension age review to consider, time will be limited for wider policy on private pensions.

This will not remove the burden of expectations that outstanding work will be completed. Most notably, the automatic enrolment review recommendations remain in the pending pile. There is a small window to legislate for these, even if it just sets a timetable or gives the government power to deliver them in future, given the extremely challenging timing of increasing contributions now.

The minister will also inherit a number of Guy Opperman projects, and it's worth reflecting on his legacy as minister, with successes in laying the groundwork for pensions dashboards, collective DC (CDC) and simpler annual statements, and reforming the guidance landscape. But there is also unfinished business, including on pension transfers, value for money and DC decumulation.

There are industry initiatives in train – which Opperman had a hand in – like the Pension Attention campaign and on small pots. With the new minister's desk piled high, maybe more will come the industry's way.

I'll be giving the views of the ABI, our members and some speculation of my own to set the policy context for the day and get debate underway."



Transforming Member Satisfaction – BTPS administration case study
Dave Tomlins, Head of Pension Services Delivery, BT Pension Scheme (BTPS) and Andy Whitelaw, Head of Pensions Administration Strategy, BT Pension Scheme (BTPS)

"Over the past four years, BTPS has undertaken a bold programme of transformation within our member services area. It's been a long journey but we're reaping the rewards of this investment with happier members, more options to self-serve and more efficient processes significantly reducing our administration costs.

We are really looking forward to speaking at this year's Pensions Age Autumn conference about the scheme's decision to in-source administration, the repatriation of our call centre and the recent launch of the new member portal and website."

Closing Keynote Speaker: Update from The Pensions Regulator
Nicola Parish, Executive Director of Frontline Regulation, The Pensions Regulator (TPR)

"I am looking forward to speaking in person at this year's Pensions Age Autumn Conference. It's been a while since I've had the opportunity and I'm really excited to be meeting people again. I will be covering a wide range of topics in my speech – reflecting on the rapid pace of change across the pensions industry, and within TPR itself and our regulated community.

I will also be highlighting TPR's success in tackling criminal activity, including a number of successful prosecutions, and will focus on what we are doing to deliver on the Pension Schemes Act, in areas such as CDC but also in areas currently outside legislation, such as superfunds.

I also want to share with the conference delegates our progress on our 15-year corporate strategy, which reflects our change of focus and explains how we are putting the saver at the heart of what we do. I will speak about our more assertive role and the relationships we wish to foster with schemes through supervision.

I will be outlining work on the DB Funding Code of Practice and will highlight TPR's continued campaign to combat pension scams, whether that's through the scams pledge to industry or our continued work as a member of the Pension Scams Action Group.

It's always a pleasure to speak at *Pensions Age*'s conferences. I look forward to meeting faces old and new and hearing more about the challenges and opportunities within the industry."

Agenda

08.30 – 08.50: Registration and refreshments

08.50 – 9.00: Chairman's welcome
Robert Branagh, CEO, London Pension Fund Authority (LPFA)

09.00 – 09.30: Opening Keynote Speaker: What's next for pensions – the view from the ABI
Rob Yuille, Head of Long-Term Savings Policy, Association of British Insurers

09.30 – 10.00: Transition Investing - Here for the How
Katherine Sherwin, Global Head of Real Assets Sustainable Investing, BlackRock

10.00 – 10.30: Mind the [Knowledge] Gap 2022
Bob Campion, Head of Fiduciary Management, Charles Stanley Fiduciary Management

10.30 – 11.00: Q&A: It's not easy being green! Reducing the pain of aggregating climate data and regulatory reporting
James King, Chief Technology Officer, AMX by Carne
Pippa Rudling, Consultant Relations, AMX by Carne

11.00 – 11.30: Coffee break

11.30 – 12.00: Investing for people and our planet: harnessing Impact for positive member outcomes
Tim Banks, Director, UK Institutional, AXA Investment Managers
Sian Long, Investment Specialist, Equities, AXA Investment Managers

12.00 – 12.30: evoCast Live! Value For Members: An opportunity to improve
Paul Bannister, CEO, Evolve Pensions and
Jessica Rigby, Director of Strategy, Evolve Pensions

12.30 – 13.00: Shifting our perspective to evaluate member value now and for tomorrow
Alison Hatcher, CEO, HSBC Retirement Services and HSBC Tomorrow Master Trust

13.00 – 14.00: Lunch break

14.00 – 14.30: Transforming Member Satisfaction – BTPS administration case study
Dave Tomlins, Head of Pension Services Delivery, and
Andy Whitelaw, Head of Pensions Administration Strategy, BT Pension Scheme (BTPS)

14.30 – 15.00: The evolving de-risking landscape in 2022
Sarah Parkin, Pensions Partner, Linklaters

15.00 – 15.30: The Single Code of Practice
Grace Bensley, Senior Governance Consultant, Mercer UK
Lindsay Sadler, Governance Leader, Mercer UK

15.30 – 16.00: Closing Keynote Speaker: Update from The Pensions Regulator (TPR)
Nicola Parish, Executive Director of Frontline Regulation, TPR

16.00 - 17.00: Chairman's roundup, close of conference and drinks reception

To book, visit pensionsage.com/autumnconference/

Summary
• A dramatic shift in the pensions market has been witnessed over the past 10 years as DC scheme membership skyrocketed.
• AE has helped increase workplace pension participation by more than 10 million people.
• However, questions have been asked about the adequacy of AE saving levels and the exclusion of certain groups.
• Industry experts hope that the changes recommended in the 2017 AE Review will be implemented by the mid-2020s.

A decade of auto-enrolment

October 2022 marks 10 years since the introduction of auto-enrolment in the UK. Jack Gray looks at how the marketplace has changed, whether the policy has met its aims and how it may evolve over the next 10 years

The pensions industry saw arguably its largest shake-up in decades when auto-enrolment (AE) was introduced in October 2012. Looking back on 10 years of the policy in action, it seems like it was a huge success, with over 10 million more people saving into a workplace pension.

It has certainly achieved its primary objective: To get more people saving for retirement. Opt-out rates were lower than expected and people are generally on a better path to retirement than they would have been without the policy, as the prevalence of defined benefit (DB) pensions continues to decline.

However, it may not be that simple. These past 10 years also highlighted the shortcomings of the policy, with fears that people relying solely on AE defined contribution (DC) pensions will not have enough savings for an adequate retirement. Additionally, due to the earnings and age thresholds, and employment type requirements, groups such as women and the self-employed are being disproportionately left out.

Industry experts have long been calling for reform to the policy to address these gaps. The 2017 AE Review recommended that the minimum age threshold should be lowered from 22 to 18 and the lower earnings limit should be removed. The government has previously promised that this will happen by the mid-2020s, but there appears to have been a lack of progress on this front.

Changing marketplace

In the past 10 years, the pensions marketplace has changed dramatically, says Aegon head of pensions, Kate Smith, noting that we are seeing the accelerated decline of DB schemes, the demise of single employer trust-based schemes and the acceleration of master trusts.

"Since 2012, the marketplace has changed significantly," adds LCP partner, Lydia Fearn. "We have seen a tenfold increase in membership of DC schemes, with over 10 million people actively contributing into their own DC savings.

"The past 10 years have shown that people are taking more notice and more interest in their DC pension savings."

Janus Henderson director of institutional DC, Dave Whitehair, states that the most obvious change is the growth in membership and assets under management. "New providers have entered the DC pensions market with an aim of disrupting the legacy providers and building technology-led solutions," he continues. "Consolidation has given rise to larger pools of assets and enabled investment decision makers to consider allocations to new investment areas

such as private assets and thematic sustainable investments."

B&CE, provider of The People's Pension, director of policy, Phil Brown, comments that while Nest was a necessary intervention, the AE market is healthy and competitive, and it is possible to deliver a quality product to small and micro employers.

However, not all of the changes have been positive, with PLSA director of policy and advocacy, Nigel Peaple, describing two changes that impacted future pension adequacy: "The first is the shrinking proportion of savers who will enjoy the comparatively high and guaranteed income provided by DB funds," he says.

"The second is declining home ownership. The number of households owning their property peaked at 70.9 per cent in 2003, falling to 63.9 per cent in 2018. If this trend continues, it could have grave implications for people's standard of living in retirement."

Meeting its aims

AE had one primary aim at its outset: Get more people saving for retirement. Its clear that the policy has achieved, if not exceeded, this target, with over 10 million more people enrolled.

"There is no doubt that, since its inception 10 years ago, AE has revolutionised long-term saving for millions," says Standard Life workplace managing director, Gail Izat.

"It has embedded a savings culture in UK workplaces, and normalised pension participation. In April 2021, the UK workplace pension participation rate was 79 per cent, up from 47 per cent in 2012."

Peaple adds: "In the 10 years since AE was first introduced the unprecedented success of this policy has become clear. Every year the number of people saving for a pension has increased.

"Opt-out rates remain lower than expected when the policy was originally introduced, and evidence suggests that people highly value pension savings and will continue to save in large numbers despite significant economic shocks. Moreover, continued support for the policy is widespread."

Not only has the policy met its initial aims, it has arguably exceeded expectations, notes Brown. He draws a comparison with the roll-out of the minimum wage, with both policies having low non-compliance and becoming part of the UK's labour market framework.

"Most of the flaws in AE are, like the gender and ethnicity pensions gaps, a product of wider labour market inequalities, or, like the adequacy issue, the result of deliberate decisions taken at the outset," he adds.

Smith states that while it is good that participation is high, AE is a "double-edged sword": "It has got participation up but unfortunately people aren't saving enough and they're not aware enough of what is going on; it just happens to them. So, when they come up to retirement and they have difficult decisions to make, that just causes problems."

"There is no doubt that, since its inception 10 years ago, AE has revolutionised long-term saving for millions"

In hindsight

Despite the successes of AE, issues have arisen that, with the benefit of hindsight, could have been considered and addressed earlier. The spotlight has been shone on aspects of the policy, such as the minimum age threshold, earnings trigger and contribution level, that could lead to problems as people approach retirement with purely DC savings build up through AE.

"The success of the AE policy has magnified some of its shortcomings, with too many people falling short on reasonable definitions of pensions adequacy," explains Peaple.

"This is even more acute for recognised under-pensioned groups, like the self-employed, part-timers, multiple job holders, gig workers, women, single mothers, those responsible for others' care and people from ethnic minority backgrounds.

"There are also very different outcomes across generations, largely driven by how much DB provision different demographics have."

Smith adds that a lot of regulations

have been added over the past decade: "I never understood why AE contributions had to be paid based on a band of earnings," she states.

"The way it was communicated was not effective because people think they are paying 8 per cent, when they are paying less than that. That could have been done better. They should have brought things in earlier, like the charge cap and default funds, and we should have had some sort of small pot solution from day."

Fearn notes that, despite the successes, improvements could have included a simpler earnings test, and including the self-employed and younger people in the policy.

"There is still time to take action and the government has made commitments that it will happen at some point," she continues. "However, we need these changes to happen as soon as possible."

These commitments include enacting the 2017 AE Review's recommendations: Lowering the minimum age threshold from 22 to 18 and removing the lower earnings limit. The government has repeatedly claimed these will be changed in the mid-2020s, but many in the industry are unconvinced that progress is on track. Smith states that "we need to get a plan" for implementing the recommendations, preferably to be phased in over time.

"There are several areas that need attention," says Whitehair. "Firstly, it is widely accepted that contribution rates which drive so much of the expected retirement outcomes are not high enough. There are also cohorts of people where participation in pensions remain very low.

"The part-time who do not reach the lower earnings limit and the self-employed remain another group missed out by the current policy."

The next decade

Although AE has spearheaded positive engagement, there is still more to be done, according to Izat. "The well documented rise of the gig economy and the move away from traditional employment towards more flexible ways of working presents opportunities for the future development of AE structures," she says, calling for minimum contributions to be raised to 12 per cent alongside the 2017 AE Review recommendations.

"Recognising that policy interventions must balance the current cost-of-living crisis with preventing millions of people falling short in retirement over the coming decades, a timeline must be introduced to increase minimum AE contributions," adds Peaple.

"But we are not proposing any changes to contributions before the mid-2020s. We believe that 12 per cent should become the new default contribution level, and that this should be introduced on a gradual basis over the next decade."

Smith states that she would like to see a movement from enrolment into engagement, and for employers from compliance into engagement: "We need to be able to nudge people into making active decisions and allow providers to give more personalised communications and guidance."

Brown concludes: "There is a need for a new consensus on what AE is there to actually do. Currently, it's providing roughly half what's needed for an adequate income on top of a full state pension. There's a need for a new consensus over whether that's appropriate and, if not, what should be done about it. We see setting formal objectives for the UK pension system as critical so that people know what to expect from AE minimum contributions."

Written by Jack Gray

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Trade finance focus:

A good look

Allianz Global Investors CIO, Head of Global High Yield, David Newman, and Portfolio Manager, Alternatives, Mike McGill

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Navigating uncertainty through trade finance

Trade finance provides an option for institutional investors seeking alternative sources of return, particularly given the recent volatility in fixed income markets. It has the potential to limit downside risk and provide a source of diversification

Fixed income markets have been buffeted by geopolitics, inflation, and recessionary risks during 2022. Together, those factors have contributed to one of the worst drawdowns in fixed income markets in recent memory, sending the Bloomberg Barclays Global Aggregate Index down 18 per cent as of mid-September 2022[1]. For institutional investors seeking alternative sources of return that can limit downside risk and provide a source of diversification, trade finance may offer a solution. In return, they gain access to the so-called complexity premium of trade finance, whereby investors may be rewarded for investing in an asset class that requires particular skill, resources and expertise to access.

Trade finance needs are rising, driven by recent supply chain disruptions and a tightening of bank funding. The scale of disruption caused to global trade over the past two years – by factors including the impact of Covid-19 and geopolitical events such as the war in Ukraine – means significant demand exists for this form of working capital financing, which bridges the gap between the delivery of products and payment. According to the most recent estimate by the Asian Development Bank, the global trade finance gap widened to $1.7 trillion in 2020. Small- and medium-sized businesses are most in need of help as some banks, the traditional key suppliers of trade finance, scaled back availability of funding in the aftermath of the pandemic.

The impact of trade disruption can fall disproportionately on the world's poorest people, given the vital role trade plays in reducing poverty by creating jobs and stimulating economic growth.

How does trade finance work?

Trade finance resembles a line of credit from a third-party financier that helps companies fund the buying and selling of goods. For example, it enables suppliers to receive money straight away, even though their buyers may not need to pay until some point in the future. Trade finance can be divided into four main categories:

1. **Payable finance** supports a buyer by facilitating payments to its suppliers when invoices are raised.
2. **Receivable finance** provides money to a single supplier in advance of its receiving invoice payments from several customers.
3. **Working capital facilities** provide loans to one supplier repaid by receivables from several customers.
4. **Documentary credits** are common instruments used by companies to finance cross-border trade flows and payments under commercial contracts, including letters of credit and bills of exchange.

Why is trade finance a potentially attractive option for institutional investors?

Investors allocating to credit strategies currently face several challenges, most prominently an uncertain geopolitical landscape and a rising yield and spread environment. These investors are therefore looking for assets that may be less impacted by rising bond yields and credit spreads, with the flexibility to navigate macroeconomic uncertainty while still offering the potential for attractive returns.

Trade finance can offer a solution that counters many of these challenges, while harvesting the complexity premium that arises from this asset class. Its short-term maturity profile – typically, transactions have a life cycle of between 30 and 120 days – and low correlation to other asset classes can help investors manage an environment of rising interest rates. Investments in trade finance can also help investors manage downside risks as they tend to exhibit low volatility.

Trade finance also typically exhibits a short spread duration, which can help reduce sensitivity to changes in credit spreads (which usually widen and thus reduce returns in a recessionary environment). While other credit assets might currently offer higher yields – especially after the recent market sell-off – trade finance is defensive in nature. If the credit environment worsens, trade finance could outperform as publicly traded credit spreads might have to widen more since they have not reached recessionary levels yet. Yield does not equal return, and in uncertain markets we prefer the relative certainty of short-dated trade finance.

Investors concerned with the medium-term uncertainty in credit markets may also find the short-term and flexible profile of trade finance appealing. The short maturity profile of the asset class can allow portfolios to minimise capital markets refinancing risk, which will be an increasing source of volatility for public bond markets as financial conditions tighten.

Another feature which could be particularly appealing in the current environment is the “self-liquidating” nature of trade finance assets. If an invoice is bought by an investor at a discount, the investor expects to receive back the par value of the invoice at maturity. This contrasts with public fixed income strategies, where fund redemptions or portfolio repositioning will require the fund to sell at the market price based on market sentiment at the time of sale. This “self-liquidating” feature in trade finance reinforces the potential low-volatility, low correlation profile of trade finance: the obligations of suppliers or buyers to settle trade payments are not linked to the price movements in public fixed income markets.

Lastly, trade finance in general has lower default rates and higher recovery rates than public debt as trade finance is the lifeblood of many companies. Taken together, these attributes lead to low correlation to other asset classes and potential downside mitigation in times of market stress, as again demonstrated during the recent market turbulence.

Beyond the inherent structural advantages, the asset class can also help investors meet long-term sustainability goals. Since international trade is an engine for inclusive economic growth and poverty reduction, trade finance can be an important tool in contributing to the UN Sustainable Development Goals.

At the same time, structural changes are paving the way for institutional investors to enter the market. Banks are looking for partners to fulfil their clients’ needs as they struggle to keep up with growing demand due to regulatory capital requirements. Meanwhile, financial technology companies have brought innovation to the field, reducing unit costs and making small financing volumes economical.

What are the risks of the asset class?

The primary risks in trade finance are credit and fraud risk. Credit analysis and diversification mitigates credit risk. Fraud risk can be managed by analysis of the relationship between buyers and suppliers and other parties involved. Careful selection of sourcing partners and due diligence, combined with diversification, should reduce risks. The use of historical data when evaluating the supplier and buyer to determine pricing can lead to the risk of delays and dilution, where the amount that may be payable by the debtor on an agreement will be less than the invoiced amount. But due diligence can again help mitigate risk levels.

How can trade finance fit within a portfolio?

As investors look beyond the main asset classes to diversify return streams in a low-yield environment, trade finance can offer an attractive diversification option. For defined benefit pension schemes, the asset class can act as an alternative to traditional credit assets such as asset-backed securities (ABS) and short-dated investment-grade bonds due to a potentially increased yield helped by a complexity premium. Equally, trade finance may replace government bonds holdings as it offers the possibility of stable returns and low sensitivity to rate changes.

For defined contribution pension schemes and charities, trade finance can provide exposure to private markets, while allowing investors to retain some liquidity. It can also offer a funding source for capital calls. Finally, trade finance can also act as a strategic cash position. Its semi-liquid structure gives investors the ability to shift or reallocate portfolios. This ensures trade finance can provide a potential funding source for private market capital calls.

While this is a relatively new and complex asset class, with the right partner it is possible to take advantage of the potential benefits trade finance offers.

For more information visit allianzgi.co.uk/institutional

Written by Allianz Global Investors CIO, Head of Global High Yield, David Newman, and Portfolio Manager, Alternatives, Mike McGill

In association with Allianz Global Investors

[1] Source: Bloomberg GlobalAgg Index (USD), a flagship measure of global investment grade debt. Data as of 23rd September 2022.

Filling the gap

Summary
- Institutional investors are being asked to fill the gap left by banks, which have stepped back due to Basel III and stricter capital requirements.
- The benefits are low correlations, diversification and a hedge against rising inflation.
- Trade finance can cover a wide spectrum of lending structures that support the production, transportation, and payment terms of global trade.

Lynn Strongin Dodds investigates the opportunities trade finance presents as an asset class for pension schemes and other institutional investors

While trade finance is among the oldest forms of institutionalised credit, it has only been in the past few years that the sector has become an asset class. Banks have left a gap and institutional investors are slowly stepping in as they search for stable risk-adjusted returns and downside protection.

It has not had an easy time though. The problems in trade finance over the past decade have been well documented. The pandemic, supply chain issues and sanctions against Russia have only exacerbated the situation although, over the past year, the picture has improved.

Figures from Coalition Greenwich show that in the first half of 2022, the world's 10 largest transaction banks posted a combined revenue of $15.6 billion from cash management and trade finance, a 22 per cent rise from $12.8 billion in the same period last year. Breaking it out, trade finance grew 7 per cent year-over-year according to Coalition Greenwich head of global banking research director, Eric Li.

Li said that second-quarter activity drove most of the growth, with revenues from both cash management and trade finance reaching their highest level since the global financial crisis.

The report noted that supply chain disruptions within sectors such as agricultural commodities and energy due to Russia's invasion of Ukraine have led to a greater corporate need for supply chain and commodity trade finance. Revenues from both products were up more than 20 per cent in the first half of 2022.

Although it is difficult to predict the future given the current bout of market volatility, there are opportunities in the small to medium enterprises (SME) arena. Research from the Asian Development Bank revealed that SMEs are disproportionately affected by the $1.7 trillion trade finance gap – the difference between the number of applications to finance companies' participation in international operations and the number of approvals. They account for 40 per cent of such rejections, which is much higher than their share of applications.

Separately, a report from the World Bank noted that SMEs are underserved and lack access to affordable trade finance, despite accounting for around 90 per cent of companies and more than half of the jobs worldwide.

A higher level of working capital is also impacting the market in general, according to Allianz Global Investors portfolio manager, Mike McGill. He adds that higher inflation has increased input costs as well as the capital needed to purchase and carry inventories.

"It is a confluence of different things," says McGill, who works in the trade finance team. They range from the bottlenecks in global shipping and warehousing that are extending the cash conversion cycle for companies, to more volatile demand patterns and access to supply. As a result, companies increasingly carry more inventory to ensure continuity and growth of sales.

In the past, companies across the spectrum would have turned to banks for help, but they have stepped back due to Basel III and stricter capital requirements which will only become tougher under the impending IV version. Estimates show that there has been an increase in risk weights for lending in the trade finance of around 15 per cent since Basel III was implemented, while the proposed changes under Basel IV could effectively impose 100 per cent risk weights in areas such as agricultural commodity finance.

Market participants believe this is largely because the regulations do not properly recognise protective features in lending structures such as collateral, while over penalising revolving facilities and letters of credit. The fall in bank lending capacity comes at a time when demand for agricultural production, and specifically food production, is forecast to significantly rise over the coming decades to support growing populations and levels of prosperity.

As McGill notes, "banks had typically operated a buy-and-hold" strategy but many are now more interested in an originate-and-distribute model. "This has translated into asset managers acting as an intermediary and setting up fund structures."

Some organisations such as the International Trade and Forfaiting Association (ITFA) would like to see more done to encourage trade finance as an asset class for alternative investors such as asset managers, insurance companies and pension funds. The trade group argues that it has many attractions including appealing risk-adjusted returns, short duration and low volatility, as well as defensive and countercyclical behaviour compared with other asset classes.

Overall, trade finance encompasses a wide spectrum of different lending structures which support the production, transportation, and payment terms of global trade. Loans are typically short-term and self-liquidating, often secured, and offer a yield pickup over other liquid credits of similar ratings. They are often seen as an alternative to credit assets such as asset-backed securities and short-dated investment-grade bonds due to a potentially higher yield on the back of a complexity premium.

"Trade finance allows investors to be tied into the real economy and less dependent on market fluctuations"

"Trade finance has the potential to be attractive in today's environment," says Hymans Robertson senior investment research consultant, Penny Cochrane. "As assets roll off, capital is reinvested into new instruments – allowing for repricing of assets in today's volatile environment."

She notes the key attractive features of trade finance are that it provides an uplift to cash with short duration – 120 to 180 - and low volatility. "Due to the sometimes very short-term nature of these assets there is little interest rate duration," she adds. "And the private nature of the instruments, means the asset class has a smoothing effect on volatility. Given the short-dated nature of the asset class, default probability is less than that of longer-term ratings equivalent credit and it correlates to a lower expected loss."

Allianz Global Investors head of global high yield, David Newman, who manages global high yield and multi-asset credit strategies within the global fixed income team, also points to the diversification benefits and low default rates. He notes that its potentially low correlation to other asset classes can help investors manage a rising interest rate environment. "Investments in trade finance can help investors manage downside risks as it tends to exhibit low volatility," he adds.

Tradeteq CEO, Christoph Gugelmann, echoes these sentiments. He believes that it not only provides lower correlations with traditional asset classes but also has a better risk profile. "Trade finance allows investors to be tied into the real economy and less dependent on market fluctuations," he says. "Also, there is always a commercial angle. For example, when an airline cuts costs, the unsecured senior bond holder will be most affected. However, it will always need the kerosene to fly the plane."

As with any investment, "there are several challenges to be cognisant of when investing in trade finance," says Cochrane.

"Banks continue to be the dominant player in this market, and they occasionally partner with other platforms and asset managers, so investors need to be comfortable in that relationship," she adds.

Cochrane highlights the lack of dedicated trade finance funds in the market. However, this is changing: "Due to bank retrenchment seen across the private credit markets, investors are increasingly getting the opportunity to participate," she adds. "This has been accelerated by fintech-enabled platforms, particularly in supply-chain finance, which are likely to continue to take market share."

Written by Lynn Strongin Dodds, a freelance journalist

In association with

Allianz Global Investors

Summary

- PE deal volumes have decreased from the highs of 2021 to the more 'normal' 2019 levels.
- The asset class has performed well in comparison to public markets.
- PE could provide opportunities for pension schemes looking to boost their ESG credentials.
- Experts expect returns to withstand continued economic uncertainty and activity levels in the secondary market to continue to rise.

In it for the long haul

Amid continued economic and political uncertainty, Jack Gray assesses private equity trends following the highs of 2021 and what opportunities the asset class presents for pension schemes

Last year witnessed the total value of global private equity (PE) deals hit a record high, with US $1.16 trillion worth of transactions completed. Although PE deal volumes have declined this year so far, they have fallen back to the more 'normal' levels of PE investment seen in 2019, following the surge in 2021.

While investment in PE is widely accepted in many countries, PwC noted that pension schemes are more reluctant to consider the asset class due to a combination of regulatory pressure and risk-adverse behaviour. However, this trend looks likely to change, with the government exploring options to allow UK DC schemes to benefit from long-term investment opportunities.

The economic downturn could present good buying opportunities for PE managers due to the long-term nature of the asset class, while the secondary market has been bolstered by pension funds selling PE funds at a record pace and at a discount in the first half of 2022. Furthermore, private markets could present opportunities due to the downturn in performance in public markets amid the ongoing economic uncertainty.

Returning to business as usual

"Outperformance of private markets compared to public markets is greatest when public markets are struggling," Russell Investments director of private markets, Michael Steingold, explains.

"Therefore, there is potential reward

for the patient, discerning PE investor. We have an ongoing war in Ukraine, high inflation and central banks committed to raising interest rates, despite concerns about slowing economic growth.

"This created a testing market environment, where investment selection became more important in high-risk PE segments. We see more opportunities on the horizon in the venture and growth equity segments of the market as investor attention shifts toward the more preferred buyout segment."

BlackRock Alternatives Specialists global head, David Lomas, adds that, in the wake of the current market volatility, managers are taking steps to ensure strength of existing portfolio companies, reducing leverage levels and locking in rates where possible, and taking into account updated considerations during underwriting and due diligence processes.

"With respect to new opportunities, transaction volumes and exit activity have fallen materially from the highs of 2021," he continues. "However, following recent public market volatility, public-to-private and corporate carveout transactions are becoming more attractive given some significant falls in valuations.

"Although sellers are currently mindful of multiple compression found in public comps and are awaiting a rebound, buyers are looking to capitalise on lower prices. We expect volumes to step up over time as expectations reset."

Lomas notes that PE-backed companies tend to experience resilience in times of crisis, due to greater access to external funding, which makes PE an "inherently resilient" asset class.

Manulife Investment Management global head of PE and credit, Vipon Ghai, adds that PE is a long-term investment and quarter-to-quarter volatility creates opportunities given the amount of unfunded capital available to the asset class.

"While interest rates, inflation, and geopolitical uncertainty will continue to affect valuations, PE has always been opportunistic in nature given that most owners of portfolio companies are inclined to remain patient rather than sell into a weak market," he says.

WTW head of PE research, Andrew Brown, notes that, for the most part, PE has held well amid the macro and geopolitical headwinds experienced for most of 2022, although he warns that the quarter lag in reporting must be accounted for as the macro effects will not be seen immediately.

"One would expect fundamentals to soften going into Q4 as a tight labour market starts to bite and price increases become harder to pass through to underlying customers," he states.

"On the fundraising front, this too has softened but will likely be a welcome relief to the industry as the fundraising pace coming out of Covid-19 was not sustainable. At one point, we had managers coming back to market every 12-18 months when the norm is every three-four years, so investors were struggling to process the glut of new funds.

"It also led to over concentrations to certain managers, which then led to increased secondary sales in the first half of this year as investors looked to sell older funds to commit to newer ones."

Trends and opportunities

More investors are looking to sell their investments on the secondary market to help with the overweight to certain groups and to lock in returns. "On that point, with an IPO effectively shut, exits are harder to achieve," notes Brown.

"Certain pension schemes that are looking to de-risk sooner, are looking for shorter-dated investment opportunities, and we are seeing a lot of interest in co-investment opportunities to help lower overall fees and to overweight a certain sector, strategy, or manager."

Steingold explains that, in H1 2022, pension schemes were among the first to sell stakes in PE funds at record pace, and at a discount, to rebalance their investment portfolios for technical reasons.

"This has bolstered the secondary market and we believe this presents an attractive opportunity now for pension funds either seeking quality PE exposure for the first time, or for those looking to expand their PE allocation," he says.

PE investments could also present opportunities for pension schemes looking to bolster their ESG credentials amid stronger requirements. "ESG has been a major topic this year, with almost all requests for proposals for pension funds containing questions around broad ESG considerations," Steingold notes.

"While interest rates, inflation, and geopolitical uncertainty will continue to affect valuations, private equity has always been opportunistic in nature"

"In turn, this helped drive 'impact funds', which are private markets strategies seeking investable themes that can generate attractive risk-adjusted returns as well as measurable social and environmental impact."

Lomas echoes this sentiment, stating: "Based on what we've been hearing from clients, sustainability is increasingly important, and PE sustainable strategies in particular allow investors to pursue positive and measurable social and environmental outcomes alongside attractive PE financial returns.

"We are also observing continued growth in the co-investment market as investors are increasingly looking for efficiency, flexibility, cost savings, and targeted exposure."

Looking ahead

Looking ahead to the next 12 months, Lomas predicts that PE will continue to deliver strong returns and outperform public equity indices.

"We expect this to be the result of the aforementioned higher capital structure resiliency, the more comprehensive value creation toolkit, and the deeper sector expertise inherent to PE managers, amongst other factors," he explains.

Lomas also anticipates increased levels of activity in the secondaries market, especially as the recent contraction in public equities valuation has triggered the 'denominator effect'.

Steingold adds: "The prevailing market environment will stick its course for the next several quarters, in our view. In previous similar contexts, or at least those defined by rising rates, the most active private market segments were infrastructure, private credit and real estate."

However, Brown notes that, as PE is a long-term asset class, what happens in the next year will "not have much impact".

"If we do go through a downturn, then purchase multiples are likely to contract in certain parts of the market and it would be a good buying opportunity for PE managers," he says. "We have seen that in previous downturns that funds started in downturn have tended to have strong performance."

Written by Jack Gray

Commercial real estate and inflation – is it really a good hedge?

Rupert Sheldon of Fiera Real Estate UK considers the role commercial real estate has to play in a pension fund portfolio during this current inflationary environment

It is a long-held belief that real assets generally, and commercial real estate more specifically, represent a good hedge against inflation. Well, we are in inflationary times so let's put that theory to the test and see if this conventional thinking is correct.

The answer, as with many complex and multi-layered issues, is that it depends.

Before looking into the detail, let's consider where we have come from and how we got here, as this offers the key to how commercial real estate can help investors through the next, most perilous phase of the economic cycle.

Unprecedented times

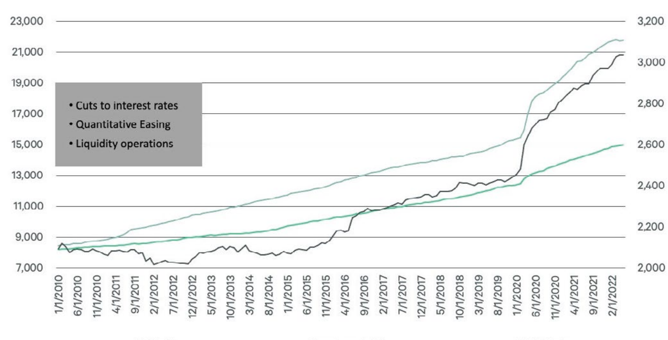
If we go back to 2009 and the height of the GFC, central bankers and governments around the world put the most enormous sticking plaster over a gaping wound to the financial system. Traditional economic medicine would have offered a band-aid in comparison. A second bout of the same treatment was served up on an equally grand scale as governments grappled with the economic fallout and aftermath from Covid-19 through 2020 and 2021. The outcome was a prolonged period of quantitative easing coupled with ultra-low, never seen before, interest rates. With a resultant c.25 per cent increase in the UK's money supply *[see chart 1]* this created a sustained period of asset price growth and wealth building providing a foundation stone for today's inflationary forces.

The eventual fallout from this unconventional remedy always had the scope to be painful. Triggered by economic aftereffects from Covid-19, supply chain disruption, war in Ukraine and other multiple factors, resultant spiralling inflation, rising interest rates and bond rate expansion have led global economies to the brink of recession. So, what happens next?

Bad inflation

As students of economics know, there is good and bad inflation. The good type or 'demand pull' sees increasing demand for goods and services drive real economic

Chart 1 – Money Supply (M2), Billions in USD, GBP & EUR



Source: Macrobond, CBRE Research Q2 2022 or GDP growth. The surfeit of demand over supply creates pricing pressure but in a growing economy this is supported and sustainable. What we are currently seeing in the UK and other developed economies, is 'cost push' or bad inflation, whereby the price of goods and services is going up due to increases in input costs such as energy, labour or materials. When this happens during periods weak or negative economic growth such as now, the result is stagflation.

Why is this important?

Economic growth that comes with demand pull inflation leaves businesses more able to manage rising input costs, including rent. The opposite is true where cost push drivers are at play and corporate profits are coming under pressure. Increasing insolvency risk and rising vacancy rates typically send rents spiralling in the opposite direction. This is where we are at today. So, in circumstances such as these, how do commercial real estate landlords maintain any meaningful pricing power?

Long, strong & progressive

When economic conditions are doing their best to erode real returns, long income commercial real estate investment managers do still have a few tricks up their sleeve to keep pace with inflation.

1. Lease indexation – In a standard commercial lease, the landlord will have the opportunity to increase rents every fifth year in line with prevailing rental values in the local market. This is done by having regard to comparable transactions at or around the same time as the relevant rent review date in much the same way as valuing a residential property. However, this may not be much use during times of 'bad' inflation or stagflation where increasing corporate hardship and insolvency rates lead to rising vacancy rates and negative rental pressure.

During such times, it pays to hold leases within your portfolio where rent reviews are pegged to either CPI or RPI inflation. This will almost certainly come with collars and caps thereby providing a guaranteed minimum during times of low inflation and capping the tenant's exposure during times such as now. However, linking income progression to inflation ensures a long-term hedge/partial hedge capable of smoothing income progression over time and creating greater predictability of cashflows. For long-leased funds this helps create a bond proxy, liability matching characteristic which is of particular appeal to mature defined benefit pension schemes. At Fiera Real Estate our UK long income fund benefits from more than 80 per cent exposure to these types of leases leaving it well placed to weather any inflationary storms.

2. Invest in growth sectors – Not all property types behave the way. The three principal sectors of the commercial market: retail, industrial and offices, are materially different in their exposure to capital expenditure, lease-up risk and overall rental growth potential. According to Statista over the 12-month period to Q2 2021 global retail rents fell by 9.6 per cent in nominal terms; during the same period industrial rents grew by 3.2 per cent. Being invested in the right segment of the market provides an excellent hedge against inflation when the lease structure provides for open market rent reviews enabling this excess rental growth to be captured at rent review. Within our Fiera Real Estate Long Income Fund UK, the principle overweight position is to the out-performing industrial sector with the majority of the residual 20 per cent of income not subject to indexation or fixed rental uplifts sitting within the industrial segment.

3. Don't compromise on tenant credit – Now is not the right time in the cycle to be taking tenant credit risk. Over the next few years, income will likely make up between +/- 100 per cent of total returns and should be nurtured carefully to manage risk. Within our Fiera Real Estate Long Income Fund UK, the principle overweight position is to the out-performing industrial sector with the majority of the residual 20 per cent of income not subject to indexation or fixed rental uplifts sitting within the industrial segment.

Holding the right assets in the right sectors with the right lease structure will only get you so far. During periods of stagflation pressure on corporate profits serves to elevate the risk of tenant insolvency and with that the prospect for landlords of capital expenditure refurbishing vacant space and potentially long-term rental voids. This can be hugely damaging to total returns and will typically lead to under-performance. Maintaining an aggregate investment grade tenant counter party risk across held portfolios is the best way to defend against this elevated risk.

What happens next?

Inflation has been building within global economies for some time, with numerous forces coming together more recently to create the perfect seedbed for a persistent and nasty bout. Whilst transient by nature, these forces have taken a firm enough hold for us to realise that rising interest rates are here to stay for the foreseeable future.

Resultant stagflation poses huge threats to asset owners through value erosion. However, real estate managers who have aligned their portfolios for the next phase of the cycle will have within their armoury the weapons to fight this unwelcome foe. To this end a carefully structured long income real estate strategy should continue to offer investors a good hedge against even the bad inflationary forces currently at play.

Written by Fiera Real Estate UK - head of core, Rupert Sheldon

In association with Fiera Real Estate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ESG
How to prevent, or respond to, being invested in an ESG crisis
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Entering the metaverse
What opportunities will the metaverse have for pension schemes and providers?
INSIDE: Sustainability Guide 2022

Summary

- The BP Deepwater Horizon oil spill in 2010 is an example of an unforeseen environmental disaster that was extremely costly for pension fund schemes invested in the oil company.
- Investors are increasingly aware of ESG issues, but their views on what constitutes a risk can be subjective – what is viewed as a governance risk by some members, might not be by others, so it is the job of trustees to weigh up which is financially material to the scheme.
- Exposure to certain regions, such as emerging markets, can leave pension schemes vulnerable to ESG controversies, through direct and indirect investments, requiring more thorough due diligence and reporting.
- Voting and engagement policies are a way for pension fund investors to take action to minimise exposure to unexpected ESG events.

How to prepare for the unexpected

ESG disasters or events are more scrutinised than ever, but can't always be foreseen, as pension fund investors know all too well

In pensions, as in life, unforeseen events or circumstances are not only a nasty shock, but the financial consequences can be far-reaching and reputationally damaging.

Historically, pension fund investors have been exposed to several environmental, social and governance (ESG) scandals or incidents, including the BP Deepwater Horizon oil spill in 2010. In the immediate aftermath, BP's market value more than halved, while clean-up costs faced by the oil giant ran into the 10s of billions of US dollars.

At the time, UK pension schemes invested in BP were encouraged and eventually able to pursue recovery of losses suffered as a result of the disaster but, by this stage, the damage was already done.

Closer to home, the cladding scandal affecting high-rise residential developments, which came to light following the Grenfell Tower fire in London, has left many trustees footing the bill for repairs that have dragged on for years.

"One of the challenges of investment is ensuring that the risk of being exposed to unforeseen events, such as the BP Deepwater Horizon disaster, is minimised, given the potential impact on returns that can arise through making reparations for the losses incurred and the associated reputational impact," says Hymans Robertson head of responsible

investment, Simon Jones.

While it is impossible to prepare for every eventuality in life, thorough due diligence on behalf of pension fund members can mitigate some of the most extreme and costly consequences of unexpected ESG-related events.

Monitoring, managing, mitigating

Barnett Waddingham partner, Chris Binns, says: "By their very definition, 'unexpected consequences' are hard to predict and, therefore, monitoring, managing and mitigating the risks of 'unexpected consequences' can be very difficult."

He adds: "This has been highlighted by unexpected consequences linked to key recent events – including Covid-19, the war in Ukraine and extreme weather events, to name a few – whereby externalities have been internalised, and investors have been required to view risks holistically."

One of the biggest challenges for pension fund investors is understanding not only where they are directly exposed through their investments, but also where they are indirectly exposed to ESG risks.

As Binns points out, this is complicated by the intricacy of global supply chains, the complex structure of companies, and even the reliance on emerging markets, which "tend to be more exposed to ESG and controversy risks".

He also points to differing public views and perceptions on what constitutes ESG and sustainability issues.

Indeed, there is general agreement that alignment with ESG initiatives, such as the UN's Sustainable Development Goals, will help reduce exposure to potentially catastrophic events. But, in reality, investing on behalf of so many investors will mean taking positions in companies that some might consider more of an ESG risk, and therefore be less comfortable with, than others.

Independent Trustee Services director, Tegs Harding, explains: "There are thousands of positions in a large pension scheme portfolio, and it simply isn't possible for trustee boards to get under the bonnet of every single one."

"Even if you could, these issues are subjective and it's difficult to know which issues could prove to be a financial risk, and whether any mitigating steps a company is taking are sufficient."

She adds that what makes it hard to apply any policy or approach consistently is the fact that many schemes invest globally, "and there are significant cultural differences in social issues".

Responsible stewardship

More than ever, there is growing scrutiny of pension funds' holdings, often because

"Trustees need to ensure that sufficient information is available to effectively assess potential risks and to exercise stewardship through engagement with organisations"

of media coverage of the fallout from events. This, in turn, has helped investors become more aware of the wider impact of their investments. That impact might be the cost to the environment, or the financial cost, but it can also take the form of the human or social toll of an event.

Ndapt managing director, Marcus Hurd, is under no illusion that pension scheme trustees are asset owners.

"Although they hold the scheme assets for the benefit of others, namely scheme members, they are responsible for the stewardship and consequences of the assets they hold," he says.

"It behoves trustees to act as responsible investors. Delivering sound financial returns is important, but so is acting as a responsible steward."

However, he acknowledges there is a balance to be struck between "sensible" financial investment and what he calls "ESG evangelism".

"Trustees must remember that their duty is to act on behalf of the pension scheme members they represent. Scheme assets are not personal wealth, where decisions can be made purely on philanthropic grounds," adds Hurd. "Rather, a trustee must – to the extent their asset holding permits – balance making sound financial investments with the responsibility of being an asset owner."

Taking action

Fortunately, trustees can ensure they are investing in a way that best represents their members' ESG principles without compromising on financial returns.

Doing it is one thing, but demonstrating it is another, as recent research published by XPS Pensions Group found.

The research revealed that 81 per cent of fund managers now have a net-zero commitment in place, up from 41 per cent in the previous year. However, less than a quarter (22 per cent) could demonstrate a credible plan within specific funds to meet their firm-level commitment.

In addition, 31 per cent of fund managers could not provide any examples of how they integrated ESG into their funds, according to XPS.

The key, then, is transparency and provision of information.

Jones says: "In conjunction with their investment managers, trustees need to ensure that sufficient information is available to effectively assess potential risks and to exercise stewardship through engagement with organisations."

"This serves as both a primary risk control, but also a means for understanding the rectifications that can be put in place should an event occur. The process of stewardship can, therefore, serve to improve behaviours by ensuring companies are challenged to meet best practice, both in what they do and what they disclose."

Importantly, Jones adds that where the direct consideration of savers' views may differ to those issues which trustees have identified as financially material, there is currently no legal requirement for trustees to consider them.

"However, it's important for trustees to understand what their stakeholders think, so they are better equipped to communicate effectively on the actions they are taking," he says.

Jones suggests that trustees can use members' views on the "real-world impacts arising from social and environmental issues" as both a tool for further engagement, but also as the basis to demonstrate the positive outcomes that pension savings can create.

Harding agrees that trustees can take some useful action on social issues in their voting and engagement policy.

"This means making sure the asset manager that invests on their behalf is voting in a way that is consistent with their ESG policy and engaging with them, and taking action if it isn't," she says.

Robust due diligence

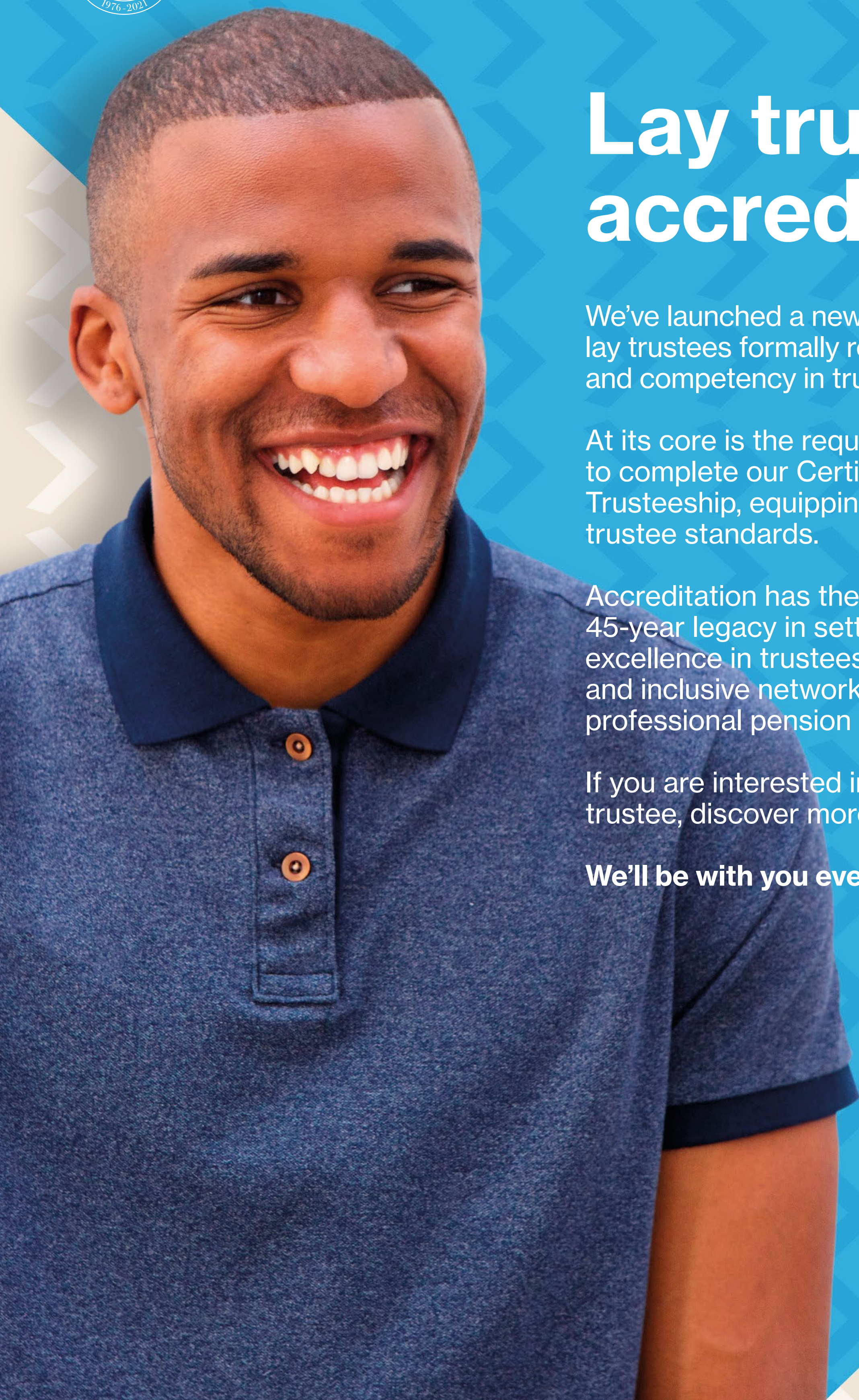
Even with the best intentions, pension scheme trustees and their members will inevitably be caught unawares at some point by an event or accident that could simply not have been expected.

Despite this, ongoing monitoring of fund holdings and interaction with investee companies to ensure they are being held to account for their actions will help minimise the financial and reputational fallout.

Binns says that investors delegating day-to-day investment decisions to asset managers should feel comfortable that the due diligence and research undertaken by their managers is robust, "allowing them to quantify such risks".

He adds: "Investors should also have confidence that their asset managers' investment processes allow them to integrate and react to such risks, as appropriate."

Written by Ellie Duncan, a freelance journalist



Sustainability Guide 2022:

Future trends, current opportunities

Featuring:

- Industry bodies' views on what may be in store for the future of sustainable investing
- How the asset management sector must rethink its approach to sustainability if it is to succeed in helping companies realise a truly sustainable future
- Why the time is now for pension fund investors to explore green energy infrastructure
- Company profiles

Looking ahead

As the world of sustainable investing and ESG considerations continues to evolve, *Pensions Age* hears what may be in store for the future from industry bodies

Make My Money Matter

A new government and ongoing cost-of-living crisis make the future of sustainable investing uncertain. However, one thing is clear – government, business and financial institutions such as pension funds must act on the commitments made at COP26.

Among the most ambitious was the UN-backed Race to Zero initiative which saw $8.7 trillion in AUM committed to ending deforestation – of which pension funds such as Aviva and LGIM played a key role. In 2022, we know that there is still support and momentum on this, and we are seeing a continued ramp up of action in relation to deforestation, in terms of tackling deforestation-linked investments in portfolios and investment in nature-positive entities.

With both TCFD, TNFD, and the Race to Zero initiative incoming, it's clear that increasing regulatory changes will, alongside growing public pressure, force funds to act on nature. That's why, together with Global Canopy and 12 pension funds, we created a 6-step guide to help schemes do exactly this.

As COP27 approaches, it will be vital that pension funds deliver on their current Net Zero commitments, with over £1.3 trillion of UK pension money now expected to make a 1.5 degree aligned transition. Make My Money Matter is writing to the 20 largest DC workplace pension providers asking them to provide evidence of their progress. We will continue this public scrutiny so that members can be sure their funds are not reneging.

A big question mark over how our new government will pursue sustainability hangs over our the pension sector. What we would say is this: Schemes have a responsibility to their members to return a profit, as well as to build a world we'd all want to retire into.

Delays to green initiatives and regulation should not be used as an excuse to return to the bad old days of wanton investment. We will see who keeps their promises on climate risk.

Campaign manager, Kenneth Green

Principles for Responsible Investment (PRI)

Asset owners, including pension funds, need to be prepared to play an active role in ensuring they can evaluate the sustainability performance of the companies they invest in and the investment managers they work with. PRI signatories have made it clear in recent years that they want more tools to identify what are truly responsible business practices and what should be considered as greenwashing. Success in this area has also brought ESG practices into the mainstream conversation, and with that, sustainable investing's detractors have become more vocal. Though it is a loud minority, it cannot be ignored.

To address these trends head-on, PRI recommends two key areas of focus for pension funds. First, asset owners should actively seek to engage for better data. ESG is not an end in itself – rather, it is a means to an end. It affords a framework to deliver better understanding of investment considerations, which are unlikely to be captured on a balance sheet. Thus, ESG requires inputs – quantifiable and transparent data across the spectrum of responsible investment issues. This data affords investors the ability to understand the long-term feasibility of their portfolio better, and in turn empowers them to deliver the best outcomes for scheme beneficiaries.

Secondly investors should consider deliberate engagement with policymakers; and continued efforts to push regulators to clarify rules and standards. These efforts can help mainstream responsible investment practices, which largely already allow (and sometimes require) trustees to consider sustainability outcomes.

Engagement with policymakers has already proven to be successful. In the United States, new rules around what must go into climate disclosures has created the groundwork for consistent comparable information about companies' impact on the environment. In the UK, reforms to the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations in 2021 are another great example.

But, like ESG, these measures are not ends in themselves. Policy changes like these have been rooted in meeting investor demand for increased information. Pension investors need to know where their money is going and what the implications of material ESG factors like climate change are on the value of their investments.

While the investing community has made progress on increased disclosures, there is still more work to be done. But, by continuing to put in the work to engage policymakers and regulators, investors can demonstrate the importance of sustainable investing to the broader public and help ensure its continued long-term growth.

CEO, David Atkin

ShareAction

In the UK, gender pay gap reporting has been mandatory for companies with over 250 employees since 2017. Despite evidence of vast discrepancies in pay that exist between ethnic minorities and White British workers, there is no equivalent legislation to monitor pay disparity for workers of different ethnicities.

Ethnicity pay gap (EPG) disclosures are a critical step for identifying and tackling inequality in the workplace. Yet, only a tiny fraction of FTSE 100 companies are reporting on this. ShareAction is campaigning to address this, in partnership with minority-led groups including the Runnymede Trust and reboot.

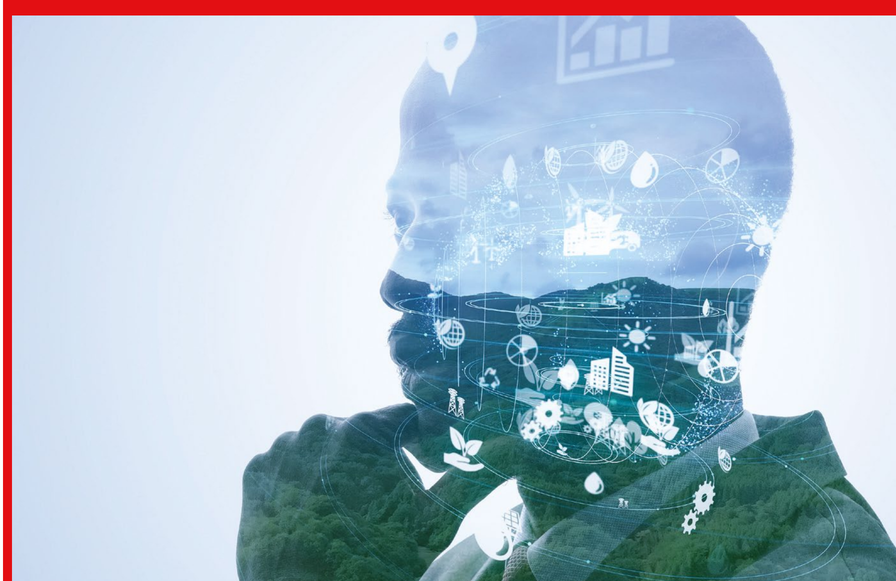
We will be working with a coalition of investors to ensure that companies have procedures in place for EPG reporting, and that these measure a sufficient level of complexity. Once these are in place, companies can analyse the disparities that exist. This creates opportunities to identify the possible causes, and, by extension, solutions to address them.

Whilst focused on companies in the financial sector this year, we're turning our attention in the next two years to low wage sectors. With many people struggling to make ends meet as the cost of living soars, it is more important than ever for investors to take responsibility for the impact of their investments on issues such as low pay and precarious work.

The majority of consumers now want to see their pensions invested responsibly. Pension funds are uniquely positioned to think about the long-term material benefits for their beneficiaries of tackling systemic risks like inequality, which business leaders like Unilever CEO, Alan Jope, have identified as a moral and economic priority.

EPG reporting has a vital role to play in this. Any pension fund that takes racial and social inequity seriously should write to their fund manager to ensure this is firmly on their agenda.

Senior campaigns officer, Kohinoor Choudhury



Written by Laura Blows

Responsible investment 2.0: A revolution in economic thinking

Why we believe the asset management sector must rethink its approach to sustainability if it is to succeed in helping companies realise a truly sustainable future

The traditional approach to investment was not designed to tackle the planetary boundaries that are all too apparent in today's world. Neither was the original form of socially responsible investing (SRI). But while the industry has belatedly woken up to its central role in creating a truly sustainable future, we believe a more fundamental overhaul is needed if we are to collectively succeed in tackling the biggest external threats facing society.

We know that, in addition to the need for capital to go towards truly sustainable investment opportunities, markets must start factoring in the value placed on negative external consequences created by companies. To us, one of the biggest and most consistent market failures is that investors have failed to integrate these considerations for decades.

In their defence, this has to a large extent been because governments have been slow to legislate or have failed to penalise those responsible for the negative effects of those external consequences. In order to achieve a sustainable 'revolution', we believe we also need to undergo a revolution in economic thinking. The conventional economics that have underpinned investments and fundamental analysis for decades fall short in the face of the biophysical boundaries to our planet, such as climate change, water scarcity,

topsoil erosion and loss of biodiversity, to name a few.

Responsible investment 2.0

At Newton, our long-term strategy with respect to responsible and sustainable investing is focused on this transition. We call it 'responsible investment 2.0' but, in reality, it may be 'responsible investment 3.0'. Over the past decade, our responsible investment team has been supporting our investment teams with dedicated and proprietary ESG analysis on companies as a complement to the analysis of external service providers. The benefit is that this analysis has been carried out by responsible investment specialists, who have had a direct understanding of the issues and have been able to guide the investment teams. However, while such an approach has helped our industry analysts to capture relevant, material ESG issues, many longer-term sustainability considerations may not be financially material over a typical investment horizon or singularly relevant to an investment case.

As we support the transition towards truly sustainable investment opportunities, we believe that ESG-related risks, issues and opportunities must be integral to the investment decision, in addition to being part of the 'mosaic' of inputs captured during the research process. In this context, our recent focus within the responsible investment team has been to hand over the direct responsibility for conducting ESG analysis to our industry analysts, and to help equip them with the skills to integrate that analysis to the highest standard.

Working together

This evolved process is starting to support the vision of the 'new' economic model that we believe we need to work to. Our vision is one of true integration: active stewardship roles for the investment teams, which ensure their accountability and ownership for the risks they buy on behalf of our clients. It's a transformation that we believe needs to happen more widely in our industry.

The evolution of roles is supported by a well-resourced central responsible investment team, whose task is to undertake specialist research, in collaboration with the investment team, and provide support, where needed, on company engagements, as well as to develop tools and insights through ESG data. By creating a partnership between our investment and sustainability skillsets, we believe we can get the best of both worlds and build genuine thought leadership that should help us outperform for our clients.

A great example of where this is needed more than ever is in the efforts around achieving net-zero carbon emissions. This is an issue that will never be solved solely by a single responsible investment team or by any industry in isolation. For the necessary transition that needs to happen around energy, or any other system, we must invest with a deep understanding of the issues across our investment teams.

This includes not only the way we build solutions, but also how we evaluate our integration processes. Ultimately, it's about allocating to companies that we believe are best positioned to be truly sustainable, and which do their utmost to be leaders in their respective fields.

Written by Newton Investment Management global head of sustainable investment, Therese Niklasson

In association with

The world must urgently invest in green energy infrastructure

Graham Matthews explains why the time is now for pension fund investors to explore green energy infrastructure

The challenges facing the world in 2022 can appear dramatic and unprecedented.

Yet, half a century ago, in 1973, during the oil crisis, we faced similar issues, when we saw a surge in petrol prices and a deep recession in most Western countries.

The more times change

The West German government was among the first to act, and in 1970 announced the creation of a Federal Crude Oil Reserve at the Etzel salt caverns near Wilhelmshaven. Later to be known as Storag Etzel, these caverns were designed to hold Germany's strategic reserves of crude oil (65 days' worth, to abide by the European directive) and, later, to hold reserves for Belgium and the Netherlands too.

Where the times differ

Our atmosphere is more saturated with carbon dioxide than at any point in the last four million years, with CO2 the primary greenhouse gas emitted through human activities. Consequently, climate change and global warming will significantly threaten the quality of life of future generations.

There is a vital need, just as in the early 1970s, for investment in energy infrastructure to prepare our cities for the enormous challenges ahead. If we fail to do so, the Intergovernmental Panel on Climate Change's reports make clear what will happen.

This year's unprecedented drought in Europe, following on from worldwide extreme weather events last year, is only a foretaste of what is to come. The world is already 1.1 degrees Celsius warmer than it was 150 years ago, and each further fraction degree increase will bring greater rainfall, higher rises in sea levels and more intense droughts and wildfires.

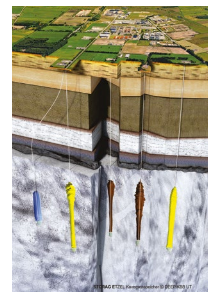
Once again, Storag Etzel will play a crucial role in meeting these challenges by ensuring energy supply and security are seamlessly aligned with the challenges of the energy transition.

Proofing mass storage of hydrogen

Since 2008, PATRIZIA has been the sole owner of the caverns through two special alternative investment funds, and Etzel remains one of our most significant infrastructure investments.

In fact, our experience there, and our conviction of the opportunities available in the infrastructure sector led us, in 2021, to acquire Whitehelm Capital, an independently owned international infrastructure manager. For PATRIZIA's corporate operations, we have the clear goal of achieving net-zero carbon [1]status by 2040 or earlier, with a clear ambition to execute as fast as external and our stakeholder requirements permit.

We, therefore, are particularly interested in a unique project being conducted at Etzel to test the feasibility of large-scale hydrogen storage using existing infrastructure and two industrial-scale caverns with a combined volume of 293,000 m^3. Storage is a vitally important enabler of the shift away from fossil fuels and towards a hydrogen economy and energy security.



First, it balances out the volatility in energy production caused by the shift to renewables. Second, it means that countries such as Germany can use imported hydrogen to maintain a steady flow of energy, which will be essential given that such countries cannot produce nearly enough through their own efforts.

Other developments close to Etzel are turning the area into an ever-more important energy node, known as the Energy Hub – Port of Wilhelmshaven. For example, in response to the Ukraine war, the government is building an LNG terminal. An interconnector between the German and UK grids, which is a critical piece of energy infrastructure, is also being constructed. And a pipeline to connect the LNG terminal with the grid in Germany is also underway.

Germany is again leading the way with these various developments, and other countries are starting to respond. They are also investing in renewable energy infrastructure and developing initiatives to switch to a hydrogen economy.

Written by PATRIZIA Infrastructure CEO, Graham Matthews

© source STORAG ETZEL

Includes operational emissions and embodied carbon for new developments and major refurbishments, excluding the 'sunk' embodied carbon of the standing portfolio. Further details of the commitment, including a granular breakdown of the scope of the target, can be found in the PATRIZIA Net Zero Carbon Strategy paper.

Company Profiles

Newton Investment Management

Newton is a global investment management firm. Our purpose is to improve people's lives by being active, multi-dimensional and engaged in striving to deliver attractive outcomes to our clients and foster a healthy and vibrant world for all.

The Newton Investment Management group comprises Newton Investment Management Ltd, registered in the UK, and Newton Investment Management North America LLC, registered in the US, and both are indirect subsidiaries of The Bank of New York Mellon Corporation ('BNY Mellon').

We focus on delivering outcomes for our clients across active equities, income, absolute return (including fixed income), multi-asset solutions, thematic and sustainable strategies. Those clients include public and private-sector DB and DC pension funds, corporations, charities and, via BNY Mellon, individuals.

We seek to understand the 'mosaic' (full picture) of each investment candidate we assess in pursuit of the more resilient and enduring returns our clients require. We achieve perspective through the breadth of our analysis, harnessing our expertise spanning fundamental, thematic, ESG, quantitative, geopolitical, investigative and private-market research to promote better-informed investment decisions.

We seek to drive positive change through voting and continuing engagement with companies, and more broadly with the development of best practices, standards and regulations.

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NEWTON Investment Management

PATRIZIA: A leading partner for global real assets

With operations around the world, PATRIZIA has been offering investment opportunities in real estate and infrastructure assets for institutional, semi-professional and private investors for 38 years. PATRIZIAmanages more than €56 billion in assets and employs over 1,000 professionals at 28 locations worldwide. Through its PATRIZIA Foundation, PATRIZIA is committed to social responsibility. The foundation has helped around 250,000 children in need worldwide gain access to education and thus, has given them the chance of a better life over the past 23 years. You can find further information at **www.patrizia.ag**

PATRIZIA

Entering the metaverse

As the virtual world, known as the metaverse, continues to develop rapidly, Laura Blows explores what opportunities it may hold for the pensions industry

When did you first hear of the word ‘metaverse’? Perhaps it was in October 2021, when Mark Zuckerberg announced Facebook’s parent company changing its name to Meta to better represent his plans to create a metaverse.

Possibly it was earlier last year, in March, when children’s favourite gaming platform Roblox – itself described as a metaverse – first listed on the New York Stock Exchange for $30 billion.

Or maybe it’s right now, in this article, that you’re first coming across the term ‘metaverse’.

Whenever it was that you first heard the word, chances are that it won’t be the last. As recently reported in *Pensions Age*’s sister title, *CIR*, internet searches for the term ‘metaverse’ rose some 7,200 per cent in 2021. Interest in the metaverse is clearly growing fast; so, what exactly is it?

The metaverse

As it is in its infancy, how the metaverse will develop (and how quickly) and how it will be used is still open to interpretation. However, in essence, the metaverse is the creation of virtual worlds for people to interact in, using a 3D representation or ‘avatar’ to do so.

Its origins are in virtual reality *[see boxout]*, with its growth initiated by the gaming world, but it is expected to evolve far beyond games to all aspects of life. For instance, people may use it to virtually hang out with friends, work or attend events (for example, the first virtual concert took place on gaming site Fortnite – by DJ Marshmello – in 2019, and have continued even as real-life events were possible again, such as Ariana Grande appearing on Fortnite in August 2021 and Justin Bieber on virtual platform Wave in November 2021).

As reported in *Pensions Age*’s sister title, *FSTech*, in April, research by Citi predicts the metaverse could be worth between $8-13 trillion by 2030 and total metaverse users could number around five billion by the same year.

J.P. Morgan’s report, *Opportunities in the metaverse*, published in February, notes that every year $54 billion is spent on virtual goods, “almost double the amount spent buying music” and that approximately 60 billion messages are sent daily on Roblox.

Hype about future digital worlds often comes and goes (eg in 2006 the emergence of online world Second Life generated buzz that we would all soon be living virtual lives on it but as of yet failed to become the mass market product predicted). But now it seems that technology and user behaviour may be converging to make it the right time for these claims to come true.

“You could argue that the metaverse already has penetrated our society with the advent of many contacts being digital (meetings being done via Zoom or Teams, customer relations with companies moving online and being handled for a big part by bots/automation instead of by a physical person in a call centre or in a shop, and more purchases being done online),” Dutch pension fund APG’s communications industry investor, Henny Crauwels, states.

“If you consider this combination of current online interactions and the advent of social shopping as a follow up and next step on the trend to purchase items and services online then the metaverse is already huge.”

Pension industry opportunities

If in the foreseeable future we are about to live in ‘a whole new world, a new fantastic point of view’ (to quote Disney’s Aladdin), what role/s will the pensions sector have within it?

Key would be the opportunity to

Summary

- The metaverse is an online world where people can interact virtually. It is expected to develop from the gaming market to all areas of people’s lives.
- The pensions industry would be able to use the metaverse to engage and communicate with savers more easily.
- However, the technology, time and cost requirements may be a barrier to the pensions sector joining the metaverse.
- While it may be too soon for pension schemes to attempt to join the metaverse, in the near future it may be required to engage with members in this way.

engage with retirement savers.

AI platform Abaka founder and CEO, Fahd Rachidy, notes that changing working patterns since the pandemic, with more people working from home or hybrid working, means the metaverse could help employers or pension providers communicate and engage with pension savers, providing the information they need "in a more entertaining way".

Ease of access is another benefit it may provide. For instance, pension providers could open 'shops' in the metaverse for people to simply 'walk in' via their avatar "and have that meeting online", as well as hosting events such as seminars there, he adds.

Quietroom development lead, Joe Craig, agrees that the metaverse is a "more vivid way of connecting with people" with the potential "to bring pensions to life in a way we've never been able to before".

"It could make the face-to-face experience possible, without having to actually be face to face", Craig says, by "cutting through people's wariness around using an IFA, and removing the laborious, worrying, gated process, all the way from googling without knowing who to trust, booking an appointment, having to turn up in person and sorting through all your paperwork".

PwC Luxembourg partner and global AWM market research centre leader, Dariush Yazdani, also feels that the metaverse could help educate savers in a way that is "far more appealing than conventional communication channels such as traditional educational strategies".

"In other words, the metaverse represents an opportunity for pension funds to engage with younger retirees in a more casual and interactive fashion – one that takes into account that these retirees are, unlike their parents and grandparents, true digital natives. This engagement can potentially translate into increased engagement and asset retention, ultimately serving to alleviate the heightened pressure global pension systems have become subject to in recent years," Yazdani says.

The metaverse could also tap into people's interest with cryptocurrencies such as Bitcoin, as cryptocurrencies are used to 'purchase' items in the metaverse, so in the future people may even invest retirement savings and/or 'retire' in the metaverse, Rachidy suggests.

The cost of engaging and educating people through the use of digital technology is often at scale and at a lower cost than through other means, "meaning you can open it up to more people and invest further in other aspects like excellent customer service, better tools to help people understand their savings, and

The development of the metaverse

"The metaverse is a seamless convergence of our physical and digital lives, creating a unified, virtual community where we can work, play, relax, transact and socialise, via many virtual worlds", J.P. Morgan states in its report, *Opportunities in the metaverse.*

However, PWC's *2022 US Business and Consumer Metaverse Survey* notes that it is important to keep in mind that this 'ultimate' version of the metaverse (fully immersive, with seamless and secure transitions among a multitude of metaverse environments) doesn't exist yet.

The actual word 'metaverse' was first coined in 1992 by science fiction writer Neal Stevenson, who used the term to refer to the 3D virtual world in his novel *Snow Crash*, Goldman Sachs writes in August 2022.

"The current metaverse can be likened to the internet in the 1970s and 1980s, when it represented the first form of enhanced digital communication via desktop computing," it adds.

This read-only format of the internet was known as Web 1.0, while the rise of mobile computing evolved the internet to Web 2.0, which is currently in its mid- to late-stages. Web 2.0 allows for anyone to create and share information online, such as app development and social networking sites, Goldman Sachs explains.

The metaverse represents a move to Web 3.0, which relies in interconnectivity without the need for a centralised intermediary. While Web 3.0 is still in the nascent stages, Goldman Sachs says, "we are starting to see more engagement as content can be accessed at the convergence of virtual 3D and physical experiences".

The concept of a metaverse is not a new one, J.P. Morgan's report notes.

"Online, multi-player, role-playing worlds like The Sims or Second Life have been around for nearly 20 years, with players spending an average of 20 hours per week in these worlds. Modern equivalents like Minecraft, World of Warcraft and Fortnite have hundreds of millions of users, and huge supporting economies," it states.

"A number of new technologies have come together to enable this vision of the metaverse. Augmented reality and virtual reality headsets have become cheaper and more powerful, improving the user experience. Blockchain has enabled digital currencies and NFTs.

"The new methods to transact and own digital goods are allowing creators to monetise their activities through tokens, with token-holders also able to participate in the platform's governance (eg vote on decisions). This democratic ownership economy coupled with the possibility of interoperability, could unlock immense economic opportunities, whereby digital goods and services are no longer captive to a singular gaming platform or brand.

"Meanwhile, Covid-19 accelerated the digitisation of our lives and normalised more persistent and multi-purpose online engagement and communication. It is this combination of technological, social and economic drivers that is resulting in the explosive interest in the metaverse."

extended service through allowing them to connect with their pensions in real time, from anywhere", Smart platform director, Martin Freeman, says.

Helping people to connect with an alternative or future reality (on any technology, eg augmented reality, gaming) certainly helps to humanise the hard reality of facts and figures by enabling people to 'live' an experience, instead of just hearing or being warned about it, WTW pensions communication expert, Lou Harris, says.

"Especially for scheme members, the metaverse could enable them to engage with their pension funds in a more immersive way for example, to see how and where their savings are being invested, and experience how those investments are having a positive impact on the issues they care about. It could also help members to better visualise their financial decisions by providing them with the opportunity to see all the potential outcomes played out in virtual scenarios," she adds.

While Craig suggests that some schemes would try to show members what their future life will look like with the pension pot they have, "that's not what members want, it's not what they need and it won't change what they do".

"I don't think that's the best way to use the metaverse," he states. "First of all, too few providers can bring together all of a member's pots and other sources of income to show them an accurate future life – they'll miss all kinds of things, like pots with other providers or employers, or income from a partner's pension. Second, though picturing your own future is notoriously difficult, it's not the main problem. What stops people paying in more are their other financial priorities and concerns. Saving up for a house. Paying off debt. Paying their bills. We can't stumble into the metaverse as blinkered as we are now."

Instead, the best use of virtual environments is to bring communities together, he says.

"That could mean members of a single pension scheme looking to their peers for support or to answer questions. Members do a lot of this already, whether it's on Twitter or in Facebook groups. If the metaverse enables gatherings that are effectively just more vivid Facebook groups then schemes and employers will have to be even more careful to support those groups with accurate information. Vacuums create problems."

"The metaverse could help employers or pension providers communicate and engage with pension savers, providing the information they need in a more entertaining way"

Barriers

This commitment needed for ongoing management (and the associated costs) could well be a problem for pension schemes engaging in the metaverse.

"Once you go live with it you need to commit to it and develop it, which involves creating compelling content. This might include web-text content, films, games, and following other social media trends, which pension schemes either do not have funds for or do not yet see the benefit outweighing the cost," Harris says.

"There's also the current, very controlled, review and sign-off process often involved when creating content for pension scheme members, which takes time, whereas social channels, like the metaverse, are more spontaneous and founded in the moment."

Many pension providers do not get the basics right when it comes to technology, Freeman adds, so "jumping from a legacy tech position directly to trying to launch in the metaverse would, I suspect for many, be a gimmick, and therefore essentially a cost that they would have to pass on to members without providing real benefit".

According to Freeman, for a pension provider, the difficult elements would be the technology side of presenting personalised, up-to-date information to many people in a virtual environment.

"In order to achieve that they would need to have excellent record quality, real-time information, great cybersecurity credentials, and a technology stack capable of delivering that in any environment. Those are all big barriers for providers based on legacy technology. If, on the other hand, they are using a cloud-based, API-driven platform, this all becomes a little simpler," Freeman says.

The risks of cybercrime, such as scams, biometric hacking and 'identity' or 'avatar' theft are "also very real and will need to be addressed", Harris adds.

However, Craig is optimistic that it should be easier to have better, smoother, security in the metaverse than outside it, as the metaverse, or devices to access it, will be able to read biometric information to instantly verify the user.

Awareness

Another potential barrier is the pensions industry's traditional reluctance to be a 'first mover' into new technology.

The finance sector more broadly has started to make its first steps into the metaverse. For instance, in February J.P. Morgan was the first bank to enter the metaverse, opening its Onyx lounge in online world, Decentraland.

"The asymmetrical risk of being left behind is worth the incremental investment needed to get started and to explore this new digital landscape for yourself," J.P. Morgan commented at the time of launch.

Around the same time, both HSBC and PwC Hong Kong bought virtual plots in the online world, The Sandbox.

Yazdani says its believe that most

pension industry players are aware of the benefits of joining the metaverse but only a small number of players are actively (considering) embracing this opportunity. “This, however, means that there might be significant first mover advantage for players that decide to join the metaverse in the near future.”

Craig predicts that a master trust will likely be the first mover within the pensions sector into the metaverse “to stand out from the competition and prove it can capture a new audience. For anybody smaller, it would be a risky allocation of resources at this point. But

Investing in the metaverse

The metaverse is expected to generate $5 trillion in economic opportunities by 2030, with a compound annual growth rate of 44 per cent, Neuberger Berman portfolio manager and head of thematic Asia, YT Boon, states.

Meanwhile, McKinsey & Company’s June 22 report, *Value creation in the metaverse,* finds that more than $120 billion was invested in the metaverse in the first five months of 2022, more than double the $57 billion invested in all of 2021.

Its report finds that 95 per cent of business leaders expect the metaverse to have a positive impact on their industry within five to 10 years, and 61 per cent expect it to moderately change the way their industry operates.

According to McKinsey’s report, multiple factors are driving investor enthusiasm, including ongoing technological advances across the infrastructure required to run the metaverse; demographic tailwinds; increasingly consumer-led brand marketing and engagement; and increasing marketplace readiness as users explore today’s early version of the metaverse largely driven by gaming, with applications emerging that span socialising, fitness, commerce, virtual learning, and others.

Boon highlights three opportunities for investors in the metaverse. These are ‘the virtual world’ – investing in companies developing the software to gamify almost everything by creating immersive, interactive online spaces, ‘infrastructure’ – investing in companies providing cloud space and computing power to carry massive amounts of data and connect multiple devices, and finally, ‘the physical gateway’ – firms building specialist wearable hardware and components to connect to these virtual worlds.

As the universe of companies involved in the metaverse is spread across geographies, sectors and market capitalisation, meaning many of these companies are not found in traditional or mainstream equity benchmarks, pension fund investors could benefit *[from investing in the metaverse]* through the diversification of their equity portfolios and gaining exposure to an important, secular growth theme, Boon states.

“In addition, the evolution of the metaverse is expected to take place over the next decade and beyond, so this is an investment opportunity that is aligned with the long-term nature of pension fund liabilities,” Boon adds.

According to Boon, an allocation to a metaverse strategy can be incorporated into a pension fund portfolio in a number of different ways, from satellite investments offering alpha exposure alongside a core portfolio, to replacing a portion of an investor’s cross-sector global equity exposure.

While APG communications industry investor, Henny Crauwels, agrees that the metaverse will impact society in seven to 10 years, he states that the “metaverse requires big investments and the returns are still uncertain”.

“Sceptics would argue that the metaverse is defined by and overly exposed to the volatile and high-risk worlds of cryptocurrencies and NFTs (non-fungible tokens),” Boon says.

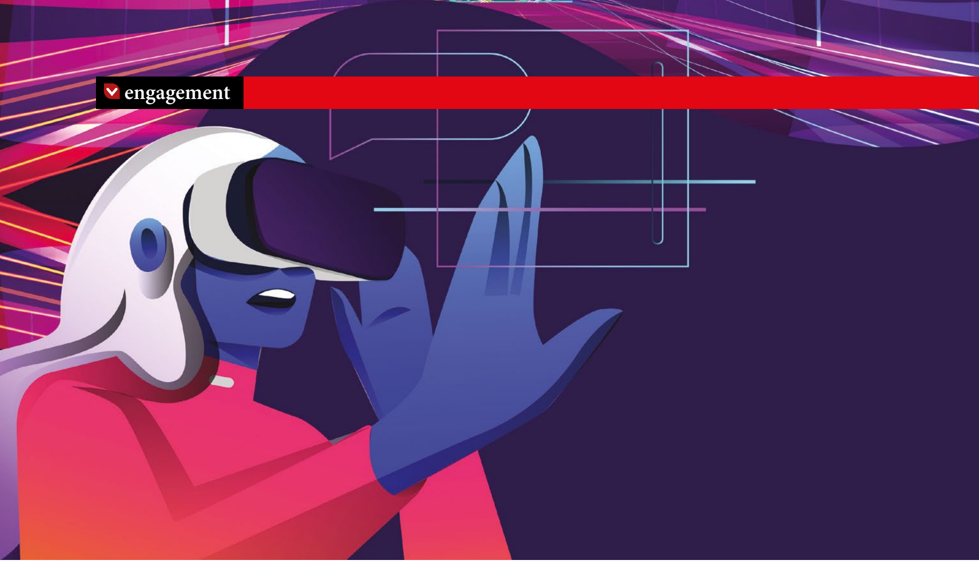
“Some commentators also sight the infancy of the metaverse as good reason to be cautious. The truth here is that we are still near the beginning of the journey, but this is a rapidly evolving ecosystem with notable activity (including rising corporate investment) that is accelerating the development of the metaverse. The nascency of this long-term theme also means that there is an opportunity to capture strong potential returns by identifying the opportunity early and investing in the early movers,” Boon adds.

To invest, Boon suggests that investors can access the metaverse theme via a number of different routes including active funds, ETFs and venture capital.

According to Van Lanschot Kempen head of client solutions UK, Nikesh Patel, the metaverse is a very specific and early-stage theme to focus on for pension fund investors. “To the extent that such investors believe they can invest in the meta-builders, they are either already doing it without realising it or would not have the capabilities to truly do it... Most pension funds are already significantly exposed to the metaverse, blurred through the lens of Big Tech.”

Companies such as Microsoft and Facebook will likely be among their largest equity holdings, Patel adds, along with those providing cloud computing capacity that the metaverse will rely on, the telecommunications companies that will be needed to deliver the increase in high-speed bandwidth to make an unlimited number of virtual worlds possible, and the banks and payment processors, as well as the blockchain and NFT architects, that will enable real world to virtual world transactions to have value.

“Hence,” says Patel, “to the extent a pension fund wishes to say they invest in the metaverse, they already can.”



give it a few years".

APG's Growth Factory, which focuses on innovations around the needs of participants, employers and pension funds, noted in February 2022 that the metaverse is "still a concept, but one that can completely revolutionise our interaction with our fund clients' participants".

"After all, if a participant or company wants to approach us through Metaverse, we must adapt our services accordingly so that we can also serve them in that world. It is therefore definitely something we are keeping an eye on," its head, Anne-Marie Le Doux, said.

Joining up

Any pension scheme with a well-engineered API-driven platform could launch in the metaverse quite quickly, Freeman says.

Yazdani states that the first step would be to define a clear strategy, such as what does your organisation want to achieve by entering the metaverse? Which type of clients will the metaverse experience be targeted towards? How is this going to be beneficial for your organisation and your current/prospective members? How will this complement your organisations' existing online/offline communications?

"Once this strategy is defined, the next step is to acquire/develop the right skillset and to proceed with the technicalities (buying space, adapting it accordingly, etc). Then it's time to deploy your strategy – ensuring that operational aspects such as response time, opening hours, service catalogue, etc are all in place," Yazdani says.

"With any new leap forward in technology, starting small to test the water is a good position and making sure that the reasons for doing so are clear and strategic," Harris suggests.

"Adding just another communication channel without it fitting into a wider strategy would not create success. So some upfront insights and testing prototypes to help inform strategy would be some first steps. Looping in the target audience, particularly those under age 25 would be sensible, as they've grown up with similar gaming, augmented reality and virtual reality experiences, such as Minecraft and Fortnite," she adds.

Administrators, communication professionals and digital specialists would then need to work together to integrate and present a 'joined up' experience. "For example, if a web chat feature is available, or WhatsApp chat, as well as email and telephone, then metaverse in the future may need to join the party in a way that's seamless," Harris explains.

Future

While Freeman states that he does not believe it's currently right for pension schemes to enter the metaverse, Harris states that keeping pace with technology is always going to be important for any future engagement strategy.

"It can't be ignored because the future generations will be early adopters and will come to expect service providers to adapt to their needs. So, ignoring it will, over (a long) time 'lose' members in your engagement efforts," she says. "The metaverse may feel like a far-off fantasy, yet, it could completely revolutionise member engagement and participation in the future."

Craig agrees that if members are in the metaverse then the pensions sector should be too as it is "much better to go where members are already than to create your own content hub or portal, usually at great expense, that nobody uses".

They are not there yet though. PwC's *2022 US Business and Consumer Metaverse Survey* finds that only 9 per cent of consumers say they currently use any of the existing *[metaverse]* environments. However, 50 per cent of consumers call the metaverse exciting, with 53 per cent saying they want to use the metaverse to interact with customer service agents, and 52 per cent to attend courses/training, it finds.

So, with this enthusiasm, members may be in the metaverse soon enough.

Yazdani gives the example of Facebook. "Ten to 15 years ago, only a very limited number of companies used this social media to engage with clients and showcase their products/services. Today, you would struggle to find a single company that does not do so.

"This is because, as Facebook's user base exploded, companies understood that a lack of social media presence would put them at a significant disadvantage given the sheer number of potential clients present on the platform. We believe that a similar trend will soon emerge with regards to the metaverse."

Harris agrees, comparing it to the internet. "When it landed it was a novelty, a tool only for exclusive and limited use by a few. Now it is the leading method of communication. It's hard to say regarding the metaverse as it is so early, but technology leaps of five years are not uncommon, so perhaps within the next five years we'll see some schemes embracing the metaverse. We will blink and we'll all be using it."

Written by Laura Blows

Two sides of the value for money coin

Sophie Smith takes a closer look at how the Universities Superannuation Scheme measures up against the competition following its recent value for money report

The Universities Superannuation Scheme (USS) is one of the UK's largest pension schemes, and one if its most well-known pension schemes, having been involved in a number of high-profile disputes in the higher education sector over recent years.

These tensions stemmed from recent changes to the scheme, intended to help avoid introducing "unaffordable" employer and employee pension contributions, after the 2020 scheme valuation found that scheme's deficit on a technical provisions basis ranged from £14.9 billion to £17.9 billion.

While there have since been improvements in the scheme's funding level, USS CFO, Dominic Gibb acknowledges that there have been "problematic valuations" in recent years, with the scheme also facing legal challenges from members who raised concerns around areas such as the scheme's approach as an asset owner, and whether it had spent too much money in running the scheme.

However, the USS trustee was keen not to shy away from these challenges, as Gibb agrees that the scheme "should be held accountable" by its members.

To help provide members with the full facts and allow them to make an informed judgement on the scheme, the USS set to work on a report to show the "two sides of value for money".

Showing another perspective

"We thought it would be useful to try and put out some facts and a deeper dive into how much it costs us to run the scheme, and to think about it from a value for money perspective, rather than just an absolute cost view," says Gibb. "You've got to look at what is in the members best interest; can you come up with a balance where you can add value and manage the solvency of the returns of the scheme, whilst also managing the cost base."

Gibb explains that the report also looks to take members through the thought process behind recent trustee decisions, clarifying that whilst members may not agree with the approach, they can at least understand the logic.

At a headline level, the report showed that the USS made £27.5 billion in investment returns for its DB fund over the past five years, while around £2.3 billion of its returns were value added by

its in-house investment team's decisions, net of costs. Independent analysis shows that costs in that time period were around £384 million lower than similar schemes.

The scheme was also able to introduce private market assets to its DC funds without charging members management fees.

Indeed, Gibb says that the USS is "much cheaper" in terms of investment, explaining that if pension schemes want to consider private market invest, or even active public market investing, using a third party at a certain size can be expensive.

"You've got the clout, and you can bargain with them, but private markets don't budge much on price, so it just ends up really expensive," he explains. "Doing it yourself, if you've got the capability, means you can tailor what you do to suit the needs of your scheme, and you can do it cheaper. That's a really important advantage that smaller schemes don't have."

Trusting trustees

"My biggest message to members is just to trust me. The people that work here care really deeply about the scheme. The vast majority are members of it, they joined because they think it has a social purpose as well as being an interesting job. It's really tough to see that people are unhappy with what we're doing, but everybody here is working their very hardest to try and serve members. We know that some people are dissatisfied with the outcomes of valuations or the changes that have happened, but it can be really hard to end up with the best possible outcome for members within the regulatory construct we're governed by. We are working hard and we really do care that members have a secure retirement."

USS CFO Dominic Gibb

Taking ownership

The benefits can also be more widespread, as Gibb says that this internal management has allowed the scheme to be quick to react to recent market conditions.

"At scale, you can create teams of genuine experts and that gives you an advantage over somebody that's forced to use third parties," he explains, continuing: "Market conditions recently have been really unprecedented, and although scheme solvency has got better, it's taken a lot of really active management because the market has been very volatile. Having a team of experts internally means that we can control liquidity; we can be very nimble and quick to react."

Gibb suggests that being a direct asset owner also allows for more direct engagement on key issues such as climate change, arguing that having control of its own assets give the scheme more ability to fulfil its net-zero commitment.

He explains: "We just moved a large portion of our liquid market equities into a passive investment that tracks an index which is 20 per cent below the overall average carbon emission in the market, so that immediately has a positive impact on the emissions of our investments.

"Where we actively invest, we are also able to directly influence investee companies as well, as we're able to vote on our stock, and we can influence in the private market space as we have seats on the board of a lot of businesses."

The scheme is keen to acknowledge the areas that have been more challenging too, as USS's value for money report found that the scheme was more expensive on the pension admin side. However, Gibb explains that while the investment process can benefit from economies of scale, this is much more difficult to achieve in terms of administration.

Striking a balance

Gibb also emphasises that some costs represent an investment in the scheme, with particular investments having been made into its governance and valuation process, and the front end that members interact with. "We've completely rebuilt all of our online functionality in order to be able to give members online access, e.g. to be able to let people receive annual statements electronically," he says.

In addition to this, Gibb points out that technology can represent a significant cost, explaining that the benefit changes to the scheme over time have made ensuring member statements are accurate a costly technological challenge.

"It's things like that where the trustee has to make a decision about how much to invest in the scheme," he says, stressing that despite the cost, this type of exercise can be very valuable to member experience, ensuring retirees experience a more seamless transition into retirement.

Written by Sophie Smith

Investment strategies for uncertain markets: *Geopolitical tensions and economic uncertainty are threatening market stability, yet many investors remain unprepared for the challenging times ahead. Private markets and private debt offer an attractive alternative for pension funds and institutional investors in general* ***p70***

Private debt - a source of diversification: *Private debt as an asset class remains an important part of portfolios, despite the government-induced liquidity crisis. Georgie Lee explores* ***p72***

Private markets focus:

Providing diversification

BNP Paribas Asset Management head of investment specialists, private debt and real assets, Timothy Li

Investment strategies for uncertain markets

Geopolitical tensions and economic uncertainty are threatening market stability, yet many investors remain unprepared for the challenging times ahead. Private markets and private debt offer an attractive alternative for pension funds and institutional investors in general

The uncertain political and economic climate is creating challenges for many investors.

The war in Ukraine and subsequent international sanctions against Russia, renewed tensions between the US and China, the rise of widespread protectionist trade policies, the Covid-19 pandemic and Brexit have all contributed to inflationary pressures.

Forecasters initially saw this as a temporary situation. But there are now concerns that inflation is entrenched and risks are becoming structural.

A more inflationary environment could cause central banks to increase interest rates faster and further than previously expected, which in turn could lead to a period of below-trend or negative growth in the UK and many other regions.

This obviously presents a serious challenge for investors. Despite equity and bond markets showing volatility over the past 12 months, they do not yet seem to be reflecting these more negative long-term outcomes.

The consensus estimate for equity markets in the US, for example, is year-over-year earnings growth of 9 per cent next year. But a recession could see double-digit declines. Recession risks from rising policy rates are lower in the eurozone, but this region still faces significant economic threats, not least the prospect of Russia cutting off gas exports this winter.

Investors need to look carefully at these longer-term inflationary pressures across different markets when managing the risk-reward profile of portfolios. Alpha returns may be harder to deliver in an economic slowdown, but with diversification into less liquid assets there is still the potential to deliver market-beating returns in this more challenging environment.

Bleak economic forecasts for the US and eurozone

Inflationary pressures are affecting both fixed income and equity markets in the US and eurozone.

The US is experiencing the greatest imbalance between labour demand and supply since the 1970s. The US Federal Reserve's strategy has been to raise rates to weaken demand and remove these excess jobs without driving up unemployment figures. However, the Fed acknowledges that the desired 'soft landing' will be difficult to engineer.

Interest rates are likely to continue to rise until there is clearer evidence that inflation is starting to come under control. We predict that the central bank rate will stand at 4 per cent by the end of 2022, which is higher than market pricing at present.

Additional hikes in 2023 are possible, depending on whether inflation is softening and growth emerging in the US and other major economies. This will have an impact on US fixed-interest market yields, and the prospect of higher rates choking off economic growth and potentially causing recession is likely to cause further volatility in equity markets.

In the eurozone, energy remains the main focus, with concerns that a 10 per cent cut in gas supply from Russia could reduce growth by 0.7 per cent. A total shutdown of Russian gas imports could lead to a severe recession, with high inflation the inevitable outcome.

The risks around eurozone core inflation are more mixed than in the US. Momentum in non-energy industrial goods inflation has slowed somewhat as Covid restrictions in Asia have eased. Business inventories have started to build while consumer demand slows.

However, services inflation will remain high in the near term and labour shortages due to pandemic disruptions are continuing to boost wages. This could fuel further inflation if wage settlements are tied to cost-of-living adjustments.

The European Central Bank's recent upward adjustments to inflation forecasts still look far too optimistic when compared to the recent price increases. The bank will therefore likely have to revise its projections in September, which means the outlook for interest rates in the eurozone remains highly uncertain.

We believe inflation is unlikely to turn around anytime soon in this region. It expects headline inflation to peak in September at around 9 per cent, with risks remaining on the upside.

Diversification into private markets

Higher inflation, raised interest rates and slower growth will impact both fixed income and equity markets in the US and eurozone. This may prompt many institutional investors to consider diversification strategies that embrace other asset classes, including private markets and private debt. Those who already have exposure may want to look at increasing or broadening their allocation to this asset class.

Private market and private debt investments offer obvious attractions in terms of diversification. Returns are less correlated to equity/bond holdings and they enjoy a premium for being less liquid investments. As defensive, non-cyclical income streams, they are resilient even in slowing economies and are an effective way to enhance the risk/return profile of a portfolio, even against a challenging economic backdrop.

Institutional investors have a broad range of strategies to choose from within this asset class, including infrastructure debt, SME lending, real-estate debt and credit risk sharing.

Within each is the potential for further diversification in terms of geographic and currency exposure, alongside options on the capital spectrum – be they duration, fixed and floating rate options, or senior, mezzanine and junior debt.

Many of these strategies are well positioned to deliver growth across both the medium and long term. One important area of growth is likely to come from the switch towards a greener, lower-carbon economy as economies, governments and companies strive to reach net-zero targets.

The current state of political instability is likely to accelerate this trend. While there may be short-term boosts to domestic fossil fuel production in both the US and the eurozone, this is likely to be accompanied by increased investment into renewable-energy infrastructure and storage options.

This is a growth area, with a number of funding opportunities for private debt and private market asset managers and their institutional investors. As well as presenting exciting investment opportunities, private debt investments have attractive ESG characteristics.

BNP Paribas Asset Management has built up considerable expertise in private market and private debt investments, with specialist teams working across these different strategies. The range of investment options on offer at different risk and return levels are all viewed through an ESG lens.

Global tensions continue to present a challenging backdrop for investors, with higher inflation and slower growth creating a less benign economic reality. For those looking to the medium to long term, there may be a need for greater diversification and exposure to assets that offer more defensive qualities alongside attractive risk/return profiles.

Private markets and private debt investments are an attractive option for investors looking for some safety as well as returns during a changing economic climate.

Written by BNP Paribas Asset Management head of investment specialists, private debt and real assets, Timothy Li

In association with BNP PARIBAS ASSET MANAGEMENT

Summary

- Pension funds require less liquidity across entire portfolios, meaning they can benefit from illiquidity premiums and higher yields.
- Private debt offers a diversifier and reduces overall credit risk.
- Misconceptions persist with regards to private debt's risk-return profile.
- Although illiquid, private debt can play a long-term role in a portfolio that is de-risking due to its contractual, fixed-term nature.
- Transparency remains an issue.

Private debt - a source of diversification

Private debt as an asset class remains an important part of portfolios, despite the government-induced liquidity crisis. Georgie Lee explores

Private debt has several attractive features that make it a suitable investment for pension funds. After banks stepped back from the space following the global financial crisis, access to the asset class opened up to institutional investors, and the market has grown exceptionally ever since, with Preqin recently estimating that private debt assets under management will grow at a compound annual growth rate of 10.8 per cent between 2021 and 2027, and reach an all-time high of $2.25 trillion in 2027.

As investors started to look further afield for required income after the crash, private debt assets emerged to meet the demand.

This growth has, in part, been driven by how well it lends itself to pension schemes' investment approach. As long-term savings, pension funds require less liquidity. This means they can benefit from illiquidity premiums and higher yields.

They are also often well-positioned to absorb illiquidity risk, although premiums will be useless to those funds further along their buyout journey plans.

Experts agree that a key attraction of private debt is diversification, which in-turn reduces overall credit risk. It also has relatively low correlation with traditional growth assets resulting in risk reduction benefits.

Misconceptions

According to Hymans Robertson senior investment research consultant, Penny Cochrane, a common misconception about the asset class among investors and trustees is the degree to which fund extension risk can delay returns back to investors. "Given many of the first vintages of funds are only now approaching maturity, and extensions being considered and implemented, actual experience is only building in this area," she says.

Cochrane points out, however, that private corporate debt, or 'direct lending', is now a fairly well-established asset for defined benefit pension scheme investors.

Nevertheless, Mercer European head of private debt, Joe Abrams, cautions that investors and trustees have yet to grasp the risk and return profile.

"What we find is that if you select the right asset manager and build your portfolio appropriately, the overall level of risk is at least no higher than other forms of liquid sub-investment grade credit, with a material yield pick-up," he says.

Within the private debt universe, direct lending is the largest strategy, according to the Preqin report, with its floating rates appealing to investors. Preqin forecasts direct lending AUM to hit $1.22 trillion in the next five years – more than double the 2021 figure. Its share of AUM will increase, as it continues to outpace the growth of the broader asset class, according to the report.

Private debt is not limited to direct lending, however. "The world of private debt is now very heterogeneous, with

different geographies and focus on different parts of the capital structure, as well as other sub-asset classes such as structured credit and specialty finance, which are themselves very diverse with different risk and return profiles," says Abrams, adding that the overall market for private debt is now comparable in size to the syndicated loans universe.

Benefits

Crucially, private debt provides investors with access to a broader range of companies beyond public markets. Direct corporate lending, for example, targets firms that are typically too small to access traditional capital markets, or those that require more complex financing solutions.

"Private market debt filled the need that many pension schemes had to continue to generate a return greater than corporate bonds but in a lower risk way than investing in equities," says Cochrane.

"Private market debt provided a solution to this need as it offered more attractive returns than publicly traded corporate bonds. It provided alternative sources of return, hence spreading risk, and provided a more stable source of return due to the floating rate plus a margin return target."

Returns on private market debt are typically floating rate, plus a fixed margin, Cochrane explains, which helps protect pension funds from any erosion of the real value of returns in a rising rate environment.

Investment is typically fixed term, with a pre-defined investment period and a relatively predictable run-off profile. This is attractive for maturing defined benefit schemes with a pressing need for cashflow to pay members' benefits.

According to BNP Paribas Asset Management, while private markets cover a broad spectrum of investment options (equity, infrastructure, real estate), debt has been the most consistent performer over the past decade, increasing fundraising every year since 2011.

A spokesperson tells *Pensions Age*: "For investors that can afford to lock their money away for longer periods of time, private debt has been trumping traditional fixed-rate income and government bond yields ever since. To date, this higher yield has not come with any significantly higher corresponding losses in terms of default.

"When interest rates fell to historical lows, this attractive risk-return profile became even more so. For institutional pension schemes looking to match long-term liabilities with secure income streams, it has become a key building block in an allocation strategy that rotates private debt with other fixed-income assets."

XPS Pensions Group head of credit research, Steven Hickey, explains that while illiquid growth assets have an increasingly limited role in pension scheme portfolios, as most schemes are on a de-risking path and are reducing exposure to growth assets, private debt is in a "fairly unique position" because "although illiquid, it can play a long-term role within a portfolio that is de-risking due to its contractual, fixed-term nature," he says.

Concern points

As with any private market segment, transparency is often cited as an issue for investors, with the market remaining fairly opaque due the absence of public reporting on performance. And closed-end funds also come with blind-pool risk, highlights Cochrane.

"There is no sight on investments that will be made during the fund life at the time of commitment as opposed to open-ended funds where investors have sight on assets in the portfolio at the point of investment," she says.

Private debt managers are also generally behind the market in terms of reporting on ESG and climate metrics in their portfolios, which is a challenge for pension funds that require such information for their own reporting obligations.

Emerging trends

With a growing number of funds coming to market and investing across multiple types of private debt assets, pension funds can now obtain wide exposure to the private debt asset universe in a way that is efficient from a governance perspective.

"The wall of capital directed into the space over the last few years and the growth in the number of firms offering private debt funds has meant that competition for deals is often high, and this has subsequently led to a loosening of standards overall," says Hickey. "It's important to have a manager that maintains discipline, does not reach for yield and is willing to walk away from a deal if the price doesn't reflect the risk being taken."

The Society of Pension Professionals chair, Natalie Winterfrost, acknowledges it is difficult to discuss private debt amid the liquidity crisis that has played out of late.

"As pension values, and the associated liabilities, plummeted on gilt yield rises, illiquid holdings have become an ever-large part of shrinking portfolios," says Winterfrost. "Pension schemes have used their public market assets to meet their collateral calls and now have to rebalance and restore more liquidity by managing sales of private market assets."

So, it remains to be seen whether allocations to illiquid assets fall in the months ahead.

Written by Georgie Lee, a freelance journalist

In association with

BNP PARIBAS ASSET MANAGEMENT

Escaping the echo chamber

Summary
• Individuals are increasingly turning to social media for support and advice on financial issues, with an increasing number of financial influencers, or 'finfluencers', emerging.
• Scammers and illegitimate players will be ready to step into this vacuum if the financial services industry doesn't rise to the challenge; increasing the presence of legitimate businesses can help combat misinformation.
• Celebrities and influencers could represent a valuable engagement tool for pension firms, but there are risks that businesses should consider when selecting who to partner with.

With social media's influence on financial planning growing, Sophie Smith considers how the pensions industry can use the growing trend of finfluencers to its advantage and combat the spread of misinformation

Savers, particularly younger savers, are increasingly turning to social media over traditional websites, with TikTok beating out search engine Google for the most-visited website in 2021. In fact, Google senior vice president, Prabhakar Raghavan, who runs Google's Knowledge & Information organisation, also previously revealed that around 40 per cent of young people don't go to Google Maps or Google search when looking for a lunch spot, instead turning to TikTok or Instagram.

Financial issues are no exception to the rule, with #Fintok receiving 1.9 billion views, while even #pensions has 8.4 million views, and #pensionsUK has around 508,000.

"We are increasingly seeing other financial institutions such as banks go where their younger customers are," says Make My Money Matter digital campaign manager, Tiphaine Marie-Pittet, arguing that "there's no reason why the pensions sector, with arguably the biggest impact on savers' lives, shouldn't do the same".

Yet, according to Quietroom development lead, Joe Craig, most pension schemes just don't seem to know what savers are talking about online, or want to face up to how much people rely on social media conversations to get support for their financial decisions.

"Schemes seem afraid to get involved with social media because of the extra admin burden of monitoring it constantly, and because the speed of communication means you can't get everything checked by the lawyers first," he explains.

But this has led to a vacuum of accurate information, filled with gossip, speculation, and misinformation. And this is particularly concerning, as despite fears around 'fake news' and misinformation, Craig says that people continue to trust what they hear from people like them, and "online, everyone can feel like you".

"They quickly become part of your circle, or because they're sharing something that seems helpful on a forum that feels familiar," he says, suggesting that while this can create a "huge opportunity" for pension schemes and providers, "it's also very dangerous if we leave it to the jackals, coyotes and bobcats of the wild west".

"Finfluencers (financial influencers) take that to the next level," Craig adds, stating that while some mean well, "what matters to them is clicks and eyeballs".

"They just need to get enough people to watch them, regardless of whether the information is accurate, relevant or helpful. But it's presented in a way that attracts attention or gets you thinking or even gets you scared about what's happening with your money."

This is echoed by Premier head of administration services, Girish Menezes, who says while it is unsurprising that savers are turning to social media and finfluencers, this can be dangerous, given the lack of financial education, experience or regulation that sits behind this advice.

Indeed, Pinsent Masons pensions partner, Tom Barton, agrees that there is scope for manipulation and even exploitation at the expense of consumers; "the fact that people are now apparently cooking chicken in cough syrup is evidence of that".

Aegon head of pensions, Kate Smith, suggests that the cost-of-living crisis is also leaving people at greater risk of being duped by unauthorised entities on social media, especially those promoting investment products with unrealistic returns that beat the price squeezes.

And while the pensions industry has previously struggled to strike the balance between supporting savers and avoid stepping over the advice/guidance boundary, this seems less of a concern for finfluencers; Barton points out that the risks around advice and financial promotion facing pension schemes on social media also apply to finfluencers, "they just may not take them quite so seriously".

"Being present on social media not only enables us to be current and innovative, but it means we can tap into and lead relevant conversations"

"The FCA has rules in place for firms in their communications and financial promotions, but there are still many unauthorised entities and influencers on social media with wide followings offering financial advice on retirement planning," Smith agrees.

Smith points out that the regulator is also becoming increasingly concerned about the use of social media influencers in retail investment and has recommended that companies take appropriate legal advice to understand their responsibilities prior to using influencers.

Greater regulation may not be the right approach, however, as influencer Dr Nikki Ramskill, of The Female Money Doctor, raises concerns that too much regulation could stifle legitimate finfluencers who are trying to share important and legitimate information.

"There is a fine balance to be had, but I don't know how regulation will work on social platforms that encourage freedom of speech and a "anything goes" approach," she says.

Giving savers more information may instead be key. Barton suggests that it seems more helpful if legitimate, highly regulated firms become the go-to place for information, as savers will have no choice but to turn to questionable sources if legitimate firms are absent from social media altogether.

This is echoed by Branded Content Marketing Association, global head of influencer marketing, Gordon Glenister, who says that pension firms are needed to "combat the false information and scams circulating on social media".

"The more legitimate information there is from pension providers etc. the better in my opinion!" he continues. "Of course steps need to be taken to make people are of legitimate accounts vs. impersonator ones, but the more information that is out there for people to learn from, the more likely it is that they will engage with the process."

Craig agrees, arguing that schemes should not be waiting for action from regulators. "You can't wait for a regulator to curb a finfluencer's activity," he emphasises. "Even if we took them offline completely this afternoon, you'd still leave a vacuum, which savers would fill themselves, because they're desperate for support, for advice, for someone to turn to, for any kind of clue about what people like them are doing about their money and their retirement."

There could also be an opportunity for the pensions industry to use the rise of finfluencers to its advantage, as Menezes, suggests that while pensions have a poor public reputation, it could be possible to borrow some of the "glamour" of celebrities and influencers.

"We would expect that most wealthy celebrities take advantage of the tax saving benefits of pensions, ISAs and other financial instruments," he points out. "Would it be possible to slip a pensions discussion into Love Island, Coronation Street and Made in Chelsea? Is it too much of a leap to encourage Tik Tok finfluencers to promote pensions, through coercion, legislation or financial reward?"

These tactics are already delivering results. The recent pension credit campaign from the Department for Work and Pensions, for instance, used a video with Strictly Come Dancing's Len Goodman, which has now been viewed over 1.3 million times. The results seem positive, as pension credit claims more than doubled during the Pension Credit Day of Action, with over 10,000 claims made during the week of 13 June, a 275 per cent year-on-year increase.

The MMMM campaign also worked with influencers to increase its reach, with 20 million people viewing the campaign's short films, educational posts and Instagram stories.

Perhaps most notable is the industry-wide Pension Attention campaign, which launched with the help of grime artist and TV cook, Big Zuu, a partnership which, according to campaign manager, Sarah Cordey, helped "to create talkability and encourage sharing with friends and networks".

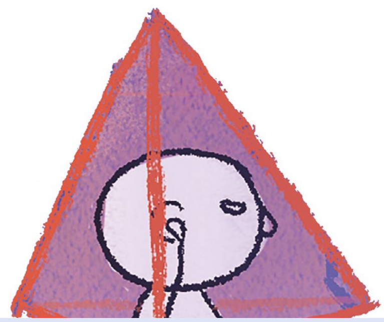
"Our challenge is to reach people who wouldn't generally choose to engage with pension communications so social media is a major consideration," Cordey explains. "Getting people's attention as they scroll through a busy feed or flick past lots of images does tend to mean pulling out something simple and headline-grabbing."

Association of British Insurers (ABI) senior digital campaigns officer, Rosie Trousdell, agrees that involving influencers in the campaign has "been a powerful and efficient method for the ABI to communicate complex subjects in a digestible way to a wider audience".

"Being present on social media and working with influencers not only enables us to be current and innovative, but it also means we can tap into and lead relevant conversations, driving key messages to a large number of people."

However, Trousdell stresses the need for brands to be diligent in their research and use trusted accounts, warning that there is lot of misinformation on social media, and little regulation around the information shared. "Working with reliable influencers helps combat this, ensuring that industry expertise reaches the right people and further strengthens a brand's reputation," she clarifies.

Written by Sophie Smith



Adapting to a 280 character limit

Simply transferring existing communications to social media isn't good enough. In fact, for most pension communications, it won't be an option, as Twitter caps posts at 280 characters. Instead, Quietroom development lead, Joe Craig, says schemes should talk members' language and listen to their concerns and questions.

Adding to this, Premier head of pensions administration, Girish Menezes, suggests that the greatest limitation is imagination and creativity, which "has never been a strong suit for any government or public sector organisation". "Perhaps if pensions were portable, so employees could request pension contributions to go into their own personal vehicle, in the same way as salary goes into an individual's bank account, this could encourage increased innovative public advertising," he continues.

Indeed, Make My Money Matter digital campaign manager, Tiphaine Marie-Pittet, says that institutions can be braver, within reason, in making use of social media, suggesting that this can be particularly useful in areas such as climate, where there is already public and media interest in holding institutions to account.

"In using plain English in their comms – and even experimenting with infographics or explainer videos that can help bring savers on board – pensions schemes can revolutionise how they engage with their members," she adds. "Through memes and humour, we've been able to cut through the typical rhetoric of pension communications, raise our campaign profile and increase awareness around the link between pensions and climate change by 85 per cent."

Craig clarifies that schemes don't have to use social media if it is too much of a leap for their admin and compliance processes. "But you do need to find out what people are saying, including the language they're using," he continues, "and use that to shape your communication strategy. Show that you're listening."

Summary
• The pensions annuity market has been decreasing since 2015 and appears to be levelling off recently.
• Drawdowns have increased in popularity since the introduction of pensions freedoms, but concerns have been raised about the future of the market.
• Flexible savings products have been proposed as a new default journey to allow savers to enter drawdown at retirement and change to an annuity at a later date.

Making the switch

With new retirement products increasingly under discussion, Tom Dunstan investigates the current at-retirement product landscape and the potential need for more flexible products

Whilst saving may take up the bulk of retirement planning, deciding what to do at retirement remains a key aspect of creating an adequate life for savers after they stop working. This can place savers under a lot of pressure at retirement as they struggle to make the right the choice to get the most out of their pension pot.

This is a relatively new problem for savers as, before 2015, all savers were compelled to buy an annuity by age 75, thus providing little pressure or doubt for them. This changed with the introduction of pensions freedoms in 2015, which provided savers with access to more choices at retirement, such as entering drawdown. This policy has proved a popular one with savers, as the number of new retirees entering drawdown hitting massive heights after the introduction of the act.

So, in this relatively new world of pensions freedom, what is the best way to help savers make the best decision in retirement and is there a way to marry the two retirement journeys of annuities and drawdowns?

Set for life

Before pensions freedoms, annuities were the only form of pension product available to savers and, despite having new competition since the introduction of the act, are still available and popular today. Annuities provide a guaranteed consistent income for life, which does provide stability for retirees, but can be less than the value of the retirement pot that they use to purchase it, especially if they die early.

Although annuities remain popular, they are not as popular as they used to be. The general trend in the annuity market has been down in recent years with the Pensions Policy Institute (PPI) senior policy researcher, Dr Mark Baker, identifying "two major dips" in the annuity market. Namely, the immediate reaction to freedom and choice and the Covid-19 pandemic.

Baker explains that the reaction to the introduction of pension freedoms was somewhat expected as "people suddenly got the option to access their pensions in a flexible way and many people saw it as getting a hold of their money". Baker also explains the dip following the pandemic, stating that a lot of saving products felt the squeeze during Covid-19, but that the annuities market didn't fall as much as other products as a result of the pandemic.

Whilst there may have been a decrease since 2015, recently this decrease has become more gradual, as seen in the PPI report, *Set for Life? Guaranteed incomes in retirement,* which says "the number of annuity purchases appear to be levelling off". The report details that: "After a period of decline, the annuities market appears to have levelled off, with a similar number of purchases having been made over recent years." Baker offers an explanation for this levelling off of annuity purchases "perhaps because it has reached its market".

The right timing for an annuity can vary from person to person, something that Age UK head of policy, Chris Brooks, identifies: "The right time to buy an annuity would differ on your personal financial circumstances".

LCP partner, Steve Webb, adds: "Getting an annuity at 60 or 65 years old may not be the best thing to do as it is possible savers could live for another 25 years and, therefore, locking in something that's no risk, low return may not be the best idea."

Webb also discusses the benefits of annuities, saying "by the time you are 80, an annuity starts to look quite attractive as it can be difficult to manage your money if you don't know how long you're going to live for."

Continuing the accumulation

However, annuities are now only one side of the coin in the retirement market with drawdown making up the other, increasingly large side.

Drawdown allows pension pots to remain invested whilst retirees receive an income from it, allowing for pots to continue to increase in size even post retirement. Whilst there has been an increase in savers entering drawdown since 2015, there have been worries raised about this new form of retirement.

Brooks warns that "it could still be the case" that pensions freedoms could be due for some kind of "scandal" in the coming years as "with so many people in drawdown, if there was a significant dip in the market a lot of people could lose a lot of money".

Brooks also states that the relative youth of pensions freedoms and the sudden increase of savers who entered drawdown as a result could lead to unexpected outcomes: "The cohort of freedom choices adoptees are now in their early 70s so they're getting up to the point where people are more likely to be affected by cognitive decline or getting sicker," which might make it harder to manage their money.

Best of both worlds?

Due to the decreasing demand of annuities and the possible dangers of relying too heavily on drawdown, the market is starting to see the emergence of products that marry the two. One of these is a 'flex first, fix later' product, such as the one proposed by LCP.

This product allows savers to enter drawdown at retirement but automatically purchases an annuity for them at a pre-determined time in late retirement.

Webb discusses the benefit of the product, namely that it defeats the issues with drawdown: "You make the decision when you're, let's say, 65 which means inertia and cognitive decline aren't problems. Guidance also isn't a problem as you're more likely to access guidance at retirement rather than 15 years later."

Webb also identifies demand for a product of this nature: "We published our first paper on this before Christmas and we probably had more interest on that than anything else.

"The cohort of freedom choices adoptees are now in their early 70s so they're getting up to the point where people are more likely to be affected by cognitive decline or getting sicker"

"We've talked to insurers, master trusts, asset managers, financial advice networks and everybody is starting to talk about what post retirement looks like."

Although the 'flex first, fix later' product may have several points in its favour, there are some practical barriers in the way of its establishment in the UK market. Webb identifies one such barrier as a "regulatory one" that "falls between two stalls", as Webb explains: "TPR is dealing with all the master trusts and people who build up pension pots, then you have the FCA who regulate individual financial products."

Another barrier to the product is how to bring savers into it, as Webb asks if it could be offered on an opt in or opt out basis.

Webb points to a similar product that was used for the University of California pension scheme, which was based on an opt-out basis, although Webb stressed that this was "the legal advice in a very different legal system".

Webb remains optimistic that producing the product on an opt out basis is possible for the UK but is unsure whether legislative change would be necessary and acknowledges that trustees would like to check that.

The product used for the University of California pension scheme is not the only similar flexible product that exists in the world today. Baker identifies other foreign products that represent similar characteristics to the 'flex first, fix later' product, such as in Singapore, which compels savers to use some of their pension to purchase a guaranteed income at retirement which will kick in at the end of their lives.

Baker voices caution about the creation of a flexible pension product, believing it might not be as effective in the future: "It's too early to be prescriptive as creating a product now might mean it doesn't meet the needs of people in 20 years' time."

Therefore, as the annuities market continues to level off and potential problems with drawdown still a possibility, the flexible saving product could offer a happy middle ground between the two. Whilst its ability to become the "default" journey for future retirees remains to be seen, it does appear that the demand for the product exists in the market. It is also unclear how long it will be until flexible savings products will be available, but Webb hypothesises: "I think there is a likelihood that providers will come to the market with variations on these themes in the next 12 months."

Whilst the exact future of the flexible savings product is still unknown, something that seems certain is that, with them, making the switch will be a lot easier.

Written by Tom Dunstan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PENSIONS Age

Long shadow of today's cost-of-living crisis could see lower paid workers facing harsher retirements: *Legal & General co-head of DC, Stuart Murphy, considers the reality for low-paid workers and how to close the gaps in pension support* ***p82***

Accumulation without legislation: *Schemes can do plenty to help members save more, even without auto-enrolment minimum contribution increases, says Maggie Williams* ***p84***

DC savings focus:

Improving saving

LGIM co-head of DC, Stuart Murphy

Long shadow of today's cost-of-living crisis could see lower paid workers facing harsher retirements

With the cost of living rising, many lower paid workers aren't only struggling to meet current financial obligations but may also miss out on the long-term benefits of a workplace pension as they make tough spending choices. Legal & General co-head of DC, Stuart Murphy, considers the reality for low-paid workers and how to close the gaps in pension support

Around two-thirds (63 per cent) of workers earning less than £10,000 would need to borrow money from friends or family within a week of losing their main source of income, according to Legal & General's latest research. Across all of our respondents, nearly seven in 10 say that they can't afford to make any pension contributions whatsoever due to the rising cost of living.

These statistics underline the fragility of financial resilience among lower paid workers as inflation bites. And the pressures on today's household finances could have a very long reach as 69 per cent of low earners not currently contributing to a workplace pension say that it's because they can't afford to, even though well over half (59 per cent) say they're worried about not saving for their retirement.

With auto-enrolment coming up for its 10th anniversary, there's a lot to celebrate about a programme that's done so much to help workers prepare for better retirements. But we also know that some sections of workers are falling through the cracks in pension provision. This could be the result of factors such as being below the current enrolment earning and age thresholds, or not knowing, or asking for, what they're entitled to.

However, we also wanted to find out if the cost of living was affecting the retirement-saving choices of those workers who are most likely to need financial support in their later years – the low paid.

What our research found is worrying and confirms our concerns that many might be stepping away from making pension contributions based on short-term (if perfectly understandable) financial priorities without fully appreciating the long-term implications.

The reality of rising living costs

Low-paid workers who earn less than £10,000 a year tend to be younger or in part-time, zero-hours contract or shift work. Women also feature disproportionately due to childcare responsibilities (55 per cent of women earning less than £10,000 annually have children under 17).

When we looked at the financial resilience of low-paid workers, we found that the cost of living is bearing down hard on their limited resources:

- More than two-thirds (67 per cent) told us that keeping up with bills and credit commitments is already a heavy burden with more than one in three (37 per cent) having fallen behind, or missed, at least three payments in the past six months on credit cards, loans or domestic bills
- More than four in 10 (42 per cent) say they're always overdrawn by the time they get paid
- A rent or mortgage increase of £50 a month would be a struggle to meet for well over half (59 per cent)

Pension persuasion

Given how tight the finances are for the low paid, it's easy to see why a third (32 per cent) of those who were given the opportunity to join their employer's pension scheme, decided to opt out. But what might make a difference to their thinking and encourage them to enrol and remain in a workplace scheme?

In our opinion, there are broadly three areas we need to address to better support the lower paid.

1. Education

The rules on eligibility aren't straightforward. Pension providers and regulators need to make sure that employers are aware of their precise obligations so they can confidently convey to their employees what they're entitled to. Our research showed that more than a third (31 per cent) said their employer hadn't explained to them the eligibility rules for joining their workplace pension scheme.

More than a third (38 per cent) of low-paid workers said they would have asked their employer to join a pension scheme if they'd been aware that they had the right to ask.

Of those lower-paid workers who are not currently contributing into their workplace pension, more than half (55 per cent) believe the amount they'd be saving would be so low that it wouldn't be worth it. This indicates to us that there's still a long way to go to ensure that people understand the mathematical basics of pensions, such as how compound interest works so that even small amounts can add up significantly over time, the importance of starting contributions as soon as possible, and the value of employer contributions.

We believe that a combination of better school-based financial education would help, although we also appreciate that the government, regulators and the financial services industry need to work together on promoting pension benefits more clearly.

2. Filling in the cracks of auto-enrolment

The government's 2017 review of auto-enrolment recommended lowering the age threshold from 22 to 18 and removing the lower limit of qualifying earnings. Our research showed that this would play out well as 70 per cent of lower paid employees agreed with lowering the age threshold, while 41 per cent of those not currently contributing said they'd join their workplace pension if their employer's contributions were paid from the first £1 earned.

3. Flexibility

Our research suggested that for lower paid workers, such as those with variable earnings, flexibility could be the key to making pensions less daunting. For instance, 80 per cent agreed that they'd be interested in being able to turn their contributions on and off – in other words, to pay when they could.

Meanwhile, 84 per cent said they'd be interested in contributing to a pension if there was a tax break where the government matched their contributions up to a certain limit. They were especially keen on this idea when they were told that higher rate taxpayers get more money back from the government for every £1 than lower rate taxpayers – a position which was expressed by some as being 'not right' during discussions with our researchers.

Taking action

Auto-enrolment has been one of the most progressive and welcome additions to the pensions landscape and is already helping many workers to be more financially stable in retirement.

But we know that there's still a long way to go to provide a similar level of support for those who currently fall outside the existing provision.

It's on us – the industry professionals – to do our bit to reach these vulnerable groups with persuasive, simple messaging that means they're clear about what their workplace pensions offer, what they're entitled to, and what they might be throwing away if they don't enrol or choose to opt out.

"It's on us – the industry professionals – to do our bit to reach these vulnerable groups with persuasive, simple messaging that means they're clear about what their workplace pensions offer"

But we can't do it alone. While we can work on our communications with our clients, we also need the government and regulators to make workplace pensions more inclusive and attractive for these lower paid workers.

We welcome practical changes such as the recommendations to remove the age and wage thresholds, but perhaps we also need to examine the case for financial education in our schools and government awareness campaigns.

At Legal & General, we're already joining and setting up working groups to identify the reasons behind pensions inequality and the possible solutions to it. This is because it's clear to us that the increasing financial pressures of the rising cost of living may be squeezing people to take decisions about contributing to a workplace pension that could have devastating long-term implications for their later-life financial resilience.

Written by LGIM co-head of DC, Stuart Murphy

In association with LGIM

Summary
• Voluntarily increasing contributions is the most effective way to boost savings.
• Other aspects of scheme design can also have an impact.
• Listen to your membership and understand what will help them save more.

Accumulation without legislation

Schemes can do plenty to help members save more, even without auto-enrolment minimum contribution increases, says Maggie Williams

Recent research from Barnett Waddingham shows that, despite 10 years of auto-enrolment, 46 per cent of individuals still don't feel confident that they will have saved enough for a comfortable retirement.

With no legislative change in sight to increase 8 per cent auto-enrolment minimum contributions, it is up to schemes, employers and individual members to address those concerns and find ways to help everyone save effectively and improve confidence in their retirement prospects.

Increase contributions

The obvious way to support members in growing their retirement savings is to increase both employer and employee contributions, ideally through contribution matching.

B&CE director of policy, Phil Brown, says: "Contribution matching has been repeatedly shown to drive up employee contributions. People will naturally try and take advantage of their employer offering to match their contribution rate."

However, even employers with very generous matching structures can find it difficult to convince employees to pay in more to get the full benefit. LCP principal, Lydia Fearn, suggests that getting members into good habits early is important, such as focusing on new joiners.

"Engaging some who has just joined the scheme or the company is a good place to start. For example, the employer could take on a larger proportion of the auto-enrolment minimum – even the whole 8 per cent – when someone joins and then encourage them to pay more on top. Or, employers could default new joiners in above the auto-enrolment minimum with matching contributions, while still giving them the option to lower their contributions if needed."

Include everyone

Encouraging existing scheme members to increase their contributions is vital, but the salary band constraints of auto-enrolment mean that some employees are excluded from auto-enrolment altogether.

Barnett Waddingham partner and head of DC, Mark Futcher, says: "The auto-enrolment legislation excludes a huge number of low earners, including almost one in ten full-time workers." Although he says that this needs to be addressed at government level, "if they *[the government]* don't rethink this, it falls to employers to consider increasing remuneration to their staff to account for the lack of long-term savings."

That could also mean employers volunteering to paying pension contributions from the first pound of earnings, or selecting a lower threshold to start contributions.

Use communications and education

Higher contribution rates from employers won't be possible for all businesses. Helping employees to understand why and how much they need to save for retirement is equally important, says Aon principal, Adam Burn: "It's education, education, education. You need to explain the benefits and positive impact of engaging with your pension at the earliest possible opportunity, in a way that people can understand.

"Apathy has kept people in auto-enrolment pension schemes so far, but we've got to educate people that they need to save more than 8 per cent to fund a decent income in retirement."

Encouraging members to commit to future increases in pension contributions is one possible option, but Burns is unconvinced about its effectiveness:

"People start off with good intentions, but then life gets in the way. When the time comes to remind someone of the pledge that they've made in the past, they say their circumstances have changed and they are unable or unwilling to put it into practice."

Scheme communications, including benefits statements, also need careful thought. "One of the issues with benefits statements is that they can give a false sense of security," says Burns. "A member sees a headline number like £200,000, thinks that means they are doing well and don't need to save more. But that number won't buy much in terms of income in retirement."

Burns says frameworks like the PLSA's Retirement Living Standards are a good way of giving members a realistic picture of how their savings translate into quality of life in retirement and to encourage higher savings rates.

Review scheme design

Reviewing overall scheme design, such as default fund design and tax relief management, can offer smaller wins for members that, over time, will have a positive impact on the size of their retirement pot. "Although contributions are the most important factor for the pot size, ensuring value for money and good governance around investment design helps," says Legal & General Investment Management (LGIM) head of DC investments, Veronica Humble.

"Lower charges and higher net returns will obviously improve retirement outcomes," adds Brown.

Fear says that as part of good general governance, schemes or employers should regularly review charges and fee structures to make sure they remain competitive and suitable for the membership, although the current default fund charges cap means that there may be relatively little room for manoeuvre.

Humble cautions that there is "no silver bullet on the investment side", continuing: "Higher risk taking needs to be balanced with downside risk awareness of the strategy. We believe that diversification across different asset classes helps with both widening the potential sources of return and managing downside risk."

The anomaly between net-pay and relief-at-source tax arrangements are another area of scheme design that could make a difference to low-paid members. Employees earning less than the £12,570 threshold for income tax don't automatically receive tax relief on pension contributions under net-pay arrangements. Using a relief-at-source scheme means members automatically benefit from tax relief to help grow their pot further. Proposed change is on the horizon to resolve the anomaly between the two arrangements. Fearn adds that using salary sacrifice, so that employees' pension contributions are made from their gross (pre-tax), rather than net salary is a "no brainer". This reduces the amount of tax and National Insurance that employees and employers pay on pension contributions, potentially freeing up money for higher contributions.

"Analyse the workforce, understand how many people are close to retirement and how this is affecting them"

Although scheme design can have a positive effect on members' savings, Brown cautions "it can never fully compensate for a contribution rate that is too low. It can make a difference, but not enough if contributions are inadequate."

Listen and respond to member needs

Encouraging members to increase their contributions may be the aim, but volatile markets and high inflation are putting intense pressure on pension savers. According to the Office for National Statistics, there was a 23 per cent increase in withdrawals from pension pots between April and June 2022 compared to the same period in 2021, and there are widespread concerns about whether members will opt-out of auto-enrolment minimum contributions due to affordability.

If members leave schemes, that will inevitably limit their retirement savings. But it might be an unavoidable response to some very challenging financial conditions.

Fearn argues that by understanding current behaviour patterns in the membership, schemes and employers can make sure they are best placed to provide support and ultimately help members remain in the scheme, get back into savings patterns after a break, or increase contributions when times are better.

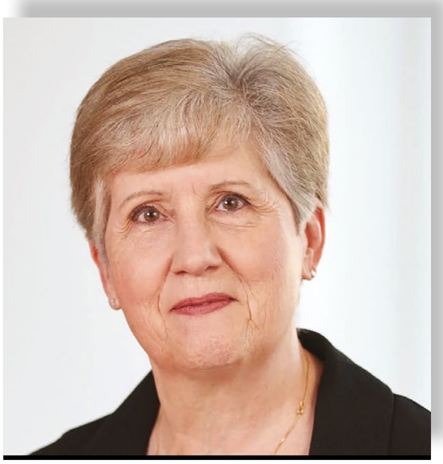
"Analyse the workforce, understand how many people are close to retirement and how this is affecting them," Fearn adds. "Ask what young members are doing – are they taking up matching contributions? Are they staying in the scheme? Is there a risk that members will stop contributing because colleagues have done so?"

Fearn recommends keeping in touch with members, meeting face to face to find out about their current worries and plans, as well as talking to the employer to get feedback on related trends in the workplace.

Schemes, employers and members can't afford to wait for government action on auto-enrolment to help DC savers retire at a reasonable age, with an appropriate level of income. Encouraging people to save more when finances allow, backed up with good scheme governance, communications and cost management, are all actions any scheme can take now.

Written by Maggie Williams, a freelance journalist

In association with LGIM



Margaret Snowdon, Chair, PSIG

Chrissie Sawyer, Chair, PSIF

Francesca Fabrizi sits down with Pension Scams Industry Group (PSIG) chair, Margaret Snowdon OBE, to discuss where the industry is on its journey of combating pension scams and the essential role the Pension Scams Industry Forum (PSIF) also plays

Combating pension scams - the journey so far

Where do you feel we are on the challenging journey of combating pension scams today?
It feels a lot like combating pension scams has reached a sort of crossroads. We've come so far to get to this junction, but where next? Industry has stepped up over the past few years and has spent millions of pounds to protect thousands of pension savers. But the reality is that scamming is an easy way to make a lot of money and so, sadly, it will continue to increase with eye watering sums being sucked out of people's pockets every year.

Please tell me about PSIG's achievements to date and how the Pension Scams Industry Forum came about.
I am proud that the work done by PSIG – to set out good practice, to work together with trustees, advisers, providers and administrators and to press for government, law enforcement and regulator intervention – has contributed to such increased awareness and has, already, helped many many people. From the outset in 2014, our aim was to unite all sectors of the industry. One of the ways we did this was to combine forces with a small group of providers who had set up a forum to discuss scams and share "war stories". This forum was the brainchild of PSIG's deputy chair, Tommy Burns of Standard Life (now Phoenix), and it complemented our work perfectly. It became the Pension Scams Industry Forum (PSIF), chaired by Tommy himself, and a vital part of the PSIG family. Working together has allowed us to greatly expand what we do to offer practical guidance on scams prevention to the entire industry, to share vital intelligence with forum members and to provide information on scam threats and tactics with government and regulators.

I am quite happy to blow the trumpet and say we've all worked incredibly hard and delivered a lot. Plus we've done that as volunteers, purely because we care passionately about this cause. We've never had funding and we rely entirely on the goodwill of our board and technical group and their employers. We've also been lucky to have the pro bono support from KBPR and Quietroom to help us tell people what we're doing and why it matters so much.

PSIF has recently seen some changes too, with a new chair now in place.
Indeed – Tommy retired from the industry which meant we not only lost a chair but also the use of facilities and resources that went with his day job. We were delighted when Chrissie Sawyer responded to our call for help and volunteered to chair the forum as well as to host the PSIF online meetings. Chrissie has hit the ground running with lots of ideas on how to further expand the forum and reach. She has already begun to increase the number and range of the membership to include all interested parties, providers, administrators, and trustees, and worked closely with both TPR and FCA. By being even more inclusive, the intelligence gathered will be even richer.

With her pension scheme management background, Chrissie inherently knows the issues faced by trust-based schemes and members and so brings a new perspective we will be able to learn and benefit from. The full diversity of her experience, including workplace pension administration, pension consultancy, trusteeship, FCA regulated training and competence, as well as SIPP/SSAS experience, will also provide a unique understanding of each aspect of the pension transfer process. Under her leadership the forum will continue to thrive.

What role has PSIF specifically played in combating scams?

PSIF really is the jewel in our crown. It brings together over 70 different organisations that face the problems of scams every day. They know what is going on in their patch and they are prepared to share that knowledge with the other members in the hope it will stop infiltration in other patches and so it shall grow. PSIF, in turn, shares this summarised information with regulators, to support national action to stop scammers. We need to continue to harness this energy and ensure that the industry, and therefore our members, can benefit from the early warnings of potential trouble. The thing with scams is that unless these early signs are spotted it becomes, very quickly, too late. And scams come in all sorts of shapes and sizes, which makes spotting them difficult. It can take months or years to recognise, and then you need proof.

PSIG has, without doubt, been one of the biggest contributors to combating pension scams. It is no idle boast. Our code has enabled many schemes and providers to quietly stop 'bad' transfers. Knowing what to look for gives confidence. Trustees are naturally risk averse and reluctant to get in the way of member choice, partly because it could be seen as 'financial advice' but also because it can lead to complaints from members (who are particularly bad at spotting scams), advisers and receiving schemes. Anything that slows or stops transfers is unpopular with at least one party in a transaction. Ironically, we are sometimes our own worst enemy! That's why having a code that sets out good practice on scams prevention helps practitioners feel they are not just trying to hold on to member money as is a frequent, but wrong, accusation. What we must do is ensure that straightforward transfers are processed without delay (this is an administrative matter and set out very well in the Pasa DB Transfers Guide) and that we can spend the right amount of time on transfers where there are question marks.

How have the new transfer regulations helped?

The new transfer regulations helped cement the idea of checking for scams and give trustees power to stop scams where scams signs are found. The problem is that everything has to be black or white – that's the way of legislation, but scams are more nuanced. Everyone now knows the issue with overseas investments being an amber flag requiring referral to MoneyHelper. The legislation was too generic with unintended consequences, but we need to be careful we don't miss the real target through sweating all the small stuff. Regulations can be clarified by legislators, the sooner and simpler the better, and complaint cases can be determined by the omdusman to help further encourage good practice.

What progress are we seeing?

Transfers from DB schemes are coming down. We don't know why, but I'm confident that all the scams messaging and activity has made transferring to a dodgy vehicle with a dodgy adviser hardly worth even starting. That is a good thing. However, applications for access to pension savings are up.

Unbelievably it takes only a few hours from a crisis being reported to scammers setting up sites, emails and texts to target people's emotions and fears and take money from them. The current cost-of-living crisis is a boon for scammers and a likelihood that people will need to access their pension savings in order to make ends meet. As sure as night follows day, scammers will be 'helping' those people to access their savings, and unless we can intercede to ensure that monies cashed in are not going to the benefit of scammers, people will lose pensions savings on top of struggling to get by. Scammers have no conscience, so can't be appealed to.

This is where practitioner groups like PSIG and PSIF are invaluable. We see it happening and we need to be able to act as an early warning system. We need the support of the industry, government and regulators to do what we do well.

When I hear members saying how thankful they are to have been stopped from making a huge mistake, it almost makes up for the tragic stories of people who have lost their savings, but of course it never will.

What now and where will this crossroad take us?

We want to expand the great work of PSIF by developing a Pension Scams Industry Database (PSID). We have already designed a dashboard to input and view information on suspicious transactions and actors, but we have had to put development on hold while we check that we are not duplicating work being mooted by the authorities. We are not precious about being the ones to do it, but what we don't want is expectation to be raised and nothing delivered. We need industry funding to build and maintain a PSID, but we don't want to burden companies with such a cost if a similar intelligence database were to be funded and built centrally in the not too distant future. It's frustrating for us, but hopefully we can resolve it soon. Watch this space or, even better, get in it with us. We need all the help we can get.

Written by Francesca Fabrizi

Summary
• Pension schemes and administrators are under constant threat from a multitude of cyber security threats that could cause data loss, resulting in reputational damage and regulatory censure.
• Research suggests many schemes and administrators need to do more to use technologies, risk management and staff training to reduce security risks.
• There is also a need to improve the security of member communications and members' protection of their own confidential data.
• Schemes and administrators must also assess and encourage improvement in the security postures and policies of third-party service providers that access member data.

A constant threat

The vast quantities of personal data that pension schemes and their administrators hold present a tempting target for cyber criminals. David Adams looks at what administrators and trustees need to do to keep member data safe

Cyber crime poses a constant, yet hugely varied threat to individuals and organisations that use online technologies – including every pension scheme and administrator. That threat has intensified in recent years: There was a 43 per cent increase in the volume of computer misuse offences in England and Wales between the year ending June 2019 and that ending June 2021 [figures from the *Office for National Statistics*].

A Freedom of Information request put to the Information Commissioner's Office (ICO) also shows that the number of pension schemes reporting cyber breaches grew from two per month before the pandemic to five per month during 2022, reports Crowe partner and head of national forensics services, Jim Gee, who is also chair of the Pensions Administration Standards Association (Pasa) cybercrime and fraud working group.

Gee says that about 70 per cent of those breaches were caused by ransomware attacks, which lock up computer systems until some form of ransom is paid. Most of the remaining 30 per cent were the result of phishing, in which emails and other media are used to trick recipients into unwittingly enabling fraud or data theft, often by inadvertently downloading malware.

He also points out that while cyber crime was once conducted by individuals or fairly small organisations, today it is an "industry", characterised by "national and international organisations … highly profitable, growing rapidly and able to work from anywhere in the world". Any scheme or administrator that is hit by a cyber incident could suffer significant reputational damage and be exposed to regulatory risks.

Pension industry resilience

Research published by Crowe in April 2022 showed that 43 per cent of pension schemes it surveyed had not tested the resilience of IT systems and processes against cyber threats. Those results followed the findings of The Pensions Regulator's (TPR) 2021 pension scheme administrator survey, which was based on responses from more than 200 in-house and third-party pension scheme administrators.

Although 95 per cent of the administrators did say they had some controls in place, those working for smaller schemes were generally less likely to be using more advanced technological methods to deter cyber attacks or to have incident response plans in place. Fewer than one in five had attained ISO or UK government Cyber Essentials accreditations; and only 25 per cent had followed Pasa's Cyber Crime Guidance.

Target risk

These apparent flaws in scheme and administrator defences are worrying because pension schemes hold so much of exactly the sort of data that cyber criminals want to steal: Personal and some financial data.

Nor should those working with smaller schemes assume they are less likely to be targeted. "There can be a tendency to think that the risks are heightened for larger schemes, but that isn't necessarily the case," says Stephenson Harwood partner, commercial, outsourcing and technology, Simon Bollans.

Administrators must make it more difficult for criminals to access the data they hold, because cyber crime is conducted according to a basic risk/reward cost/benefit analysis, says Barnett Waddingham information security manager, Janusz Naks. "The more difficult you make it for someone to get the data, the more likely it is that they will go somewhere else," he says.

Guidance and actions

TPR's guidance for scheme administration (due to be updated in the regulator's new single code of practice) emphasises the need to access skills and expertise required to manage cyber risks linked to systems, processes and people; the need to discover whether third-party suppliers have also implemented sufficient security risk controls; the need for an effective incident response; and for regular reviews and testing of controls, processes and incident response.

In addition, the Pasa cyber crime and fraud working group Gee chairs has prepared specific guidance for administrators, encompassing the need to develop controls to mitigate an incident (including use of specialist cyber security service providers), employee training, and response planning.

Bollans suggests administrators use the government's Cyber Essentials scheme to work out how to apply these principles to the practical operations of schemes and the administrator's own businesses. He also highlights some basic principles, such as implementing all necessary software updates, having some form of network monitoring to identify threats, monitoring of emerging risks via updates from the National Cyber Security Centre; and regular testing of internal security processes by expert penetration testing providers.

But any of these measures can be undermined by human error. Staff and trustee awareness of security issues and the precautions they need to take to avoid data breaches is crucial and should be supported by technology usage policies preventing or restricting movement of data (or information that could enable unauthorised access to it) on laptops, phones, USB sticks or other portable devices.

"Internally we need to know that data is locked down, only people who need to access it can access it, and everyone knows what data can and cannot be released," explains Barnett Waddingham head of pensions administration, Paul Latimer.

Other technologies secure mundane but necessary processes, such as email communications. Examples include Beyond Encryption's secure, encryption-enabling email technology Mailock, which enables secure exchange of sensitive documents via email and is protected by multifactor authentication. End users include Royal London and Aegon.

Analysis of potential security risks must also include consideration of security vulnerabilities within schemes' or administrators' supply chains. Crowe's April 2022 research suggested that 28 per cent of the UK pension schemes it surveyed had not assessed the vulnerability of third-party suppliers to cyber crime, with that figure rising to 43 per cent for small schemes.

The final element in best practice for securing member and other scheme data is planning how to respond to security incidents, because there is no such thing as fail-safe security. TPR's guidance highlights the need for an incident response team with clearly defined roles and responsibilities; and plans for reporting an incident to trustees, the ICO, regulators and law enforcement agencies and/or scheme members. It states that schemes and administrators should also have a good understanding of third-party suppliers' own incident response processes, including how and when they would inform the scheme or administrator about an incident.

In the future new security threats will emerge. Gee says he is concerned to see cyber criminals using AI technologies to accelerate and refine attacks; and by the increased availability of cyber crime as a service: provision of malware, DoS attack capability and other threats to anyone prepared to pay for it. "It means a wider group of people can have such attacks undertaken," he explains.

Despite these threats, Gee thinks the pensions world has made some significant progress in recent years. "A lot of schemes have moved this up their risk agenda," he says. "But this changes so quickly. And I still come across schemes that have not done anything very substantive – and some that have not done anything at all."

The bottom line is that schemes and administrators need to keep adapting to these ever-changing, yet continuous threats. Gee draws an analogy with the common cold: "You wouldn't expect never to catch a cold – and you would take steps to ensure that if you caught a cold, you would recover quickly.

"Protecting schemes and their data against cyber attacks is a bit like that: you need to ensure that the protection the scheme has is as good as possible, but that you're also able to recover, adapt and mitigate the effects when you are attacked."

Written by Dave Adams, a freelance journalist

Further information

- Guidance from The Pensions Regulator: https://www.thepensionsregulator.gov.uk/en/document-library/scheme-management-detailed-guidance/administration-detailed-guidance/cyber-security-principles
- Guidance from PASA: https://www.pasa-uk.com/cybercrime-and-fraud/
- National Cyber Security Centre: https://www.ncsc.gov.uk/
Cyber Essentials scheme: https://www.ncsc.gov.uk/cyberessentials/overview
- ICO: https://ico.org.uk/

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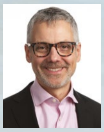
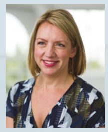


Philip Smith, DC Director, TPT Retirement Solutions

Philip joined TPT Retirement Solutions in 2020. He has over 25 years' experience in the DC pension industry. Prior to joining TPT, Philip held leadership positions in the DC pension consulting team at PwC and at Buck where he was responsible for their DC consulting and private wealth business across the UK. Philip's broad industry experience includes working with a diverse range of private, central government and third-sector clients, both in the UK and overseas. Philip is responsible for leading TPT's DC business including strategy and proposition development.



Lydia Fearn, Principal, LCP

Lydia has over 20 years' experience as a pensions consultant, covering all aspects from governance through to investment. She has supported and advised a wide range of DC pension schemes, master trusts and independent governance committees from scheme design to setting and monitoring investment strategy to the member communication strategy and employee wellbeing. She also designed and created the investment value for money framework for large insurance schemes. Before re-joining LCP in 2022, Lydia was the head of pensions consulting at Capita.

Alison Hatcher, CEO, HSBC Retirement Services and HSBC Tomorrow Master Trust

Alison is CEO of HSBC Retirement Services and the new HSBC Tomorrow Master Trust. She was previously global head of pensions in HSBC's client strategy team. Alison is responsible for understanding the needs of corporate clients, how to manage risk on their balance sheet and their pension schemes. Alison joined HSBC in 2011 and has been working in the industry since 2005. She is one of the founders of Women in Pensions, and part of the PLSA Diversity Advisory Board, and Efama Pensions Standing Committee.

Bill Jangra, Trustee Director, Law Debenture

With over 20 years' in the pensions and life industry, Bill is experienced in pensions management; administration; governance; secretariat services; and managing stakeholder relationships. In addition, Bill has extensive experience sitting on and supporting sub-committees and working groups, covering areas from environmental responsibility to DC governance. As a professional trustee, Bill draws on this diverse experience, supported by a Masters in Business Administration (MBA) and PRINCE2 practitioner qualifications.

Jesal Mistry, Senior DC Investment Director, Legal & General Investment Management (LGIM)

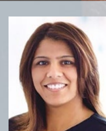
Jesal is a member of the dedicated DC investments team at LGIM, responsible for supporting clients and advisers with regards to key investment developments and ensuring that they are aware of the latest developments with regards to DC at Legal & General. Jesal joined Legal & General in 2019, having previously worked for Hymans Robertson, where he was senior DC investment consultant, responsible for managing key DC investment relationships.

Lindsay Nickerson, Head of DC Investment Research, Associate Partner, Aon

Lindsay is an associate partner within the defined contribution (DC) consulting team and has vast experience working with a range of DC clients to both review and monitor their investment strategies. Lindsay also supports Aon's efforts in fund manager research, product innovation and thought leadership, with the aim of enhancing projected outcomes for the DC members. She is a regular contributor to the pensions press and participates in industry events.

Johan Palmberg, Senior Quantitative Analyst, World Gold Council

Johan is a senior quant analyst at the World Gold Council. He has spent 10 years researching precious metals markets, both within the World Gold Council, as an independent consultant, and with the World Platinum Investment Council. Prior to this, Johan worked in fund management and in investment research. He has an MSc in Finance from the Swedish School of Economics in Helsinki. He is a regular contributor to the financial press and a speaker at industry events.



Roshni Patel, Director, Head of DC Pensions & Benefits, PwC

Roshni is a director at global professional services firm PwC and heads the UK DC pension and employee benefits team who advise corporate clients. She advises on all aspects of DC pensions including strategy, design, investment and engagement. She enjoys taking a collaborative approach to working with her clients on diverse matters, bringing a wealth of experience in delivering practical solutions. Prior to joining PwC, Roshni spent nine years at Capita Employee Benefits.

David Sack, Head Of Investment Strategy and Asset Allocation at B&CE/ The People's Pension

David is responsible for setting and reviewing B&CE's investment strategy, with the aim of delivering positive risk-adjusted returns for scheme members. He began his career trading international equities at Greenwell Montagu for the firm's account, before moving to similar roles at Societe Generale in London and Dresdner Bank AG in Frankfurt. He has also worked for AXA Investment Managers and Bank J. Safra Sarasin.

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Claire Lincoln, Global Head of Institutional Investor Relationships, World Gold Council

Claire leads the global institutional investor relationships team at the World Gold Council with a regional focus on European pension schemes, investment consultants, client advisory, fiduciary managers and professional trustees. Her core focus is to support investors in their understanding of gold as a mainstream asset and the role it can play in an investment portfolio. Prior to joining the World Gold Council, she spent more than 14 years working in front office sales roles within financial services firms including Bloomberg, Credit Suisse and The Bank of New York Mellon in London.

DC investing: the future

Our DC panel looks at the future of DC investment, to include asset allocation considerations, the impact of inflation and why the whole retirement piece is key

Lincoln: Decades from now, in a galaxy far away, a pub quiz is taking place about the history of Great Britain. The following question is asked: "Name the year when a new Prime Minister entered Number 10, summer was a scorcher, football finally came home with a roar, inflation was double digits, energy and food costs surged, real wages were lower than 2007, rates were rising, sterling tanked to levels last seen in the mid-80s and DC investors everywhere coined global financial markets a plate of wobbling worry." It was, of course, 2022.

So with that scene set, let's move on to the topic of defined contribution (DC). For much of the past 15 years, traditional DC investment portfolios, made up of equities and bonds, have performed well. The environment that afforded this success was, of course, driven by central bank actions such as ultra-low interest rates and quantitative easing.

But with geopolitical and inflation risks rising and the macroeconomic backdrop being so uncertain, perhaps it makes sense that investors should reconsider traditional asset allocation of the past.

With that backdrop, how does the panel expect DC asset allocation to change going forward and why?

Patel: Please can I turn that question around? Why do we think it needs to change?

Fearn: DC has to grow and evolve with the times. We can't stand still. DC has historically been left to tick along for many years without much focus or attention. But large amounts of money are now going into DC, so we can't just stick with the same old. It's got to deliver for individuals for their future, for the years to come. As much as we'd love to see defined benefit (DB) schemes again, I don't think they are ever going to raise their heads again because of what's historically happened with DB.

From an initial starting point, from a platform perspective, things have been quite restrictive in DC, particularly in terms of asset allocation restrictions. How can we break free of those restrictions, so we can build in more interesting and diverse investments? Whether it's infrastructure, whether it's gold, whatever it is. How do we open those doors to allow for asset allocation that will really work for our members in the future?

Sack: The era we've lived through for the past 10 years or so is one of financial repression – we've had massive tailwind

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for assets in general. Also, if you think about what's going on in the world in terms of geopolitical issues, rolling back of deglobalisation and baby boomers starting to spend their long built-up savings, they will push inflation up from what we've historically known in that time.

What master trusts try to do is provide members with the ability to retire with a decent pension pot. That means real returns i.e. CPI and above. If CPI is higher, allocators are going to need to look for assets that deliver above CPI.

There's good academic evidence to suggest that when inflation is higher, equities just don't perform very well. Bonds likewise. So the classic 60/40 diversification concept as we know it goes out of the window and other asset classes need to be added to the mix which are capable of passing through most or all of the inflation impact. So you might not get 100 per cent of your inflation impact back, but you get maybe 95 per cent – it's not so deleterious to your pot at the end of the day.

Hatcher: I am sorry to come down to process, but the problem in DC is not the principle thinking of building a portfolio, it's the fact that we have limitations within that.

We would all love to have a different array of investments within our portfolios, but we either can't or we have to get quite creative to do so, and when you get creative, you introduce other risks.

So we need to get rid of some principle operational flaws in order to move forward. We need to put all of our efforts into making sure that we can access the right tools to enable us to do our jobs properly and for the best value. That might not be something we can do on our own, we might need help from The Pensions Regulator and various other people to give us that ability, but that's what needs to happen.

Nickerson: Product evolution is also key here. It shouldn't just be about the here and now, but we should be looking ahead, thinking about what people should be investing in, say, 10 years. Specifically, how is an asset class going to perform going forward?

Member education around the 'long-term approach' to investing and around how they access their money is also hugely important.

Patel: I don't believe we've solved the problem around freedom and choice yet either. We're all trying to do what's best for members, but what are the members actually looking for? At the crux of it, they're looking for security. They want some sort of security when they come to retire. But actually how they get there will be determined by how they access their monies, their asset allocation, contributions paid in, etc.

Jangra: Let's step back a little. What is the purpose of a pension? Is it an investment vehicle or is it a savings vehicle? Because that will determine the composition of your asset allocation.

We constantly see pensions advertised and marketed as a savings vehicle today. But historically it should have been an investment vehicle – you build a portfolio which is designed to give you a return, subject to certain parameters. But until you understand which returns you actually need, then how can you build that?

If you think of it as savings, you'll get a very different answer.

Personally, I see it as an investment vehicle and that is the purpose of having a diversified portfolio to manage your risks.

You look at what return you want each year, you have some safer assets, some more racy assets, perhaps items such as precious metals, and you manage it that way.

That's very different to a savings vehicle where you are just putting money in and you're not having to think about these other things.

Patel: Perhaps that's the DB/DC pension differential? Members of a DB scheme see their pension as a savings vehicle, but actually a DC vehicle is more of an investment vehicle because members can and have to take more responsibility.

Jangra: Yes, but the problem is, pensions are referred to as 'workplace savings vehicles', not 'workplace investment vehicles', perhaps because the word investment is a little bit scary. So there is a mismatch there.

The other issue is, if it is an investment, who is going to look after it? It's clearly not something members are upskilled enough to do.

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The retirement piece

Mistry: If we go back to the original question of how DC asset allocation is going to change and why, there are a number of areas that are really driving DC strategy at the moment in terms of asset allocation. We're at a bit of a turning point, particularly over the next five years, in terms of where this DC market moves. It's about 'to and through' retirement.

There are also lots of regulatory headwinds and lots of noise in the market around things like, for example, illiquid/liquid assets, but perhaps we need to get more of the fundamentals right first.

I do also wonder whether the retirement piece is being missed. Retirement is a really important part for members. What are we trying to achieve within a DC strategy and how does that then influence the bit that comes before it? Because at the moment we all think about the accumulation part, we think about the savings and investment part. We almost don't really think about what happens afterwards.

But if you don't join the two together, you won't end up with a solution that fits the needs of members moving forwards, and therefore delivers good outcomes. Unless we think about what members needs are going to be and how they change, then this move from DB to DC, this move from a guaranteed, promised pension that members don't have to think about, don't need to understand, that they just need to pay into, is going to be disastrous.

There is a chance that the environment we're in at the moment is going to accelerate all of that, i.e. this need for mitigating inflation and thinking about the assets you're investing in because of the inflation risks, thinking about volatility and so on.

I also think we'll see more diversified asset allocation being driven by what people want to do at retirement.

Hatcher: We do everything from accumulation all the way through into retirement, and most master trusts have a similar mindset. Regulation for trustees and advisers typically means that it stops.

With the actual retirement piece, there is asset allocation friction but there is also a significant amount of operational friction too. We've seen that the sequencing risk at the point of retirement is actually the biggest detrimental aspect because you go in and out of funds, and there are costs associated with doing that.

We have true 'to and through' which means we can really look at the asset allocation. If you're going in and out of various different funds and focusing on income, then all of a sudden your costs will go up.

This is where the real diversifiers in the next 10 years are going to play a part – managing that sequencing risk.

There is also a very real problem with the fact that the individuals that are coming up to retirement in the next 15, 20 years have smaller pot sizes, they do not have the underpin, they do not have the protection, so we are doing them a disservice by (a) not considering retirement in the selection processes for managers et cetera, (b) the operational restrictions that we have around creating our portfolios and (c) the fact that it's a grey area between the regulators.

DC challenges

Chair: What are some of the challenges we are facing in DC?

Fearn: One big challenge is that, to some extent, it feels as though we are sleepwalking into a crisis, particularly in relation to people who are aged between 40 and 50 who may not have any DB, haven't really thought about savings, have been auto-enrolled for 10 years or so – they're going to sleepwalk into retirement without enough to live on. They maybe won't want to work full time, or might not be able to work full time.

The industry is trying to solve this – at LCP, Steve Webb is talking about it, thinking about it, trying to find some en masse solution and ignite some thoughts around this.

Mistry: This is where your investment toolkit plays a big part. If you think about the levers that an individual has to play with, they've got their contributions (and in this economic environment, people are not likely to want to pay more in), their retirement date that they can change, or there's the asset allocation.

For a number of our clients, for example, we've been operating investment strategies with illiquid assets. They do cost more – more sophisticated investments tend to cost more – and our more sophisticated clients tend to accept that.

But en masse the focus remains

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primarily on price, and particularly the lowest cost with the difference between us and our competitors of just two or three basis points. But in reality, what does that mean in terms of outcomes? What's the end product and how do you convert that to an income? What's the solution in retirement?

There's not enough emphasis in place within the industry on value, and value in terms of an outcome and the investment solution. There's too much emphasis placed on low cost; and low cost doesn't necessarily mean quality.

Smith: We're still in a really immature world when it comes to DC. One of the problems is that we've come from a space where DC has been thought and regulated about in a retail way rather than an institutional way. So a lot of the tools that we're trying to use come out of the history of retail, which makes it very difficult to do sophisticated stuff with lifestyle.

Also, it's quite difficult when you're working with lifestyle rather than a TDF to bring some of that operational simplicity and sophistication.

When you add to that the whole price thing, which has been driven by this idea that 'high price is bad, low price is good', you find yourself in the place where we are now. We need to change that debate and I'm sure it will change over time and DC will start to be thought about in a more institutional rather than a retail way, but until that happens, it's quite difficult.

Jangra: Sophistication is the problem as well, because we need members to understand all of this. Precious metals, for example, is something that people do understand.

Also, members don't always know what they want. Decumulation should be the focus – where do you want to ultimately get to and what do you want to do with your money? If you're following an annuity path, for example, you need something that's going to roughly be a proxy for annuity prices and follow that. If you want to focus on drawdown, then you need something that's going to cover the longevity risk there.

So we need to be able to give the member simple answers to these types of questions.

Hatcher: You mentioned precious metals and, if you look at it purely on a mathematical basis and take away the obstacles, something like gold could be an alternative. In an ideal world, why would you not consider things like gold in a DC portfolio, especially coming up to retirement where it could offer some protection? That's why we buy it, as an insurance policy effectively. Gold is a good alternative to things like gilts, for example, and it could have a place in a portfolio. The restrictions around putting it into a portfolio however mean that choice might not be available to us.

So, there are frustrations there and I don't think we should accept the status quo.

But we do need to work together on this – solving the problems around retirement, getting access to different tools and being able to offer better value is a collective sport.

Why would we not, for example, have an open debate about other asset classes and then bring it to the attention of the regulator that there are problems around this? Ask them how can we work together to solve this? Or perhaps we can work with the consultants and suggest we encourage our trustees to have a longer term plan and look at that retirement point as well.

Collectively, we can maybe start to shift the perspective a little. It will only be baby steps, but it will really help us to then change the dial, because individually we have no chance.

Nickerson: That's key, and it's also about product innovation. We restructured our team to make sure that we're able to focus on developments in the DC market place. Because going forward we need to think about having more diversification, a wider range of real return drivers, and being conscious that what were the right investments before might not be the best investments going forward. So being imaginative, innovative and cognisant of the environment we're going into.

But also being really responsible stewards of capital, making sure that we invest in funds that deliver for the very long term. And invest in asset classes while looking at the value, not just the cost. That's always difficult for us on the consultant side, trying to support decision makers, focus on net returns, and not just the headline fee number.

Mistry: The long-term point's a really interesting one, because we're still too focused on the short term. We still see all the reporting on a one- and three-year basis which results in short-term decisions being taken potentially

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at the detriment of longer-term ones. But whose DC pension horizon is three years? I don't think there's anyone with a DC pension horizon of three years that is relying solely on their DC benefits in later life.

Fearn: I am very keen on the outcome piece. You have got to make some assumptions and obviously that's the difficulty; but trying to bring our clients into the mindset of 'what is this member at a certain age going to be looking at when they come to retire?'

We use the PLSA Retirement Living Standards which is a great industry marker. So we try and look at the experience of that member. I will plot over the year what the member has experienced in terms of contributions and investment returns, so looking backwards; but also, we look forward; we make assumptions around the investment strategy and what it's going to look like. You've got to think from a member point of view. We can fill our boots with modelling, stats and analysis, but what is that individual member going to experience and when are they going to care about it?

A 25 year old's probably more worried about saving for a house or paying their bills than putting into their pension. But if they come out of that pension, what's going to happen to them when they hit 40 or 45 and realise that they haven't saved anything?

Patel: Member engagement is key to DC because it is their money after all. We can all have this conversation, but if members are not bought into that same belief , then everything around engagement, value for money, etc gets devalued. Therefore, educating people around DC pensions, what it means for them and helping them understand why it's important, is the bigger picture behind it all.

Jangra: So we're mostly thinking about and discussing trust based arrangements, because this is where people around the table have some say in what makes the default fund. We know that most members don't have the confidence then to do anything other than stay in the default. So that being the basis, member choice maybe is not something that's needed. If we expect most members to stay in a good default and we have excellent governance, and we send all the right messages, "we're looking after everything for you, you don't need to do anything", etc, then it's not really about member choice, because members are not going to make a choice.

My starting point is: What will the member understand and what will the member do? But if the member's not doing anything and they don't need to understand anything, then we can bring some more sophistication into a mandate, things which a member wouldn't do.

Hatcher: Over time, communication should talk about impact of investing and how your money's invested. You're right that something like gold and other physical assets are easier to communicate. Certain assets are easy to understand and also tangible, relatable, and that relatability is key to communication.

Jangra: Indeed, and in countries like India, people buy gold as a store of value. They feel comfortable with it.

Inflation

Chair: How do you think DC schemes are currently prepared today for inflation? What are you doing in this area?

Nickerson: For inflation long term, immediately we're not making any sudden changes. Our strategies are designed around the long term – they have a long-term focus, and are typically based on 10-year inflation / return assumptions. Short term, we do anticipate rises in inflation, and what we're hearing from clients is that they would like support for members around that; so communication, microsites, reassuring members that investment is for the long term.

From a research angle, we do recognise the importance of making sure that we're diversified. That's really where we need product innovation. Because going forward we need to ensure, particularly in the fixed income space where a lot of pension schemes still have that traditional long-dated gilt exposure, that members' portfolios are well diversified and we make best use of all investment options available.

Sack: Our view is that, given the current geopolitical environment and various other dynamics I mentioned earlier, we should expect inflation that is higher. I'm not talking sustained double-digit inflation per annum but, 2.5-3 per cent instead of the 2 per cent and less we have been used to for a long time.

We might also get disinflationary forces coming into play. If you've got global growth decelerating, where is

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your growth engine? All regions are slowing. For inflation, barring some kind of miraculous solution for the food and energy crises that we're going through, inflation is likely to be stubbornly high for a while despite slowing global growth.

We did make some changes to the portfolio in Q1, especially on the fixed income side, to take account of the risk of more permanent inflation.We've also not had a default cycle in the past 10 years – we thought that was also a worry and moved to protect portfolios from widening credit spreads.

There are several things to come out of this. Firstly, DC has typically had very few golf clubs in the bag and needs more. Innovation is essential. Because of DC's history, there's been this tendency to leave the member alone once they reach retirement, left alone to make a choice that they may not be very well informed to make. This is changing and there is substantial effort going into this industry-wide.

Consequently, there will need to be changes to the asset allocation structure. DC will need access to 'unquoted' alternatives, where the price isn't visible readily; and that might well have to be on a collective or partnership basis, in order to overcome some of the cost hurdles that come with investing smaller amounts.

The bottom line: DC needs to be using more innovative asset classes and more innovative thinking in general about how we look at the whole journey. This is beginning now.

Higher inflation means altered asset allocation choices. The tailwinds we've had for the very basic asset classes that have generally been held across the industry are dissipating.

Smith: I agree with your comments, I think we're going to see inflation being higher in the medium to long term. We have been looking at our asset allocation and reducing fixed income allocations whilst increasing investment real assets that are going to generate inflation protection. This includes areas such as green and digital infrastructure, whilst also introducing diversifiers like industrial and precious metals, and we are just starting on our private markets journey too.

We're also thinking about how our investments can have a positive social impact, not because we are impact investors per se, but more because these types of investment can have attractive financial characteristics.

So we're looking quite carefully at inflation at the moment and making adjustments to asset allocation accordingly, even with some of our older savers. Thinking about those less traditional asset classes potentially not only for younger people but also to help older people in that transition into retirement.

Patel: Communications on inflation and investment are twofold. First of all, the average member is unlikely to understand inflation in relation to their DC pot. What they may see is the value of their pension being lower or higher than it was last year. So communication around pensions being a long-term investment is important to reduce any knee-jerk actions. If they are looking to change their default fund choice, for example, it's important they understand what they are doing and confirm their long-term needs are assessed.

The other side of this is, how do pension providers take people on this long-term pension journey? How do you explain to them that they are in control and can make some changes? Some of the innovative investment solutions might cost members a little more, but it may be more beneficial over the longer term. This comes back to education and allowing people to take greater ownership of their pension.

When it comes to workplace pensions, the employer is responsible for choosing the provider of their scheme. The employee trusts their employer to do that appropriately. Once the provider has been selected, it is important to communicate with the membership as to how they can engage with their pension. Unfortunately, pensions or investment topics are not taught at school.

Sack: Historically, members generally have been fairly inert, so it's about getting those engagement points with them.

Patel: Exactly, whereas the nature of DC pensions doesn't want you to be fully inert, does it?

Sack: No, it doesn't. In fact, these types of crises that we're facing now are good opportunities to get the members thinking about what they want to do in the long run. Do they want to retire at the state retirement age or carry on? What do they want to do with their money? Communication here is crucial;

and also getting the message through that, even in a bad patch, it's important to carry on investing. Don't stop, because it does pay off in the longer run.

Patel: There has been press commentary around people opting out of pensions because of the cost-of-living crisis, however we have also seen the opposite too – people wanting to put more money in.

Workplace pensions have their benefits – the matched employer contribution, tax relief and compound investment growth. Those are the elements which are often missed when assessing the benefits of a workplace pension scheme. Bringing it back to education again, educating individuals around pensions is key.

During a provider selection process, some employers may choose to focus solely on investment charges. With our clients, our selection processes cover various areas from member experience, service delivery, through to the provider's proposition.

This enables the employer to focus on 'value' when selecting a provider, what are they getting for their money. The DC market has evolved rapidly over the past 10 years and the lowest price doesn't always mean the best.

Hatcher: We had a blank canvas so we didn't have to make massive portfolio adjustments in the first place, so we set up something that already played into where the markets are going today.

So we have a very good process, we have a very good way of monitoring, and we have triggers and if there are any concerns we will talk through it, we'll discuss it and we'll look at various options. We're a team of very open minded people who also constantly challenge and try to get access to new elements.

With DC, we have a true 'to and through' where we don't increase the cost even. At the point of retirement you go straight through and that is your retirement portfolio and then you can amend it to what you need.

When it comes to inflation, this is perceived by some as more important than others. In reality, if you're very focused on how you are going to pay your bills today, you are not thinking about what inflation is doing to your pension scheme. Therefore, I'm a big fan of relevant communication and letting people know that they have the right people who they can trust. We will help them make the right decisions for the future.

With the cost-of-living crisis today, we need to be supporting our members, whether that's helping them with their finances, helping them to budget, and so on.

Inflation is one attribute that we have to consider, but there's so much else going on in somebody's life, that we have to take that into consideration as well. If we support an individual in the right way with the right tools, then we can go away and work on the investments, make sure we have the right processes in place, make sure the portfolios are correct, for different types of members at different stages in their life.

So inflation is an important factor. It is considered within asset allocation and portfolio building. It's more important in some elements of the portfolio than others.

But the way we communicate it is key – as an industry we think we're in isolation but we are actually just one part of a bigger consideration for an individual.

Auto-enrolment

Jangra: Auto-enrolment is 10 years old this year, from the larger schemes coming in. So some individuals have been saving for 10 years, they can get excited now, they've got some sizeable funds, and with the help of the PLSA Retirement Living Standards, for the first time, probably, they understand what amount they need in retirement.

They might not understand what to do with their money at the moment, but they understand roughly they need £15,000 or £20,000 a year, for example. Now, when they see they're going to be short, that's when the investment side comes into it; that now is the time they need to upskill, now is the time for them to pay attention.

So I genuinely think, given the market for DC, individuals are going to get more versed in investments, start making active decisions, challenging their governance committees and employers. It's the first time I see excitement on some of these people's faces – low paid people who only put in £20, £30 a month, for the first time they've got thousands as an amount and it's exciting for them.

Chair: It's definitely a topic of conversation in more households now – people do talk about what they are going

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to do with their pension. When would we have ever had this conversation in the past? We're almost being forced to because we need to think about whether we are even doing the very basics.

Hatcher: I am not sure I agree. Most people I know don't worry, think about or even have anything to do with their pension and lots of self-employed people definitely don't. So, whilst I really hope what you are saying is happening, I don't think it's the norm.When people see that they have money, there's a temporary acknowledgment, then they forget about it. If you're coming up to retirement, these things are naturally more important to you because it's part of your lifestyle decision making. But I still think there's a whole generation that have pretty much given up because they know they're never going to have enough money. They're worried about other things right now – families, cost-of-living, and so on.

You've got some millennials who are more engaged, but I would be surprised if it was the norm. That doesn't mean we shouldn't have hope for the future and shouldn't be striving for it and we shouldn't all be doing the right things.

Nickerson: It's not just that we need to communicate about inflation. It's about having a really solid communication strategy. Because if you just sent members letters through the door on a regular basis, you may get disengagement.

What we're tending to do is put notices on the microsites. If somebody wants to disinvest because they've seen a drop, it's attempting to catch those members' attention before they do. Reminding those about pound cost averaging, investing at different times and the value of professional advice.

Fearn: I'm not sure members are even going on the microsite at the moment. People instead are logging on to their banking app and having a panic.

We talk to some very large employers such as manufacturing, and there are people within those companies who will talk about things and can have quite a big influence on what others will then do. So having people within the companies that understand these issues, and understand what the right thing to do is, can be helpful – they can be the voice of what others should ideally think about before they do anything.

Patel: Engagement under auto-enrolment varies by generation as well. The peer-to-peer support is fantastic, however some other generations are going onto social media sites like TikTok to source financial advice or pension information.

Smith: One of the risks we are also facing at the moment is people logging on to their banking app, seeing that they have less, and then stopping their pension contribution.

Fearn: We're getting a lot of noise about it actually from our corporate clients – they're saying it's not happening yet, but you can feel the murmurings.

Gold in a DC portfolio

Chair: Steering the conversation towards gold, some of you have told us you are investing in gold. What is it about gold that means it can potentially play a role in a DC scheme, given the current environment and the background issues we have been discussing today?

Palmberg: We did some research earlier this year looking at the case for gold in a DC portfolio in particular.

As we have said earlier today, the traditional portfolio of bonds and equities is unlikely to deliver in the same way it has done in the past. Equities we don't know, they may perform, but bonds mathematically are going to struggle. That's from a couple of perspectives – the hedging perspective and the diversification perspective.

With hedging, we've seen from the past 20 years or so whenever there is a crisis you generally get something like 200 basis points as a buffer. In Covid, that buffer was roughly 120 basis points.

Going forward, there is less and less of a buffer from bonds to provide a cushion when equities fall, particularly when you take into account the level of inflation that we're experiencing. So a lot of investors are uncomfortable and they are looking at how to address this.

From a diversification perspective, the big challenge comes from (a) lower returns going forward, and (b) the correlation between equities and bonds.

We've had a fantastic environment for about 25 years. The people who have worked in the industry for no longer than that think that bonds and equities correlate negatively. Actually, before that, they were positively correlated and it looks like we might be heading back into that kind of environment.

The driver of that environment was general inflation. So we have something called pro-cyclical inflation which is what we've had for the past 25 years. i.e. when we're flirting with deflation all the time and then suddenly inflation goes from zero to 2 per cent. Everyone loves it because it means growth is coming back and inflation is going up. That's generally a very conducive environment for bonds to perform well.

When we're in an environment now when we're sort of starting to go above these explicit targets that the central bank sets, 2 per cent if you like, that's when it becomes counter cyclical. Bond investors get nervous and think central banks just can't control this and they start to perform badly. So we have seen a breakdown of this in the past few months maybe and even the past year. The 1970s was a particularly bad environment for that relationship, the 1940s as well.

There seems to be a few per cent cut off where bonds and equities correlate well and then correlate badly. So you've been losing this benefit from bonds in the current environment and it's probably likely to be the same thing going forward. We're looking at gold as a potential asset class to address that.

Chair: What does gold provide to help that?

Palmberg: A number of elements. I know it has been said today that people can relate to gold as a real asset, and that is true; but as an investment, people sometimes also think of gold as being a bit dull. In an environment of tech stocks and crypto currencies, before this year at least, gold has been seen as a bit of a barbarous relic. So communication is needed here.

What does gold provide? It's a very good diversifier – it has roughly a 0 per cent correlation with equities, and very low correlation with bonds. What's interesting about that correlation is it's asymmetrical. When equities start to falter, that correlation becomes negative.

So you get the benefits, and then when you have a bit of crisis, gold starts performing too. We've seen that in 2020.

Despite gold not performing, in some people's minds, as well as it should do, while we're on the cusp of World War III and the highest inflation we've seen for 50 years, the correlation to equities has still gone negative this year. So it does that very well and it does it pretty consistently.

Now, we're not saying it's a panacea. You want to hedge these things, there are tools out there to do it. The problem with them, they command risk premiums and cost a lot. Gold doesn't cost you very much at all and in fact, over the long term, it gives you pretty high returns. So over the past 50 years or so it's been about 7.5 per cent in nominal terms, and the past 20 years 9.5 per cent. So much, much higher than some might expect.

Chair: How well does it work in a DC space?

Palmberg: We looked at two glidepaths, one with gold and one without, with some underlying assumptions, and one thing that we would say is that despite gold's very good returns in the past 15, 25 years, we probably wouldn't advocate it so much in that accumulation phase, where you are normally rewarded for your risk; that's where you might want to put your tech stocks, for example. But we do advocate it for the consolidation and retirement phases. What we found was that the median return for the gold portfolio was higher than the median return for the portfolio without. What you also see is that the lower returns are cut off at a higher level for a with-gold portfolio. So you're moving that distribution slightly higher and the outcome looks better when you add gold.

What we found for the retirement stage, if you have a portfolio with gold and one without, the one without is exhausted a lot sooner. So these are the sort of things that we've seen in the past. We can apply it to almost any portfolio of assets and it's consistent over the time.

Chair: Thanks to all panel participants for an open, honest and engaging session today. Priority areas of focus for DC going forward are plentiful yet seem centralised around themes such as raising member awareness, education and industry collaboration. Let's encourage diversification in our approach to tackling some of the challenges identified today in the same way we clearly advocate diversification in DC pension schemes.

For further information on gold visit www.goldhub.com or contact claire.lincoln@gold.org

An instant connection

Will pensions dashboards be the solution for providing people with an 'Amazon-style' instant connection with pension products/ services, or will other solutions be required to achieve that goal?

The introduction of universal pensions dashboards will be both an overdue and welcome innovation, and will have the potential to benefit millions of retirement savers.

However, it's important that expectations of what these platforms will be initially capable of are kept realistic. Building a great-looking dashboard doesn't make people use it – this will only happen if consumers have complete faith in its reliability and the regulatory standards to protect them.

The pensions industry will have to rethink all communications in a world where dashboards exist, enabling consumers to make informed choices, which they will be able to do if provided with useful data such as the value for money of that particular scheme. Users of dashboards need to be confident that they are given as much protection as possible from making poor decisions.

B&CE, provider of The People's Pension, director of policy, Phil Brown

Pensions dashboards could be one solution longer term but a lot would need to happen first. The real challenge to the success of the dashboard is a data challenge. To get the dashboard up and running will take many years to gather accurate customer data. Right now, especially for small occupational schemes, a lot of customer data isn't digitised, or of sufficient quality to use, so right now it's impossible to quantify what needs to happen. To achieve the necessary standard will take a significant amount of time.

The first stage of the dashboard is effectively a pension finder service, which will be very useful for many. Over time, once the infrastructure, and quality of data is in place, it could be built on to provide enough accurate information for a more instant connection with all of an individual's pensions – more along the lines of open banking. While this looks some way off, it could certainly be a good start.

Abrdn head of industry change, Alastair Black

In terms of the dashboard, it will certainly be a useful 'one-stop shop' for most pension plans that individuals have and, coupled with planning tools, this will be very useful to project what will be delivered in retirement. However, knowledge of pensions is also key, as well as thinking about what you would need and want for your retirement. There is a current pensions awareness campaign that can help with this and bring to the fore what considerations people need to factor in to ensure their retirement expectations are either met, or reigned in to an achievable goal. For many, good quality financial advice will still be needed given the complexity of the planning required.

M&G Wealth senior technical manager, Mark Devlin

Pensions history

Pensions: Reflecting and driving changes in the world of work

On 1 October 2011, after a transitional period, the default retirement age (DRA) of 65 was finally abolished. Employers could no longer compel employees to retire at 65 without objective justification, reflecting changes in social and political priorities. The DRA had been introduced only five years earlier and was a compromise designed to meet employer concerns while complying with European age discrimination legislation. It set retirement at age 65 but allowed employees to ask if they could continue working (employers could refuse). The minister at the time remarked that, while an increasing number of employers were able to organise their business around the best practice of having no set retirement age for all or parts of their workforce "… some nevertheless rely on it heavily".

By 2009, the mood music had changed. The then Prime Minister, Gordon Brown, believed that allowing older people to continue working 'could be a big factor in the success of Britain's business and our future economic growth' while the TUC welcomed more choice for employees – as long as adequate pensions were maintained.

By 2013, when the ACA's *Smaller Firms' Pensions Survey* was published – over half of the firms surveyed expected that over the next 15 years the age at which employees typically retired from their business would rise to 68 or older, with a quarter of employees expected to retire at or after age 70.

www: pensionsarchive.org.uk/our-collections

The Pensions Archive Trust director, Jane Marshall

Fun and games

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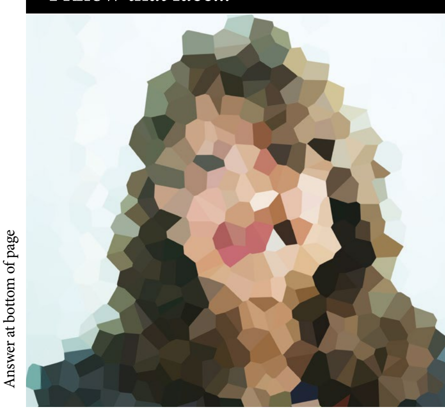
- SECURITY
- SOLVENCY II
- SUSTAINABILITY
- TECHNOLOGY
- UNEXPECTED EVENTS

I know that face...

Answer at bottom of page



I know that face... Answer: PLSA chair, Emma Douglas

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Take the next step in your pensions administration career. Benefit from flexible working structures. Ref: 1365512 NMJ

Senior Pensions Administrator
Hertfordshire/hybrid — **to £40000 per annum**
Looking to join a small in-house team and continue with your study towards professional qualifications? Ref: 1378063 JW

Senior DC Pensions Administrator
Remote working — **to £35000 per annum**
Superb opportunity to join a specialist team administering a DC Mastertrust with a leading consultancy. Ref: 1376829 NMJ

Assistant Trustee Associate
London — **to £32000 per annum**
Join an impressive Trustee company and assist the dynamic team in preparation for Trustee meetings. Ref: 1374565 NMJ

Pensions Project Development Analyst
Buckinghamshire — **£in line with experience**
Outstanding opportunity to join a project team and ensure effective project delivery. Ref: 1378089 NMJ

Pensions Systems Analyst, In-House
Herts/hybrid — **c.£45,000 per annum**
Do you enjoy focus on continuous improvement? Ref: 1377730 JW

Senior Pensions Administrator, Consultancy
Work from home — **£in line with experience**
Take your career forward in a varied role. Ref: 1371023 NMJ

Experienced DC Pensions Administrator
Kent/hybrid — **£in line with experience**
Innovative, award-winning pensions specialist. Ref: 1367120 NMJ

Senior Pensions Administrator, In-House, 15-month FTC
Bucks/home-based — **to £29,000 pro rata**
Varied role as part of a skilled team. Ref: 1377727 JW

Grad & School Leaver Pensions Administrator
Kent/hybrid — **£competitive**
Excellent opportunity for a school leaver or graduates to pursue a role within pensions, with full study support. Ref: 1378114 NMJ

Sammons Pensions Annual Salary Survey, we need your help

Your contribution is invaluable. All respondents receive a copy of the survey published early 2023 and entry into a prize draw. Access the survey via www.sammonspensions.co.uk

Contact us for more information or to discuss previous years' findings.

Senior Pensions Manager, In-house 12 mth FTC
UK/hybrid — **£6 figure package**
Help drive and deliver Pensions strategy including new pensions initiatives and wider benefits. Ref: 1377395 SB

Project Manager
Offices Countrywide/hybrid — **£6 figure package**
Develop and manage the transition process for DB pension schemes administration as part of derisking projects. Ref: 1377919 SB

Professional Trustee
Offices Countrywide/hybrid — **£6 figure package**
Seeking your first move into this area? Ref:1364522 SB

UK Pensions & Benefits Manager, In-House
London/hybrid — **£attractive package**
Take ownership of development and delivery of strategy. Ref: 1378010 SB

DC Consultants
Home-based/Offices Countrywide — **£superb package**
Business area is growing for this market-leading consultancy. Develop your career, work on an exceptional portfolio of clients. Ref: 1377067 BC

Pensions Actuary, Bulk Annuities
Work from home — **£in line with experience**
Ideally a qualified Pensions actuary you will be undertaking cash flow modelling for bulk annuity contracts. Ref: 1378100 SB

Project Manager
Home-based/Offices Countrywide — **£competitive**
Excellent opportunities for experienced PM's with data led expertise, strong DB Knowledge essential, Prince2 desirable. Ref: 1375347 BC

Pensions Project Manager
Remote — **to £60,000 per annum**
Play a key part in helping customer facing colleagues deliver exceptional standards of customer service and patient care. Ref: 1377791 JW

Operations Manager
Work from home — **£in line with experience**
Make a real difference in terms of delivery, oversee structure and ensure growth plans are met. Ref: 1377778 BC

UK Product Manager
London/hybrid — **£DOE**
Outstanding newly created opportunity on behalf of a growing Pensions provider with an award-winning platform. Ref: 1378094 BC

Pensions Specialist
Bucks or West Midlands — **to £60,000 per annum**
Newly created in-house role to assist in the day to day operations of the DB and DC pension arrangement. Ref: 1377680 JW