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September 2024

PENSIONS Age

The leading pensions magazine

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LGPS has recently been involved in high-profile US class action cases. Could class actions become popular in the UK?

Collective DC
How the risk-sharing nature of CDC schemes could enable greater investment opportunities

Pensioner poverty
Why the number of pensioners living in poverty is increasing and how the industry can help tackle this problem

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Crisis management: *The steps trustees, managers and employers need to take when a crisis strikes*

Funded reinsurance: *Despite increasing scrutiny, could funded reinsurance help reduce BPA capacity concerns?*

Not quite the end...

How DB schemes can best manage residual risks after an endgame solution

Case study: North East Scotland Pension Fund's recent class action success

Editorial Comment

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

Had a nice summer? Maybe you spent one afternoon of it during an inevitable summer washout at the cinema (do we even go to the cinema anymore?) to watch the summer blockbuster, *Deadpool & Wolverine.*

Watching superhero films can often lead to the classic debate, 'which superhero power would you like to have'? Telekinesis? The ability to fly? Teleport? Or maybe, to be able to see the future.

After all, the reason why taking risks (the theme of this month's issue of *Pensions Age*) is 'risky' is because of the fear of the unknown. If we could see the consequences of our decisions, they'd become a lot less scary and a damn sight easier to make – and not least for when selecting which lottery numbers to play.

"Even once a DB scheme achieves its 'endgame', residual risks can remain"

Just think how beneficial it would be to be able to see in advance how investments would perform, whether sponsoring companies will go bust, or to be able to tell accurately the longevity of scheme members. It would take a lot of the risk out of managing pension schemes.

Well, keep dreaming. Sadly, I don't believe science is diverting many of its resources towards predicting the future (and the original Mystic Meg astrologer is sadly deceased), meaning we're stuck with navigating risks in an uncertain future.

The best we can do is try to minimise – or even remove – as many known risks as possible. Enter insurance deals, with buyouts considered the 'Holy Grail' of risk removal for pension schemes.

And yet, as our cover story on page 71 highlights, even once a DB scheme achieves its 'endgame', residual risks can remain, such as incorrect scheme data, missing beneficiaries and even the risk that the law is changed in a way that boosts the scheme's liabilities.

In a worst-case scenario, it's not just unexpected risks that schemes have to navigate, but a full-blown crisis.

As our feature on page 71 notes, just like every other organisation, pension schemes need to manage potentially disruptive operational risks, and be prepared to respond to a crisis that could threaten a scheme's operations and its members' wellbeing.

Some of the major risks a pension scheme could face include the disruption caused by unusual events such as a pandemic or extreme weather, and cyber risks, both to the scheme itself or its service providers, which could possibly lead to the theft of members' personal data.

However, as we in the pension industry know, not all risk is bad; in some cases, with greater risk comes a greater reward.

This is surely the attitude taken by our new Chancellor, Rachel Reeves, with the recent announcement of her 'landmark' review of the UK pension landscape to improve pension outcomes and increase investment in UK markets *[read more about this on page 10].*

The review, which builds upon the new Pensions Schemes Bill confirmed in the King's Speech, will focus initially on pension scheme investments, to 'unlock' billions of pounds of investment from DC schemes and the Local Government Pensions Scheme.

Tearing up the status quo can be risky, but the government aims to minimise this by having a period of 'intensive' industry engagement while formulating its reforms.

Taking on the ambitious challenge of reforming UK pension investment, to implement a pro-growth agenda for schemes, in order to improve pensioner outcomes and provide a much-needed boost to the UK economy? You don't need a superhero's clairvoyant abilities to see that's a risk worth taking.

Laura Blows

COVER FEATURE

Theme: Risk

71

Not quite the end...

Alex Janiaud considers how DB schemes can best manage residual risks after an endgame solution

News, views & regulars

Features and columns

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Features & columns

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NEW circulation figures

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Dateline – July-August 2024

Rounding up the major pensions-related news from the past two months

5 July MP for Leicester West, Liz Kendall, was appointed as the new Secretary of State for Work and Pensions at the **Department for Work and Pensions (DWP).**

8 July The Pensions Regulator (TPR) announced plans to "evolve" its supervision of master trusts to focus on investments, data quality and standards, and innovation at retirement.

11 July Labour MP for Wycombe, Emma Reynolds, was appointed as **Pensions Minister** under the new government. Reynolds was appointed as Parliamentary Secretary across both the DWP and the Treasury, in a move that sparked industry hope for more joined-up pension-policy thinking.

17 July The government announced a new **Pension Schemes Bill** to legislate on key areas of pension policy, many of which were initiated under the previous Conservative government *[read more on page 12].*

22 July Chancellor, Rachel Reeves, launched a 'landmark' review of the pensions landscape, which is set to consider further steps to improve pension outcomes and increase investment in UK markets *[read more on page 10].*

23 July The **DWP** said it expects to complete its state pension underpayment correction exercise by the end of 2024, although work to address Home Responsibilities Protection (HRP) errors are set to continue until 2027/28.

24 July The FCA's British Steel Pension Scheme redress scheme paid out a total of £8.7m to 360 former BSPS members, after "changing economic conditions" pushed the amount of redress down *[read more on page 15].*

The Pensions Regulator
Making workplace pensions work

25 July TPR agreed a proposed deal with ITV over the long-running Box Clever pension scheme case, with all members of the pension scheme expected to receive their pension benefits in full.

25 July The **Court of Appeal** upheld the High Court's ruling in the *Virgin Media v NTL Pension Trustees II* court case relating to section 37 and contracted-out DB scheme amendments *[read more on page 15].*

26 July TPR shared updated DB superfund guidance, including on capital-backed arrangements (CBA) and its expectations for the release of capital *[read more on page 14].*

26 July The **Prudential Regulatory Authority** outlined new policy expectations on funded reinsurance (FundedRe) *[read more on page 74].*

29 July TPR's new DB Funding Code was laid in parliament, in what was highlighted by the regulator as a "significant milestone" *[read more on page 14].*

29 July Rumours of potential reform to pension tax policy began to swirl after **Reeves** revealed a '£20bn black hole' in public finances that needs to be plugged.

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

30 July The **FCA** launched a review of the rules governing financial services, with plans to consider how to ensure the pensions regulatory framework is fit for the future as part of this.

31 July The Pensions Ombudsman (TPO) published its 2024/25 Corporate Plan, outlining a package of changes that aim to transform its service and lead to an improved experience for future customers.

31 July TPR shared its latest environmental, social and governance (ESG) report, confirming that while most trustees are meeting their ESG duties, many are achieving only minimum compliance.

31 July The gross cost of pension income tax and national insurance contribution (NIC) relief rose from £68.1bn in 2021/22 to £70.6bn in 2022/23, the latest statistics from the **DWP** revealed.

7 August HMRC's Pension Schemes Newsletter revealed that it repaid a total of £57m to people who overpaid tax when they flexibly accessed their pensions in Q2 2024.

7 August Reeves announced that she is considering plans to implement a 'Canadian-style' pension model in the UK to unlock further investment potential from the Local Government Pension Scheme (LGPS) *[read more on page 11]*.

8 August The **FCA** launched a consultation seeking views on the proposed rules and guidance for the value for money (VFM) framework for contract-based pension schemes.

9 August Hargreaves Lansdown formally agreed to a takeover deal by a consortium of private equity firms.

13 August Data from the **Office for National Statistics** (ONS) revealed that annual growth in earnings was 4.5 per cent for the April-June 2024 period, with wage growth likely to be used to uprate the state pension under the triple lock for the year ahead.

16 August The **government** shared further details on its plans for a 'landmark' pensions review.

20 August The **DWP** launched a new pension credit awareness drive, after recent figures revealed a slight drop (11,000) in the number of people claiming pension credit.

20 August The **Fraud Compensation Fund** revealed that it paid out a total of £9.8m in compensation to three pension schemes whose members' pension savings were lost after being unlawfully invested in the former sole trustee's own business, Norton Motorcycles Holdings Ltd.

News Focus

'Landmark' pensions review announced; DC and LGPS to take focus

Chancellor, Rachel Reeves, has launched a 'landmark' review, with the first phase set to focus on investment opportunities in the UK

Chancellor, Rachel Reeves, has launched a 'landmark' review of the pensions landscape, which is set to consider further steps to improve pension outcomes, including assessing retirement adequacy, and increasing investment in UK markets.

The review, which will focus initially on investment, will aim to increase pension pots and tackle waste in the pensions system, building on the new Pension Schemes Bill already confirmed in the King's Speech.

In particular, Reeves revealed plans to 'unlock' billions of pounds of investment from DC schemes, suggesting that the changes could also boost DC savings for individuals by over £11,000.

In addition to this, the review, in partnership with the Minister of State at the Department for Levelling Up, Housing and Communities, Jim McMahon, will look at how to unlock the investment potential of the £360bn Local Government Pension Scheme, as well as how to tackle the £2bn that is being spent on fees.

The review is being led by the new Pensions Minister, and the first ever joint Treasury and Department for Work and Pensions Minister, Emma Reynolds, although both Reeves and Reynolds joined an industry roundtable in late July, to mark the beginning of a period of 'intensive' industry engagement.

Commenting on the review, Reeves said: "Despite a very challenging inheritance, this new government is getting on with the job of delivering our mandate to get the economy growing so we can make every part of our country better off.

"The review we are announcing is the latest in a big bang of reforms to unlock growth, boost investment and deliver savings for pensioners. There is no time to waste. That is why I am determined to fix the foundations of our economy so we can rebuild Britain and improve people's lives."

Adding to this, Reynolds said: "As the first ever joint Treasury and Department for Work and Pensions Minister, I am uniquely placed to tackle the twin challenges of productive investment and retirement outcomes.

"Over the next few months the review will focus on identifying any further actions to drive investment that could be taken forward in the Pension Schemes Bill, before then exploring long-term challenges to ensure our pensions system is fit for the future.

"There is so much untapped potential in our pensions markets, with an industry worth around £2trn. The measures we have already set out in our Pension Schemes Bill will help drive higher investment and a better deal for our future pensioners."

The government has since also shared further details on its plan, with the first phase of the review to focus on developing policy in four key areas.

This includes driving scale and consolidation of DC workplace schemes, and tackling fragmentation and inefficiency in the LGPS through consolidation and improved governance.

In addition to this, the review will look at the structure of the pensions ecosystem and achieving a greater focus on value to deliver better outcomes for future pensioners, rather than cost, as well as plans to encourage further pension investment into UK assets to boost growth across the country.

Initial findings from the first phase of the review, focusing on investment, are expected "later this year", and ahead of the introduction of the Pension Schemes Bill.

As part of this work, the review is set to consider issues such as boosting the returns for pension savers, improving the affordability and sustainability of the LGPS in the interest of members, employers and local taxpayers, and the role of pension funds in capital and financial markets to boost returns and UK growth.

It will also consider any implications for wider government financial stability policy objectives, such as with respect to the gilt market, and consider fiscal impacts, which will need to be considered in the context of the public finances.

The government said it is looking to consult widely throughout the review, confirming that co-creation with industry and the LGPS will be an 'essential' part of the review process, as will expertise from leading voices and thinktanks.

The second phase of the review, meanwhile, will start later this year, and will consider further steps to improve pension outcomes, including assessing retirement adequacy.

In addition to this, the government confirmed that ongoing policy development with respect to DB workplace pensions schemes will remain separate from the review.

The pensions industry has welcomed the government's plans for a 'landmark' pensions review, with some suggesting that the review could give scope for the potential for faster implementation of 'pro-growth' reforms to pensions.

Hymans Robertson, for instance, praised the speed with which the government announced the review, with head of pensions policy innovation, Calum Cooper, highlighting the initial focus on investments as a "sound place to start", placing the emphasis more on what we have and where political capital can be built, not spent.

The launch was also welcomed by The Pensions Regulator, with chief executive, Nausicaa Delfas, stating: "There are more than 20 million workplace pension savers and each one deserves the best possible retirement.

"Pension investment in a diverse range of assets has the potential to improve savers' outcomes and support economic growth."

Written by Sophie Smith

A new approach to public pension fund consolidation?

Chancellor, Rachel Reeves, is also considering plans to implement a 'Canadian-style' pension model in the UK to unlock further investment potential from the Local Government Pension Scheme (LGPS).

Reeves met with representatives from the Canadian 'Maple Eight', a group of large-scale pension funds in Canada, amid efforts to increase pension fund investment in the UK economy, as well as reports that the Chancellor is considering the consolidation of funds from across the LGPS.

Ahead of the meeting, Reeves stated that she wanted British pension schemes to learn lessons from the Canadian model to 'fire up' the UK economy.

"The size of Canadian pension schemes means they can invest far more in productive assets like vital infrastructure than ours do," she stated. "I want British schemes to learn lessons from the Canadian model and fire up the UK economy, which would deliver better returns for savers and unlock billions of pounds of investment. We're already beginning to see schemes announce plans to invest. That's a vote of confidence in our work to fix the foundations of the economy, rebuild Britain and make every part of our country better off."

Govt reveals 'surprise' Pension Schemes Bill in King's Speech...

The bill includes a continuation of several areas of pension policy from the previous government, including tackling the number of small pots, plans for DB superfunds, and improving value for money

The government has announced a new Pension Schemes Bill to legislate on several areas of pension policy, many of which were initiated under the previous Conservative government.

In the King's Speech, the new Labour government confirmed plans to legislate on proposals for a value for money framework and the consolidation of small pension pots.

The bill also included plans for trust-based schemes to be legally required to offer retirement income solutions to members, including default investment options.

Proposals for legislation on DB commercial superfunds were part of the bill, although it did not mention potential legislation to allow the Pension Protection Fund (PPF) to act as a public sector consolidator.

However, LCP partner and former Pensions Minister, Steve Webb, noted that it may be that the necessary legislation for the PPF as a public sector consolidator was not prepared in time, rather than the government has dropped the idea.

Reforms to The Pensions Ombudsman (TPO) were also included, with the government aiming to reaffirm TPO as a 'competent court' through the re-establishment of powers and removing the need for schemes to apply to the courts to enforce TPO decisions in relation to overpayments.

Mention of auto-enrolment reform was absent from the bill, despite widespread industry demand for the expansion to be brought forward.

In addition to this, Webb pointed out that the measures included in the bill to tackle the large number of 'micro' pension pots only deal with pots under £1,000, arguing that the government may need to take further action on the consolidation of small, deferred pots, as this will still leave millions of people with slightly larger pension pots scattered across the pensions landscape.

"This Pension Schemes Bill very much represents 'business as usual' when it comes to pensions policy," Webb stated.

"There appears to be nothing in the legislation that so far represents a distinctively 'Labour Party approach' to pensions, and a Conservative minister could happily have brought forward this legislation."

This was echoed by Aegon head of pensions, Kate Smith, who highlighted the new Pensions Schemes Bill as "a sign of continuity".

"Labour will be moving fast to make this happen, improving saver outcomes and supporting investments by enabling schemes to invest in a wider range of assets," she said.

Pensions and Lifetime Savings Association (PLSA) interim director of policy and advocacy, Nigel Peaple, said the association was also pleased to see a Pension Schemes Bill included.

"No time has been wasted in bringing forward existing regulatory initiatives that already have the backing of industry and will improve the retirement outcomes of savers," he continued. "Particularly welcome are the measures to require schemes to offer decumulation solutions, and the creation of DB superfunds. It's good to see a way forward for small pots and the value for money framework being prioritised too."

But while many praised the measures in the bill, AJ Bell director of public policy, Tom Selby, said the claim they could deliver bigger pensions needed to be "taken with a pinch of salt".

"It is, of course, possible that this package of reforms will result in better investment returns for members – but this is never guaranteed," he continued.

However, Broadstone head of market engagement, Simon Kew, argued that the legislative direction of travel in the speech was "understandable", as a smaller number of larger schemes brings efficiencies for providers, investment opportunities for the government and easements for regulators.

"The hope is that the combination of these will lead to better outcomes for members, while these goals clearly remain consistent with the terms of any deeper review of financial services and pensions," he stated. "It may clear the way for the wide-ranging pensions review to reform tax reliefs, the state pension and advice/guidance – all areas which could benefit with from longer and considered consultations."

Written by Jack Gray

...Alongside National Wealth Fund Bill

Industry experts welcomed the inclusion of the National Wealth Fund Bill in the King's Speech, suggesting that it will help provide schemes with a viable vehicle to invest in "exciting growth areas"

The government has announced plans to establish a National Wealth Fund to boost growth and unlock investment in the UK.

Chancellor, Rachel Reeves, and Business Secretary, Jonathan Reynolds, have instructed officials to begin work on aligning the UK Infrastructure Bank and the British Business Bank under a new National Wealth Fund that will invest in "new industries of the future".

A National Wealth Fund Taskforce has also been formed and convened a meeting to begin this work.

Chaired by the Green Finance Institute, the taskforce includes former Bank of England governor, Mark Carney, Barclays CEO, C.S Venkatakrishnan, Aviva CEO, Dame Amanda Blanc, and 'large institutional investors'.

Under the plans, the fund will look to simplify the UK's 'fragmented' landscape of support for businesses and investors, to bring together key institutions and help mobilise private capital in the "industries of the future".

An additional £7.3bn of funding will be allocated through the UK Infrastructure Bank so investments can start being made immediately, with the aim of generating £3 of private sector investment for every £1 it invests.

Reforms will also be made to the British Business Bank as part of the National Wealth Fund plans, with the government aim of mobilising the UK's 'deep pools' of institutional capital, such as pension monies, by "harnessing its pipeline of investments and track record as the UK's largest investor in venture capital".

The government said this will unlock billions of pounds of investments in the UK's green and growth industries.

Reeves has tasked the Treasury with engaging with industry, government departments, and public finance institutions to set the plans in motion.

"We need to go further and faster if we are to fix the foundations of our economy to rebuild Britain and make every part of our country better off," she said. "That is why we are establishing a new National Wealth Fund and bringing together the key institutions that will help unlock investment in new and growing industries.

"Britain is open for business – and the work of change has begun."

This work has since been put on a permanent statutory footing, as a National Wealth Fund Bill was also included in the King's Speech.

Industry experts welcomed the inclusion of the National Wealth Fund Bill, with Pensions and Lifetime Savings Association (PLSA) interim director of policy and advocacy, Nigel Peaple, suggesting that the new plans should help provide pension schemes with a viable vehicle to invest in "exciting growth areas".

Hymans Robertson head of pensions policy innovation, Calum Cooper, also said that it is clear that the government wants pensions and the National Wealth Fund bill to play a role in providing meaningful stimulus to UK productivity.

And whilst he acknowledged that the pensions industry will need clarity for this, calling for both a practical road map and clear and attractive opportunities to invest at scale, he suggested that this bill could play an "important part in stimulating this thinking and direction".

"There is a huge societal opportunity in unlocking the productive potential of our £2.5trn of pensions," he said.

Investment Association CEO, Chris Cummings, also highlighted the enshrinement of the fund in legislation as a "clear signal from the government of their intent to mobilise much needed capital for green investments".

"The Climate Change Committee estimates that an additional £50-60bn of capital investment will be required every year over the next decade to deliver the UK's net-zero ambitions, and there is an urgent need to build the pipeline of investable infrastructure projects in the UK to support this," he stated.

"We strongly support this ambition to channel much needed capital into British businesses and infrastructure projects to cement the UK as a leader in sustainable finance."

Written by Sophie Smith and Jack Gray

'Significant milestone' as new DB Funding Code laid

The Pensions Regulator's long-awaited DB Funding Code was laid in parliament following several delays over the past year

The Pensions Regulator's (TPR) new DB Funding Code was laid in parliament in July, in what was highlighted by the regulator as a "significant milestone" for the trillion-pound DB market.

Laid following extensive industry consultation, the new DB Funding Code aims to complement the change in regulations and sets out a framework protecting savers, while giving flexibility to the market.

The new code sets out to trustees, sponsoring employers and advisers TPR's guidance and expectations on how to comply with the Funding and Investment Strategy requirements.

In particular, the DB Funding Code aims to encourage good long-term planning and risk management behaviours, and give guidance on setting recovery plans in line with what is reasonably affordable for their sponsor.

It also includes guidance on how trustees can set funding plans in line with the support their sponsors can provide and how maturing schemes can move to a point of low dependency on their sponsor.

Once in force, it will replace the existing DB Funding Code, introduced in 2014, for valuations with effective dates on or after 22 September 2024.

TPR executive director of market oversight, Neil Bull, highlighted the laying of the code as the "final step" in realising a new DB funding code that reflects the changing DB landscape.

He stated: "The DB Funding Code strikes the right balance between security and flexibility for scheme specific funding and investment approaches in the interests of members and employers.

"It will enhance the system, as well as provide a framework to protect millions of savers. It is a significant step, and we would like to thank all those who have contributed their views during our extensive consultation.

"Together we have developed a DB funding code that will support trustees in effectively planning and managing the long-term funding of their scheme today, and in the future."

While many schemes are currently well funded, TPR stressed that the DB Funding Code outlines principles and requirements to support schemes "no matter what" their financial positions in the months and years ahead.

TPR also emphasised that whilst seven in ten private sector DB schemes are closed to future accrual and 4 per cent remain open to new members, the revised DB Funding Code also includes the "necessary flexibilities" to be relevant and supportive of all DB schemes, including open ones, following numerous industry concerns on this.

The DWP's Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations, which align with TPR's DB Funding Code, came into force in April this year and apply to valuations with effective dates on or after 22 September 2024.

Given this, TPR acknowledged that there will be a gap between when the requirements of the Funding and Investment Strategy Regulations start applying and the new DB Funding Code is in force.

However, it confirmed that schemes with valuation dates in this period can use the new DB Funding Code as the base for their approach. TPR also confirmed that it will take a "reasonable" regulatory approach to them.

Alongside the DB Funding Code, TPR has published its response to its consultations on the new DB funding code and its regulatory approach, including Fast Track and Bespoke valuation submissions, including final fast track parameters.

TPR has also published updated DB superfund guidance, including on capital-backed arrangements (CBA) and its expectations for the release of capital.

Its updated guidance stated that capital can be released from DB superfunds up to twice a year, and when meeting a specific trigger and safeguards.

TPR said it "listened closely" to the industry regarding capital release, and that its position in the guidance supported innovation while retaining protection for scheme members.

It also stated that trustees can decide to enter into a CBA or superfund on a reduced capital adequacy basis, where the alternative is for the scheme to buy out on less than full benefits.

Written by Sophie Smith and Jack Gray

Court of Appeal upholds *Virgin Media v NTL* court case ruling

The ruling is expected to have "significant ramifications" across the DB market

The Court of Appeal has upheld the High Court's ruling in the *Virgin Media v NTL Pension Trustees II* court case, relating to section 37 and contracted-out DB scheme amendments.

In June 2023, the High Court ruled that a lack of actuarial confirmation would render relevant amendments to affected contracted-out DB pension schemes' rules invalid and void.

The Court of Appeal rejected the appeal to this decision and industry experts have warned that this could have far-reaching implications for a significant number of DB schemes, with deeds affecting the way benefits have accrued potentially being confirmed as invalid.

Under section 37 of the Pension Schemes Act 1993, the rules of salary-related contracted-out schemes could not be changed in relation to section 9 (2B) rights unless the actuary had supplied written confirmation that the scheme would continue to meet the statutory standards.

Section 9 (2B) rights are attributable to contracted-out service from 6 April 1997, while the statutory standards are a benefits test based on rights under a notional 'reference scheme'.

The ruling confirmed the need for an actuarial certificate when salary-related contracted-out schemes were making changes to benefits between 6 April 1997 and 2016, and any amendments that affected relevant benefits were void without the appropriate certificate.

Broadstone chief actuary, David Hamilton, said that the upholding of the original decision was expected to cause "major issues" across the DB pensions industry, suggesting that "many will be looking desperately to the Department for Work and Pensions to provide a solution that avoids a lot of unexpected and unwelcome rectification exercises".

This was echoed by Association of Consulting Actuaries (ACA) chair, Stewart Hastie, who confirmed that "along with others, ACA is looking to the government to bring forward clarifying legislation or regulations to help schemes and their sponsors address the situation positively".

Written by Jack Gray

Former BSPS members left 'disappointed'

Some British Steel Pension Scheme members have been left 'disappointed' after "changing economic conditions" pushed the amount of redress owed

The Financial Conduct Authority's (FCA) British Steel Pension Scheme (BSPS) redress scheme paid out a total of £8.7m to 360 former BSPS members, after "changing economic conditions" pushed the amount of redress down from the £50m initially estimated.

The FCA's latest update confirmed that a total of £106m was offered to 1,870 former BSPS members.

In particular, the FCA's redress scheme resulted in 187 members offered redress by firms totalling £3.8m, while 173 were offered redress by Financial Services Compensation Scheme totalling £5m.

However, the FCA estimated that 1,744 former members received unsuitable advice but were not offered a redress payment, as, even though they received unsuitable advice, they haven't lost out financially as a result.

In its update, the FCA acknowledged that, since 2022, the proportion of individuals who received unsuitable advice to transfer but didn't receive a redress payment increased "significantly" since the redress scheme was announced, due to "changing economic conditions".

This is because the expected cost of funding a guaranteed retirement income through an annuity has fallen since the FCA first introduced the redress scheme, meaning that the amount needed to top up a defined contribution pot to put someone back in the position they would have been is likely to be less and in some cases zero.

However, the FCA acknowledged that some former BSPS members will be disappointed to have received no, or less, redress than they were expecting.

Written by Sophie Smith

FCA launches consultation on VFM framework

The consultation is seeking views on the proposed rules for a value for money framework for contract-based pension schemes

The Financial Conduct Authority (FCA) has launched a consultation seeking views on the proposed rules and guidance for the value for money (VFM) framework for contract-based pension schemes.

It outlined its proposals for the VFM framework for savers invested in default arrangements of workplace DC schemes, including a traffic light system in the public disclosures of VFM assessments.

A 'red' assessment would signify poor value and a scheme in danger of wind-up, 'amber' will mean there's room for improvement, and 'green' will signify the scheme provides VFM.

The FCA noted that while this consultation related to rules for FCA-regulated firms operating contract-based pensions, its proposals are based on previous joint work with the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR), and are designed to be suitable for application across the DC workplace pensions market.

TPR, the DWP and the FCA are aiming to implement a joint framework for workplace DC schemes to be used by pension providers and those making decisions on behalf of savers.

The VFM framework is designed to fit within existing Consumer Duty processes already put in place, with firms having an obligation to consider the value of the pension products they offer and, for workplace pension products, to use their Independent Governance Committee's (IGC) conclusions in their assessments.

The FCA has proposed retaining this model and to strengthen it by creating common metrics, aiming to bring transparency to the market and harmonise how IGCs approach their work on value.

Under the framework, four elements will be introduced, including the requirement for consistent measurement and public disclosure of investment performance, costs, and service quality by firms for all such arrangements against metrics the FCA believes will allow VFM to be assessed effectively.

It will also seek to enable those overseeing and challenging an arrangement's value to assess performance against other arrangements and require them to do so on a "consistent and objective basis".

Assessment outcomes will need to be publicly disclosed with the inclusion of a red/amber/green VFM rating for each arrangement, and firms will be required to take specific actions where an arrangement has been assessed as 'red' or 'amber'.

Following on from its joint consultation with the DWP and TPR, the FCA has set out the detail underpinning the joint approach.

It is seeking views on the proposed scope of the requirements, how the core metrics on cost, performance and quality of service are to be calculated and published, and the processes to be adopted by IGCs in assessing arrangements.

The FCA also consulted on the range of actions to be taken by firms in the event an arrangement is poor value for money, and on the annual publication cycle and the details of how metrics are to be published.

It has launched its consultation for contract-based schemes ahead of the DWP introducing equivalent legislation for trust-based schemes in an upcoming Pension Schemes Bill.

"Last year, over £130bn was saved into workplace pension schemes – money which we want to see working hard for future pensioners to give them better retirement incomes," commented Pensions Minister, Emma Reynolds.

"Our Pension Bill and Pensions Review will make pensions fit for the future, and having an effective VFM framework will lay the foundations for this.

"I would encourage responses from across the industry, including trust-based schemes, to this consultation."

FCA executive director of markets and international, Sarah Pritchard, added: "Sixteen million people save for their retirement into DC pension schemes. We're working with the government and TPR to help them get better returns.

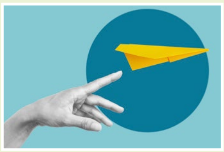
"We want to see a focus on long-term value, not just costs and charges. Given the impact these changes could have, we are consulting now to ensure that the pension system can be ready to go when the legislative changes that need to happen are ready."

Written by Jack Gray

NEWS IN BRIEF

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

A changing market



The past month brought more than a few acquisitions, rebrands and new entrants to the pensions industry:

- Digital bank Monzo launched a new product aimed at simplifying pension consolidation by bringing old pensions together into one fund within its app.
- Cushon rebranded to NatWest Cushon, a year on from the bank acquiring an 85 per cent stake in the firm.
- Insurtech company, Lumera, entered an agreement to acquire independent provider of data management and technology solutions, ITM, as it aims to expand into the UK market.
- Aegon launched a new digital service that enables workplace members, particularly those without an adviser, to find and compare old pension pots.
- The Pensions Management Institute (PMI) announced the launch of a new Global Innovation Centre, as part of its broader brand refresh, designed to better reflect its core values of being professional, inclusive, collaborative, future-focused and trusted.
- Tillit entered the pensions market with the launch of a workplace self-invested personal pension account, offering savers auto-escalation.
- Canadian investment management firm Brookfield applied to set up an insurance company in the UK to move into the bulk annuity market.
- Global professional services business JTC announced plans to acquire the Buck UK and European Share Plan Administration and Trustee businesses from Arthur J. Gallagher & Co.

Climate efforts ramp up

Pension schemes and providers have been busy sharing their latest round of climate reports, revealing plans to step up climate-related action at a number of firm and providers:

- Broadstone committed to setting several near-term science-based emissions reduction targets, including targeting a 50 per cent reduction in scope 1 carbon emissions by 2032. The group is also looking to increase its active annual sourcing of renewable electricity from 63 per cent in 2023, to 100 per cent by 2030.
- The Local Authority Pension Fund Forum (LAPFF) published a report outlining its recommendations for UK climate policy, warning that the next stage of addressing the energy transition will be more challenging.
- The Pension Protection Fund (PPF) published its fourth Climate Change report, revealing that 67 per cent of its portfolio was categorised as 'net zero, aligned, aligning or committed to align' with the Paris Agreement, compared to the 59 per cent 2020 baseline.
- The Investment Association (IA) has published its latest climate and nature policy report, outlining its approach to climate change and nature-related policy.

A guiding hand

Several industry organisations have shared guidance on key pension issues, including dashboards, climate and funding considerations:

- The Pensions Administration Standards Association (PASA) published a white paper on the digital administration of pension schemes. Alongside this, PASA published guidance on preparing for the change to normal minimum pension age (NMPA) ahead of the increase to age 57 from 6 April 2028.
- The Society of Pension Professionals (SPP) published updated guidance for the new DB funding regime, following "uncertainty and speculation" around how schemes should adjust their strategies under the new regime.
- The Local Government Pension Scheme (LGPS) published the first version of its dashboards connection guidance for LGPS administering authorities, alongside an additional voluntary contribution and dashboards guide.
- The Taskforce on Nature-related Financial Disclosures' (TNFD) launched its first set of Additional Sector Guidance, which covers eight real economy sectors, and Additional Guidance for Financial Institutions.

A Tartan Army superfan

Scottish Widows retirement specialist, Robert Cochran, dicusses following the Tartan Army to this year's Euros, his time as a cub leader, and his cheesiest pensions interview moment

What's your employment history (including jobs outside of pensions)?
When I was a student, I worked for Slater Menswear in Glasgow. We were entered into the Guinness Book of Records as the world's largest menswear store. After leaving university, I joined McDonalds as a graduate trainee. It was also my first foray into pensions: I was enrolled into the McDonalds McPension Scheme – yes, it was literally called a McPension…

What's your favourite memory of working in the pensions sector?
The Pension Buses campaign, appearing on the *Today* programme, was certainly a highlight. But if I'd pick one, it would be appearing on BBC's *The One Show*. Pension freedoms had just come in and the BBC came up to Edinburgh to interview me about stats we had released showing how people were reacting. I had to pretend a huge office belonged to me and stroll about like I was important. I'd promised my son I'd get a Spiderman reference as he was a massive fan. We were on holiday in France when it went out and struggled to watch it, but I was immediately pelted on Twitter and on text about my (admittedly cheesy) line: "Pension freedoms remind me of Spiderman – with great freedoms come great responsibility."

If you did not work in pensions, what sector do you think you would be in instead?
What I really wanted to be coming out of university was a venture capitalist – this was long before *Dragon's Den* or the 'Angel Investor' era and way before most people had any idea what that was. It was the maths that let me down, but maybe there will be a role for me doing that with all this productive finance. I can get underneath the ideas and AI can do the maths!

What was your dream job as a child?
I'm not sure I ever had a dream job – but I knew I didn't want to be a binman. Not for the reasons you might think – I used to be terrorised in my dreams by bin ladies with really long nails who threatened to throw me in the bin lorry... so anything, but that. I was, however, very interested in anything to do with dumper trucks. I was given a sit-in pedal dumper truck for Christmas and all I could think about was buzzing around a building site with a full-sized one!

What do you like to do in your spare time?
I love going out on bike rides with my mates – not the Lycra-clad road biking – but finding the brilliant trails that crisscross the country. In the summer, we cycled down to the Euros in Germany. As a proud Scot the actual football tournament was rubbish of course, but the trip itself was just brilliant – an epic, unforgettable experience and so much fun.

Do you have any hidden skills or talents?
That's a tough one. The one thing I'll go for is inventing games. I used to be a Cub Scout leader and am the oldest of five siblings, so I used to invent games for all the family to play. When I was leading the Cubs you could do this on a grand scale, so I'd just come up with mad ideas to get them competing while learning and I know they still play some of these games to this day!

Is there a particular sport/team that you follow?
I'm a big fan of Heart of Midlothian Football Club. I've got a season ticket and am looking forward to heading off to see them in Europe again, oh and my daughter's initials are HMFC…

Is there any particular music/band that you enjoy?
I'm a massive music fan and avid listener of BBC 6 Music, so I've a pretty eclectic taste in music. I've got a fair bit of Primal Scream Screamadelica merch in my house. But, in the interests of appearing modern, hip, and cool I'd pick Canadian country-rocker Neil Young. Ask me tomorrow and I'll say someone else.

Written by Sophie Smith

Reality TV star picks up the Pension Attention megaphone

Pension Attention Campaign spokesperson, Joe Dabrowski, reveals the duo behind the megaphone for this year's Pension Attention campaign and the work needed to get the nation to 'face forward'

The Pension Attention campaign has taken another bold turn in its third year, introducing a fresh approach called 'Face Forward'. This time, the campaign features TV personality Gemma Collins, known for her standout role in *The Only Way is Essex (TOWIE).* Gemma, with her larger-than-life persona and memorable one-liners, is set to bring a new level of visibility to the importance of pension awareness.

The GC effect

The campaign introduces Gemma Collins in what appears to be a traditional anti-ageing beauty ad. However, it is actually a parody designed to deliver the message that we need to focus not just on the cosmetic elements of life, but the serious task of financial planning for later life.

Research indicates a significant gap in awareness: While many people aged 35-55 are keenly aware of physical ageing, with 57 per cent purchasing anti-ageing products in the past year, only 23 per cent have taken steps to organise their pensions. By intertwining the concepts of beauty, ageing, and financial planning, the campaign seeks to make pension planning as much of a focus to people as their attention to skincare.

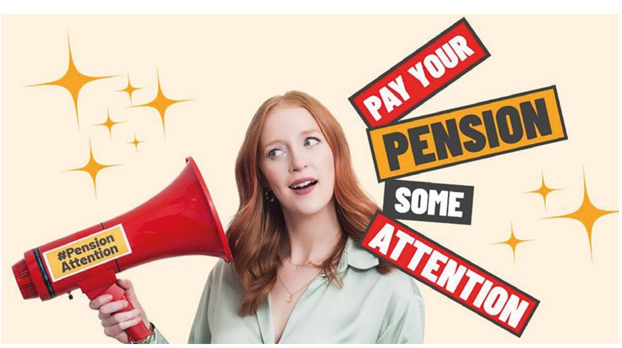
Joining forces

This year we have a double bubble. Gemma will not be alone. Money expert Iona Bain joins the campaign to guide Gemma – the audience – on the essentials of pension planning. The campaign's website, pensionattention.co.uk, hosts a series of short films featuring Gemma and Iona, which explain the small steps you can take today to help your future self:

1. Find out if you have any lost pension pot savings
2. Log in to your pension accounts and check what you'll get when you retire
3. Picture your future self and how much you'll need in retirement

Building on success

Last year's Pension Attention campaign was a significant success, with post-campaign surveys revealing that one in four people recalled the campaign, reaching over 10 million individuals. Of those, 85 per cent took tangible action, such as logging into their pension accounts or seeking more information.



In this year's campaign, we aim to build on that momentum and engage an even broader audience with their pension pots.

A united industry

The pensions industry plays a crucial role in this national effort to engage UK adults in pension planning. The campaign's success depends on widespread participation, and the PLSA and ABI encourage everyone to get involved. Look out for Gemma and Iona in various public spaces and online ads. Share the campaign materials on social media and encourage scheme members to visit the Pension Attention website.

Industry participation helps to amplify the message and galvanise the public to engage more deeply with their pension planning.

The campaign is made possible thanks to the generous support of our sponsors: Aviva, Fidelity, Legal & General, NatWest Cushon, Nest, NOW: Pensions, Pru, Royal London, Scottish Widows, Smart Pension, Standard Life, and the People's Pension. If you're interested in becoming part of this initiative, please reach out to info@pensionattention.co.uk to learn more.

The PLSA and the ABI are excited about the future of the Pension Attention campaign. For now, let's all 'Face Forward'!

Written by Pension Attention Campaign spokesperson, Joe Dabrowski

Appointments, moves and mandates

Andy Bord

The trustee and Railpen Boards have appointed Andy Bord as Railpen's CEO, following the announcement in January 2024 of John Chilman's intention to retire.

Bord will be responsible for the teams that invest c.£35 billion of assets and provide administration services for over 350,000 railways pension schemes' members and pensioners, as well as the administration of several third-party clients.

Bord is a highly experienced CEO, having held such roles most recently at Flood Re, at Capita Insurance Services, and within the private equity sector.

Bord will move into his new role from October 2024.

Standard Life, part of Phoenix Group, has announced four appointments within its DB solutions division.

Jack Hill has been appointed as a director of DB solutions, and Alex Oakley, Emma Haylock, and Joe Haswell have all been appointed as BPA transaction managers.

Hill will be responsible for the development, origination and execution of DB solutions, including BPA transactions and other de-risking options. Oakley, Haswell and Haylock will be responsible for leading BPA origination and transaction execution. All three previously worked as BPA pricing actuaries at Standard Life and bring a wealth of experience, having supported some of Standard Life's most significant BPA transactions, including those with the Gallaher Pension Scheme, Whitbread Group Pension Fund and WH Smith Pension Trust.

The Pensions and Lifetime Savings Association (PLSA) has appointed Zoe Alexander as its new director of policy and advocacy.

Alexander, who will also join the PLSA Board, will start in her new role on 4 November 2024. She will take over from current director of policy and advocacy, Nigel Peaple, who stepped down from the position on 31 August.

The PLSA stated that Peaple will cover the role's responsibilities on an interim basis as part of his new role as PLSA chief policy counsel until Alexander takes over.

Alexander is currently Nest director of strategy and corporate affairs, and chairs the PLSA's Master Trust Committee and sits on its Policy Board.

Prior to joining Nest, Alexander led the HM Treasury team that developed Pension Wise.

Jonathan Hawkins

The Pensions Administration Standards Association has appointed two new board directors, Jonathan Hawkins and David Fairs.

Hawkins is propositions lead and global LGBT+ DE&I lead at Bravura Solutions. He is also an expert panel member on the DWP Small Pots Delivery (technical and administration) Group.

Fairs has over 40 years industry experience, having previously held a key positions in KPMG, past chairman of the Association of Consulting Actuaries and as executive director for regulatory policy, analysis and advice at The Pensions Regulator. He is also a partner at LCP and an honorary professor at Durham University Business School.

Mineworkers' Pension Scheme (MPS) has appointed Brightwell, the primary services provider to the BT Pension Scheme (BTPS), as administrator, providing services from January 2025.

Brightwell was appointed following a competitive tender process.

As part of the deal, Brightwell will provide a complete pension administration service to MPS, including handling all member processes and contact from its administration centre.

Brightwell's call handlers are all qualified pension administrators who have undertaken training to provide members with resolutions to their queries.

In addition to this, Brightwell will introduce a new personalised online portal for MPS members who prefer to manage their pension online, which will be hosted on Procentia's IntelliPen system introduced by Brightwell for BTPS in 2021.

Commenting on the appointment, Coal Pension Trustees Services CEO, Dan Whincup, said: "After a thorough review of its administration services, I'm delighted to announce that the trustee of the MPS has appointed Brightwell as the scheme's next administrator.

"We've been particularly impressed with how Brightwell has transformed services for BTPS members. We know that MPS and BTPS share very similar values, and we will work closely with Brightwell to further improve our own services. I'm confident that members will receive the best possible service under the new contract with Brightwell."

Morgan Sindall Group has appointed WTW's UK defined contribution (DC) master trust, Lifesight, as the master trust provider for its UK DC pension scheme members.

LifeSight's remit covers the DC pensions for current and former employees from the six divisions of Morgan Sindall Group's UK entities, with approximately 9,300 members and £420 million in assets under management.

LCP advised Morgan Sindall Group on the appointment, running a whole-of-market review, including a competitive tender process, as part of this.

In particular, the partnerships, fit out and construction services group said that Lifesight was selected for its high-quality member engagement approach and closely personalised support for individual members.

The addition of Morgan Sindall's membership, alongside other recently committed clients, means LifeSight has now secured £21bn in assets under management, and around 415,000 members.

Commenting on the appointment, Morgan Sindall Group group tax and treasury director, Paul Marriott, said: "Given our six employing entities, each with its own underlying pension structures, we were very mindful of the complexities and nuances of our pension scheme. We sought a provider that had the experience and flexibility to really tailor its offering to our needs and that's what impressed us about LifeSight. Its careful and selective growth strategy also ensured we were given the resources to get the transition to LifeSight absolutely right."


Ben Leonard

Trafalgar House has appointed Ben Leonard as non-executive director for the Trafalgar House Pensions Administration Board.

Leonard is the CEO and founder of Life Moments, a fintech that supports financial firms to deliver modern digital experiences. He has spent over 25 years in financial services first as a banker and then as a fintech founder selling into banks, pension firms and insurers.

"I am looking forward to adding my experience to the mix, in particular looking at how technology, data and agile delivery can help to accelerate the pensions administration landscape to deliver more for members," Leonard said.


Bahea Izmeqna

Smart has appointed Bahea Izmeqna as chief product officer.

Izmeqna will oversee technology, product and solutions, focusing on the development and strategic enhancement of the Keystone platform.

She also brings with her significant international experience across the Middle East, Africa, Europe and Asia.

Izmeqna joins Smart from SC Ventures by Standard Chartered, where she served as chief strategy officer for CurrencyFair and Zai group venture.

Izmeqna's appointment follows Alex Arundale being made Smart's chief people officer, succeeding HR director, Martin Warner.

Clara-Pensions has appointed Matt Wilmington as chief transactions officer.

Wilmington joins from Scottish Widows, where he spent six years as head of origination and structuring. At Clara, he will lead all origination activities and ensure the seamless integration of new members when they join.

Also, Luke Stratford-Higton will take on the newly created role of chief actuarial officer at Clara-Pensions, where he will continue to grow Clara's pricing capability and transaction support through expansion of the actuarial team. Meanwhile, chief Commercial Officer, Dan Adams, will leave Clara.

Clara-Pensions CEO, Simon True, said Wilmington's expertise will be "invaluable", while also being "delighted that Luke has taken on the role of chief actuarial officer", and wishing *[Adams]* "the very best in his new role".


Owen McCrea

Capital Cranfield has hired Owen McCrea as head of secretarial services.

McCrea was most recently head of secretariat at Coal Pension Trustees, and before that was a senior pensions management consultant at Barnett Waddingham, where he worked for seven years. He will be based in the firm's Nottingham office.

"I am excited to have been given the opportunity to lead Capital Cranfield's Secretarial team. The firm's reputation goes before it and I am looking forward to working with my new colleagues and embracing technology and other opportunities to ensure that we support clients in the most effective and cost efficient way possible," McCrea said.

VIEW FROM TPR: Master trusts - investment, data and innovation at retirement

When I joined TPR as a lawyer six years ago, the first cohort of master trusts was about to apply for authorisation. I had arrived from the Department for Work and Pensions, where I had worked on the new legislation we were using.

Since then, I have worked with schemes and their advisers on all aspects of TPR's supervision as the market has grown in size and complexity. Master trusts may be familiar ground, but they always offer excitement and new challenges.

As I told our Master Trust Conference, there's a real opportunity for us all to keep improving how DC pensions work for the benefit of our savers.

For TPR's part, our chief executive, Nausicaa Delfas, explained to delegates from 28 master trusts – accounting for almost 90 per cent of all DC memberships – how our supervision would challenge master trusts to focus on three things: investments, data and innovative solutions at retirement.

Events like our Master Trust Conference are invaluable in setting the tone for good communication between regulators and the regulated community, and I hope we achieved this on the day.

If you missed the event, you can get a flavour of it and read speeches from Nausicaa and Neil Bull, TPR's interim executive director of market oversight, on our website at www.tpr.gov.uk/mt-conference-2024

TPR interim director of master trusts and DC supervision, Sam Grutchfield

The Pensions Regulator
Making workplace pensions work

View from the PLSA: Investing in UK growth

The PLSA has published a new report highlighting what is needed to create the investment conditions for pension schemes to allocate a greater portion of the nation's retirement savings to promising UK growth areas.

We've identified climate change, infrastructure, social and community growth funds, life sciences and AI as both the most promising growth areas for pension investment, and where policy interventions could have the most impact.

Reforms to the planning process, developing innovative blended finance options and looking beyond private equity and venture capital can help open up growth-oriented investments that would be relevant to many pension schemes.

Most importantly, pension funds need long-term certainty about policy and regulation. This includes developing a long-term strategy for investment and growth, outlining the government's priority investment sectors and how it will work with the pensions industry.

Crucially, pensions funds have a fiduciary duty and will only invest where the risk-return characteristics of potential investments meet the needs of their members. But with all playing their part, there is substantial potential to open the pipeline of assets to attract the investment of pension funds to support UK growth.

PLSA interim director of policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: Labour's plans for LGPS

The new Chancellor, Rachel Reeves, has wasted no time in proposing sweeping changes to the UK's only funded statutory pension scheme. She has suggested that the 88 separate funds that constitute the Local Government Pension Scheme (LGPS) in England and Wales be merged into a single entity. This would create the world's seventh largest funded pension scheme.

A scheme of this size would achieve significant economies of scale (currently the LGPS pays approximately £2 billion in fees annually) and would facilitate significant changes to investment strategy. This would see greater investment in the UK economy with greater emphasis on investment in patient capital. In pursuing this objective, she would continue a policy initiated by Jeremy Hunt in his Mansion House speech. The suggested role model for this change is the Canadian 'Maple Eight' group of public sector schemes, which manage their own investment strategies, remain fiercely independent of government and invest heavily in illiquid and alternative assets.

However, if this reform is to be successful, some significant changes will be required. For regulatory reasons, it remains difficult for pension schemes to acquire illiquid assets, and the government may need to consider ways to incentivise investment in the type of assets it is seeking to promote.

This remains a bold idea by a Chancellor. Whilst there are difficulties to be overcome, the potential rewards for both scheme members and the UK economy make this an exciting initiative.

PMI director of policy and public affairs, Tim Middleton

PMI

Diary: September 2024 and beyond

Pensions Age Autumn Conference

19 September 2024
The Waldorf Hilton Hotel, London

The Pensions Age Autumn Conference is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, and will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs, whether in the DB or DC space. Topics will include regulatory updates, investment, technology, administration, communication, de-risking and more.
pensionsage.com/autumnconference

Irish Pensions Awards

20 November 2024
The Round Room at the Mansion House, Dublin

The Irish Pensions Awards aims to give well-deserved recognition to those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence and professionalism in everything they do, despite the challenging economic and political landscape. It will be hosted at a new venue, The Round Room, this year.
europeanpensions.net/irishawards

Pensions Age Awards 2025

4 March 2025
Grosvenor House Hotel, London

The 12th Pensions Age Awards aim to recognise and celebrate the excellence of both pension schemes and providers across the UK, especially those that have demonstrated outstanding performance and resilience in challenging economic conditions. These prestigious awards are open to all UK-based pension schemes and provider firms that cater to UK pension schemes. The deadline for submisisons is 1 November 2024.
pensionsage.com/awards

PLSA Annual Conference

15-17 October 2024
ACC, Liverpool

This event will bring together pension professionals for a programme of world class keynotes, roundtable discussions and educational sessions. The conference will see the discussion of every aspect of pensions, from communications and engagement, to investment and regulatory updates. There will be networking sessions allowing attendees to connect with peers, share insights, and discuss collaborative opportunities.
plsa.co.uk/events

Visit www.pensionsage.com for more diary listings

Don't forget...

Pension Awareness Week
9-13 September 2024

The Pension Awareness Campaign will host a range of events to help increase the public's understanding of retirement saving.

pensionawarenessday.com/

VIEW FROM THE SPP: The DB Funding Code

It's been a long and winding road, but the DB Funding Code finally comes into effect this autumn.

The revised funding regulations apply to valuations with an effective date on or after 22 September 2024: the code will go live a little later, but this 'regulatory gap' is unlikely to be relevant for most schemes (and TPR intends to communicate with those affected) – the more important issue is to get to grips with how different elements of the funding regime interact. This will be an iterative process, and it will take time.

Trustees must now plan for the long term. Your scheme actuary will need to estimate the date of 'significant maturity', which the code fixes as 10 years' 'duration of liabilities' (eight years for cash balance schemes). Based on that, you'll need to set the 'relevant date' for your funding and investment strategy, agree a long-term objective with your scheme sponsor and work out a journey plan to reach low dependency by that date. The Fast Track approach may reduce administrative burdens for some.

Another key element will be your understanding of the employer covenant. The code has significant new content on this, with further covenant guidance due for consultation this autumn.

At 102 pages, the code is a lengthy read – but even if your next valuation is some way off, familiarising yourself and receiving training on the code is an important next step on every DB trustee's journey.

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

SPP member, Emma Aylwin

View from the AMNT: Pensions under a Labour government – plus ça change

With the predicated change of government now a reality, focus turns to how the new Labour government will enact its policy commitments and election pledges.

In pensions there is apparently little change from the outgoing government; with pledges to retain the triple lock mechanism. There are other regulatory changes in the pipeline but these seem unaffected by a change of government.

The issue of most interest will be how the government will raise sufficient funds to meet their spending commitments without raising general taxation. Labour seeks to raise funds by growing the economy and this position affects pensions as, like the Mansion House reforms, Labour plans a review of the pension landscape to consider how to increase investment in UK markets.

So, once again, we have a government that looks at the surpluses in DB schemes and the investment positions of DC schemes as 'a suitable case for treatment'. Pension trustees and investment companies will, once again. find themselves under pressure to 'back Britain' to produce growth. I would hope that the new government would recognise the problems this presents to trustees given their fiduciary duties. Any proposed investment in UK stocks needs to provide sufficient return, which, at present, is not self-evident. Still, we remain optimistic that a new start will present better policy.

AMNT Association of Member Nominated Trustees

AMNT member, Stephen Fallowell

VIEW FROM THE ABI: Value for money consultation

It's been a summer of anticipation. While some waited with bated breath for football to come home or for Olympic glory, others – including us here at the ABI – eagerly awaited the arrival of the FCA's value for money consultation.

Upon its arrival, the consultation was widely welcomed by our industry. Understandably so, as it presents a vital opportunity to help shape the framework.

What's more, shifting the culture of the pension system away from 'cost is king' to a focus on overall value is much needed.

It should also enable more investment in illiquid assets and, most importantly, better outcomes for savers.

However, it's very important that the framework is implemented at the same time by both regulators to ensure consistency across all schemes.

Furthermore, proposed rule changes must be effective and proportionate, something we are keenly engaging on with the FCA.

We are also pleased to see the FCA's recognition of the link between the value for money framework and its secondary objective.

Success will rightly be measured by good consumer outcomes, and the framework must maximise the effectiveness of the Consumer Duty while supporting UK growth and competitiveness.

ABI

ABI long-term savings policy adviser, Ben Infield

VIEW FROM THE PPI: Keep talking about housing costs in retirement

In 2018, the PPI found that there were £19.4 billion held in lost pension pots. In 2022, this number had climbed to £26.6 billion.

This problem is growing, and will continue to grow, because it is a natural consequence of our current pension system, and requires policy intervention to stem or reverse the proliferation of these pots.

They accumulate because, with automatic enrolment, it is easy to accumulate a large number of small pots, and potentially lose track of their details.

The most recent PPI survey estimated the average size of a lost pot to be approximately £9,500. The government has stated that pension saving outcomes will be boosted through their pension reforms.

One of these proposed reforms is to automatically consolidate small pots, which would indirectly reduce the number of lost pots, as savers would have a smaller number of more valuable pots, making them harder to forget.

Other initiatives exist to tackle the problem, such as the Pension Attention campaign, pensions dashboards, and public and private pensions tracing services. However, none of these initiatives offer a complete solution by itself – for the time being, there will still be pots getting lost and needing to be reunited with their owners. The PPI will release updated figures in October after the latest survey, so we can continue to monitor the problem and assess the impact of new solutions.

PENSIONS POLICY INSTITUTE PPI

PPI policy analyst, John Upton

A week in the life of: Investment Association senior policy adviser – pensions & institutional market, Imran Razvi

I came to the Investment Association (IA) in 2014 to lead the IA's work on pensions policy. The work has a strong investment focus, given that we represent the UK investment management industry. The role is about working with our members, policymakers and regulators to help create a policy and regulatory environment for pensions investment that helps our member firms deliver high quality investment products and services to pension schemes.

Monday

The morning begins with going to meet with one of our member firms to discuss policy topics in a number of areas of interest in the pensions space, in particular, the government's pensions review and the Bank of England's work to implement an emergency liquidity facility for the DB pensions sector. These meetings are really important to us as an industry association in developing the policy positions that we discuss with policymakers and regulators.

Later in the morning I am in the office to attend an all-staff meeting with one of the IA's board members. This is a great opportunity to hear about the career of one of our member firm's CEOs and their thoughts on the opportunities and challenges facing the asset management industry.

I spend the afternoon at a member roundtable event with trustees, consultants and platforms on DC schemes investing in private assets. I was invited there to make some remarks about the Long-Term Asset Fund regime, and the other options DC schemes have for investing in private assets. It is a lively and interesting discussion.

Tuesday

Tuesday morning begins with an interview with some academics doing a piece of research on DB pension funds and liability-driven investment (LDI) strategies in the 2022 gilts market crisis. The conversation centres particularly around the post-crisis work done by the LDI industry with regulators to strengthen the resilience of LDI strategies. A key point here is to emphasise our view that the LDI sector and pension schemes are in a better place, both as a result of regulatory reform and industry innovation that had taken account of the learnings from the events of the crisis.

Between emails and several internal meetings on organisational matters, the other main item for the day is dealing with a query from a member firm in relation to a specific section of the Financial Conduct Authority's (FCA) rulebook.

Wednesday

On Wednesday morning, I am in the office to host the IA's Retirement Income Committee meeting. This committee represents a group of IA members with an interest in policy advocacy in the UK retirement market. Part of our role with the committee is to find practical ways to help firms serve their customers better, and a key workstream for this group is to identify regulatory change that will enable a new generation of products. Today we have an excellent discussion with the FCA about the regulator's work on the retirement income advice market and the implications for retirement investing.

I then spend some time answering emails and reading a research briefing on the Canadian model of pensions investment, before heading over to the offices of one of our members later in the afternoon to discuss some of the IA's work on the tokenisation of Money Market Funds – in part driven by the benefits to pension funds that use Money Market Funds to manage their liquidity needs.

Thursday

With the FCA's long-awaited consultation paper on the DC Value For Money Framework (VFM) arriving today, much of the day is taken up with reading the paper at speed, preparing a briefing for members and working with our press team to prepare a media comment.

The other item on the agenda today is a call with the Bank of England to provide some industry feedback on its plans for the emergency liquidity facility for pension funds and the LDI sector.

Friday

This is a work from home day and, with the diary being quieter in terms of meetings, it's typically a good day to catch up on emails, reading and drafting documents. The main business for me today is thinking about our response plan to the DC VFM paper – timings and the best way to get member feedback to help shape our response. There's more than enough there to get me to the end of the day and into the weekend!

VIEW FROM THE PPF: Restoring peace of mind and pension savings

At the PPF, we're very proud to manage the Fraud Compensation Fund (FCF), which covers the financial losses of eligible occupational pension schemes due to dishonesty.

Last month, we saw more than 200 members from three pension schemes gain access to their restored pension benefits after Dalriada Trustees secured benefits via Standard Life, using £9.8 million paid in compensation by the FCF.

Many organisations across government and industry were involved in reaching this welcome conclusion and, now more than ever, it's vital we work together to achieve our shared mission to protect and compensate members who find themselves in this devastating situation.

Between 2005 to 2020, we paid out £5 million on 16 schemes. However, following a court ruling in November 2020, which clarified that occupational pension schemes set up as part of a scam were eligible for FCF compensation, the FCF has paid out around £50 million in compensation to 28 schemes.

We expect to make further final compensation payments to a number of schemes, which we look forward to sharing more news on soon.

We're also working on over 100 further claims with a potential value of over £400 million, so there is much more to do, and we will continue to support victims by ensuring we work as efficiently and effectively as possible to restore members' peace of mind, as well as their hard-earned pension benefits.

PPF chief customer officer, Sara Protheroe

VIEW FROM PASA: While vehicles evolve over time, there are some constants

Over the past 30 years, we've seen the focus of DC provision move between occupational DC schemes to stakeholder, on to contract-based GPPs and GSIPS, and then back to occupational DC master trusts.

But behind the process of collecting and validating data, carrying out the investment processing and reconciling holdings remained largely the same, as the administration process is fairly constant. Even for innovative decumulation products the payroll and tax elements have some constants seen within annuities and DB, e.g. paying people the right amount at the right time, collecting tax and dealing with the inevitable end of life processes. It's a mix of evolution and constants.

The phrase 'endgame' is often used in DB as private sector schemes move towards buyout. But perhaps this is a misnomer and we should be thinking about it as an 'evolution' rather than an 'end'. Accepting the legal constitution vehicles end and new ones commence during this evolution. The constants remain whether it's dealing with the supporting assets or administration of the ultimate pension provision vehicle. There are of course some different processes but once again many constants.

PASA is passionate about the value and best practise of the administration discipline. We look at administration standards in the round, regardless of the constitutional status of the pensions vehicle in question. If we can contribute to improving outcomes through better administration, we're happy.

PASA board director, Paul Sturgess

VIEW FROM THE ACA: A new era of UK pensions

We have written to both the new Pensions Minister and Economic Secretary on the day the government outlined its legislative agenda. With a Pensions Bill announced, our letter stressed the early need to consult with the pensions industry given the important holistic link between pensions and the financial policies and taxation approaches pursued by the government.

We are pleased at the early clarity from Ministers on their key priorities and how the pensions review outlined in their manifesto might progress both in scope and timing. Whilst the announcement of a pensions bill is welcome, notably important initiatives to improve outcomes for DC members and the introduction of the long-awaited legislation for superfunds, keeping momentum on outstanding issues is essential. Again, the early tabling of the DB Funding Code to parliament was a welcome move ahead of the summer recess.

We see an important holistic link between pensions and the financial policies pursued by the government. We are supportive of the joint department appointment for the new Pensions Minister as in our view, it is important that there are closer links between the priorities of both the Treasury and DWP. Given the wide industry consensus, we also see the opportunity for the new government speedily progressing steps to encourage greater long-term investment flexibility for DB schemes and their ability to share surpluses with sponsors and members where appropriate.

ACA chair, Stewart Hastie

Balancing member engagement with GDPR

Has GDPR impacted on pension communications and the industry's ability (or not) to be proactive with their engagement messages?

GDPR certainly gave the pensions industry some additional hoops to jump through before engaging with scheme members. But rather than being seen as a hindrance, it actually offers a number of opportunities to be more strategic with communications. Utilising data enables us to be more targeted in our interactions with pension savers. This therefore increases the chances of being more successful with the outcomes we want to achieve.

The challenge is balancing compliance with GDPR while still managing to be proactive with engagement.

GDPR landed at a time when schemes were really starting to up their digital communications approach. But the Data Protection Act 98 had been around for so long, the concept of protecting personal data wasn't a new one – just a shift in focus.

While there's emphasis on GDPR giving individuals greater control over their data, the regulations can also help schemes to build trust with their members by allowing them to effectively exercise their rights to access and amend any data errors. Going to lengths to reassure scheme members their data is secure and being processed in accordance with GDPR should also help with building confidence in the scheme.

Gaining consent to communicate with scheme members about elements not wholly related to the admin of their benefits can be a challenge, but it doesn't have to solely be a regulatory burden. There's the opportunity to engage throughout the process by utilising existing communications, segmenting the information which is issued to different populations and making it more personalised and targeted. Pension scheme members are all individuals driven and motivated by different needs, desires and financial capabilities.

Understanding nuances in demographics, attitudes and behaviour

is important when planning your communication strategy, and it provides an opportunity to create real value for members. Much like a consumer buying a bicycle, scheme members will be thinking and engaging with their pensions at different stages. With digital experiences and the use of quality data, you can create segmented engagement approaches,which present the right information to them at key points in their lives, matching their current needs. Segmentation models and messaging can be constantly refined and tested to find approaches that work, thereby increasing engagement.

Improving data-led decision-making through the effective identification, collection, analysis and use of data isn't as difficult as it sounds, even with the additional responsibilities GDPR presents to us.

Obviously, it's critical the data we hold is accurate. It may be challenging to maintain perfect data for all types of scheme members. But ultimately a focus on accurate data is good news for communications as they can be tailored to the individual's current circumstances. It's also no bad thing for the industry, given the introduction of pensions dashboards will put even more emphasis on schemes to ensure they have up-to-date, accurate information about their members and their benefits.

The security of data is probably the thing which has the most potential to keep pensions professionals awake at night. The risk of data breaches may put off some schemes in sending out member communications. But on the flip side, there are opportunities for schemes to hone their channels of choice and set up robust systems which all work for their membership.

Overall, schemes are having to up their game when it comes to communications as a result of GDPR. They now have to deliver messages that actually benefit their members, like updates on pension performance, personalised retirement planning, and information on how legislative changes could impact savings.

By focusing on providing real value, schemes can keep members engaged, even within the limits of the GDPR rules.

Written by PASA Engagement & Communications Working Group chair, Karen Bolan


Kelvin Wilson

PRT: Making the best decisions in changing times

Pensions Age speaks to Heywood director of pension risk transfer (PRT), Kelvin Wilson, about the changing nature of the de-risking market and how this affects DB schemes' choices

Due to changing market conditions over the past couple of years, some DB schemes are finding themselves with improved funding levels and ready to implement a PRT sooner than expected. However, their data quality might not be at that same insurer-ready level. How can a scheme assess their data quality, and make any improvements required?
Important areas schemes should focus on are conducting data risk assessments/enrichments, engaging with the scheme membership, documenting administration practices and utilising an independent data specialist.

A data risk assessment (DRA) and enrichment will review, validate and improve the presence and accuracy of key member data items. Such reports also provide sample or full calculation audit of members' benefits, the scheme's experience data (where relevant) and a summary of the equally important asset considerations scheme must understand.

Use of independent data specialists can help trustees gather marital and spousal predictor data. Together with names, addresses and mortality tracing, such information will make member and policyholder communication strategies more efficient.

Finally, it is important that schemes document and evidence the data audit and validation work they do, including independent review of GMP reconciliation, rectification and equalisation.

Buyouts, buy-ins, longevity swaps etc.; there are many different PRT options for DB schemes. How can a scheme be confident that it is getting the right type of insurance deal for its needs?
The value of any insurance product will depend on the quantum of risk covered, the premium paid for cover and the term/length of the insurance policy. Bulk purchase annuities (BPAs), commercial consolidation superfund and insurance structured longevity swaps are whole of life, so the key value assessment trustees and scheme sponsors make relate to risks they wish to offload/run and the associated cost/reward.

BPA and commercial consolidation superfund transactions remove five important risks faced by pension schemes: Interest rate, inflation, investment, longevity and sponsor covenant risks. Bespoke longevity swaps can be structured to offer inflation protection against but its primary (and singular) protection against longevity risk make it absolutely, but not necessarily relatively, cheaper than BPAs and superfunds.

Combining longevity swaps with inflation and interest rate swaps within an LDI strategy might offer a synthetic solution that is comparable to BPAs and superfunds. In turn, superfunds can appear economically more affordable than BPAs for schemes that do not have 'strong or tending to strong' sponsor covenants. PRT solutions should be assessed on the cost/benefit of risks they hedge/remove as well as how they help scheme trustees and sponsors honour members' benefit promises.

Having implemented a PRT, are there any residual risks that remain the scheme's responsibility?
BPA insurance is rightly seen as the optimal way for sponsors (if they can afford it) to settle, and trustees to secure, the pension liabilities and benefits of scheme members. However, a BPA, like all insurance, will only cover the members and policyholders set out in the schedule. If entitled members and beneficiaries are overlooked, special promised benefits are erroneously excluded and/or unexpected changes in the law mean benefits should change, these risks (collectively known as residual risk) will not be covered by the standard BPA contract.

Residual risk has traditionally been mitigated by trustee indemnity insurance and run-off cover. However, cover is limited by term (fewer than 15 years) and subject to a liability cap.

As new entrants emerge and competition increases, more BPA insurers are including residual risk cover as part of their BPA offering, with unlimited terms and uncapped liability coverage, for a price of between 0.5 per cent to 1 per cent additional to the BPA premium. Innovation continues to be a feature of BPAs and the PRT market.

Wilson oversees Heywood's development and growth strategy in the PRT market, including Heywood's tech-based PRT solution, Heywood Passport.

In association with HEYWOOD

For professional investors only. Capital at risk.

Could investing in areas like robotics and cyber-security make pensions cool?

I suspect I know what you're thinking: Pensions won't ever be cool and that's that. But what if they were invested in areas of science and technology that people find fascinating, desirable and relevant to their daily needs?

Well, the unlocking of private market opportunities in DC pension strategies means that providers like Legal & General (L&G) have the opportunity to invest retirement funds in areas that could resonate with DC savers by helping to tackle real world issues.

And the result of investing pension funds in areas which people find exciting might not only help to inspire savers to engage more with their pensions, but, we believe, could open new sources of potential returns for funds and offer greater portfolio diversification to help spread investment risk.[1]

So what sort of investments are we talking about in terms of private market opportunities in the science and technology sectors?

At L&G, we've committed over £7.7 billion[2] to support entrepreneurial networks that have emerged from UK universities across our investments and partnerships. We've been an active supporter of these UK university ecosystems for more than 10 years, partnering with them across asset management, real estate development and supporting the scale-up and commercialisation of UK science and innovation through investment into university spin-outs.

Some of these spin-outs have already been sufficiently successful to result in exits – where private investors have been able to realise returns on their investments, often via an acquisition by a large company looking for new products, or by listing on the public markets.

From just the top five UK universities by volume of spin-outs (Oxford, Cambridge, Manchester, Imperial College London and University College London), there have been over 650 such businesses recorded since 2011.[3] Since this time over 180 companies have achieved successful exits[2] either via listings or via acquisition. Examples include businesses in areas such as AI-powered healthcare, DNA sequencing and companies developing successful treatments for disease.[4] We believe there is now a real opportunity to support companies to grow and create industry champions here in the UK.

Therefore, at Legal & General, we believe there may be significant investment opportunities that could benefit DC savers in an area that has demonstrated long-term growth – with more than £14 billion of equity investment into UK spin-outs by domestic and overseas investors over the past 10 years.[5]

So, as part of our ambition to unlock potential investment opportunities in private markets to DC pension savers, we're particularly interested in companies that aim to:

- enable people to live longer, healthier lives;
- generate cleaner sources of energy and environmental innovations;
- drive breakthrough innovations in technology and computing.

Under these themes, the type of investments we'd be considering would be wide-ranging and constantly evolving to help tackle real-world issues. They could therefore include robots designed to enhance surgery and make it more accessible, AI to improve the way we diagnose and treat disease, technologies to improve the ways we use and store energy, and more advanced cyber-security systems.

So, while it's understandable that many DC pension savers might struggle to be fired-up by broad talk of fund investments, maybe the realisation that their pensions are investing in areas that matter to them such as health, sustainable energy sources and technologies to solve problems that we all face every day, would be more inspiring.

We believe that investing in private market assets in high-growth sectors such as science and technology could help boost the UK and global economy, as well as helping to create value for the millions of DC savers saving for their retirement.

And investing in entrepreneurial ventures that have emerged from some of the most impressive hotbeds of innovation at universities in all four corners of the UK could see DC pension funds contributing to efforts to solve major global challenges across high potential target areas such as AI-enabled healthcare, next-generation computing and energy transition. Now, isn't that just a little bit cool?

Find out how we're giving pension savers access to private market investments www.lgim.com/uk/en/capabilities/defined-contribution/private-markets/

Private markets: Our top picks for future-facing portfolios by Robin Martin blog.lgim.com/categories/esg-and-long-term-themes/private-markets-our-top-picks-for-future-facing-portfolios/

Written by Rita Butler-Jones, Head of DC, L&G

In association with Legal & General

[1] It should be noted that diversification is no guarantee against a loss in a declining market.
[2] Legal & General data as at 30 June 2023, includes value of L&G direct debt and equity investments and aggregate commitments to be provided by partnerships with others. All investing involves risk.
[3] Beauhurst data, 2024.
[4] Sourced from Pitchbook.
[5] 10 years to 2023, Beauhurst data.

Disclaimer

Key risks

The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested.

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Preparing for the worst

Just like every other organisation, pension schemes need to manage potentially disruptive operational risks, and be prepared to respond to a crisis that could threaten a scheme's operations and its members' wellbeing. David Adams looks at the steps trustees, managers and employers need to take to ensure a scheme is ready to respond when a crisis strikes

Summary

- Pension scheme trustees, managers and sponsoring employers need to work continuously to identify and manage operational risks that could create significant problems, or a major crisis, for the scheme.
- Risks include the disruption caused by unusual events such as a pandemic or extreme weather, but also cyber risks, which may affect the scheme directly, and/or operations of administrators and other service providers, possibly leading to the theft of members' personal data.
- Trustees, managers and employers must proactively ensure that service providers have taken steps to mitigate any risks that could affect the operation of the pension scheme.
- DB scheme trustees and managers also need to be aware of and seek to manage operational, financial, or regulatory risks that might adversely affect a sponsoring employer, possibly creating another type of crisis for the scheme.
- The Pensions Regulator has created extensive guidance on different aspects of risk management, which is also addressed in its General Code. This should be followed, along with expert advice, when planning how to protect the scheme in the event of a crisis.

We live in an unpredictable and sometimes hazardous world; pension schemes are just as vulnerable as any other organisation to a variety of potentially disruptive and damaging operational risks.

Some, like the impacts of a pandemic, extreme weather, or social unrest, are at least relatively unusual. Others, such as cyber risks, have become a constant source of possible problems, which might be caused by mass system outages, or by hacking or malware removing data from IT systems. Managing and mitigating these risks is difficult because they may disrupt the work of service providers, particularly third-party administrators, upon which the scheme relies.

We saw an example of this in spring 2023, when outsourcing provider and scheme administrator Capita was hit by cyber-attacks that led to two significant data breaches. About 90 Capita clients were affected, including multiple pension schemes that were forced to tell members that their personal data, such as bank details and/or passport photos, might have been extracted from Capita's systems. By January 2024 more than 5,000 people had joined a group action lawsuit against Capita seeking compensation.

The Pensions Regulator (TPR) concluded its investigation into the case by stating that the breaches demonstrated the importance of "ensuring that trustees or managers of pension schemes and their providers have robust cyber security and business continuity plans in place".

Another group of ever-present risks are linked to the fortunes of employers that sponsor DB schemes. The first step trustees should take in addressing these risks is to familiarise themselves, if they have not already done so, with TPR's guidance for protecting schemes from sponsoring employer distress.

PwC head of the pensions employer covenant and restructuring team, Mark Jennings, says the way he and his colleagues advise DB scheme trustees has changed, in part because the nature of risks affecting employers has changed, but also because scheme funding levels have improved, meaning many are now preparing to move towards an endgame.

"A key issue for many trustees now is making sure that the sponsor is able to stand behind the scheme for the next five to 10 years, rather than a focus on cash contributions," says Jennings. He highlights the potential for employers to be adversely affected by risks linked to ESG or climate-related regulatory or legislative changes, for example.

Use guidance and expert advice to plan a crisis response

TPR has produced detailed guidance for trustees on identifying, monitoring and assessing risks, including guidance on continuity planning. It also stresses the importance of understanding the processes that service providers, particularly administrators, put in place to manage the risks that might disrupt their operations.

"We do not expect governing bodies will have the power to eliminate all risks – that's not realistic," says TPR policy lead, Nick Gannon. "But we do expect them to understand the risks facing their scheme and the power they have to effectively manage and mitigate those risks. Where governing bodies conclude they do not have the knowledge or understanding necessary to do this they should seek … expert support and … appropriate advice.”

Trustees must ensure service providers have adequate cyber risk management processes and business continuity plans in place. They must not simply assume that will be in place, says Pensions Management Institute (PMI) vice-president and non-executive director, Rosie Lacey: “Employers should ensure … the provider has … a cyber security plan and a business continuity plan.”

There are other potential risks that trustees or employers may not have considered, says Barnett Waddingham head of resilience, Karla Gahan. They include key person risks: What happens if an important individual, such as a professional trustee who usually chairs the board, or a lawyer who has in-depth personal knowledge of the scheme, is not available, because of illness, for example, when a crisis occurs?

Trustees or employers need to consider such questions as they determine which individuals will form a response team to guide a response to a continuity incident or a crisis. Such a team needs more than a couple of members, says Gahan: “If you only have one or two people they will burn out.” She suggests that ideally a team would contain five or six people, including a lawyer and/or PR adviser, if possible – perhaps engaged on a retainer basis to try to ensure their availability when needed.

Gahan also thinks not enough attention is always paid to the importance of communication with members, other stakeholders or the wider public in the event of a crisis.

“Members, including retirees receiving pensions, may use email or social media channels, so you need to use every channel available, rather than just sending letters,” she says. Gahan suggests communications plans are based in part on consultations with lawyers and PR advisers, if possible, but also says that “even having thought about this is a great first step”.

Consultancy and investment governance provider Avida International advises some of the UK’s largest pension schemes on continuity planning and crisis management. Founding partner, Paul Boerboom, says he and his colleagues advise schemes to “try to imagine the unimaginable” when planning.

“Do your utmost to come up with scenarios that are hard to imagine and haven’t happened in the past,” he advises.

He also urges trustees to try to make improving risk management and planning for crisis management part of a scheme’s organisational culture.

“It’s easy to ensure you’ve got risk registers and risk mitigation measures at all levels, but does the organisation have risk management and crisis management in its DNA?” he asks.

“Effective risk management demands constant attention”

Test, test, and test again

The other vital measure to take is to test the plan rigorously. “Train yourself, with risk and crisis management exercises, wargaming and simulations,” says Boerboom.

Gahan also stresses the importance of such exercises. “No plan will ever be perfect – you will always find something new when you test it,” she says.

There will be more work to do in the event of a crisis. The regulator’s report on the Capita breach lists key steps trustees should take in the event of a cyber security incident, including ensuring clear communications with an employer, administrator and any other service providers to build and share a picture of how the scheme and its members might be affected, or are already being affected.

Payment of benefits, retirement processing and bereavement services should be prioritised. If a data breach has occurred, trustees should notify the regulator and the Information Commissioner’s Office (ICO). Trustees must establish whether key services can still be operated safely, restoring those operations when it is safe to do so. They must also put care and effort into communication with members, signposting them to appropriate guidance so they can take any necessary actions to protect their personal information, and avoid any potential scams. Finally, the scheme should monitor carefully any increase in, or unusual transfer requests.

How well-protected are the UK’s pension schemes against these sorts of risks? Gahan says levels of preparedness for a crisis “vary dramatically” from one pension scheme to another. “Some are awesome, some are really shocking,” she says. “It’s a very mixed bag.”

Jennings thinks there is now “an increased focus on risks” overall, among trustees and others with responsibility for managing schemes, but that this tends to be true most often within larger schemes, or at least those with the greatest resources at their disposal.

Boerboom also thinks some of the UK’s largest pension schemes “have got their house reasonably well in order”, in terms of continuity and crisis management planning; while smaller schemes are more likely to be over-reliant on measures put in place by service providers. But he thinks every scheme would benefit from more use of exercises to test plans and preparations.

Speaking for the regulator, Gannon stresses the need to assume a need to continuously repeat and refine risk management and crisis management planning.

“Some risks will diminish with time, while others will grow, and new ones appear,” he says. “Effective risk management demands constant attention.”

Written by David Adams, a freelance journalist

Dominic Harris

Rising to the challenge

Laura Blows speaks to the pensions ombudsman, Dominic Harris, about his plans to improve efficiency within The Pensions Ombudsman (TPO) and reduce waiting times

Earlier this year, the Court of Appeal ruled that the County Court is needed to reinforce TPO overpayment determinations where recoupment is required. At the time you had said that you were working with DWP to clarify the situation. Can you share what progress has been made so far with this?

Clearly that Court of Appeal ruling was a bit disappointing. Decisions I make around the recovery of overpayments are often emotionally charged. Members often feel aggrieved because, in most cases, the overpayment was not their fault. And from our perspective, we look at these cases in a lot of depth and, as a result, it takes a lot longer than most other complaints we deal with. So the last thing a member or a trustee needs is yet another administrative hurdle in the form of a County Court rubber stamp to a determination. It was also delaying the certainty that members need to be able to get on with their lives.

So we spoke to the Department for Work and Pensions (DWP) at the time of the ruling, and, pleasingly, they recognised the issue straight away. Since the judgment, we've been working closely with them to try to find a legislative solution.

Therefore, I was really pleased by the announcement in the King's Speech that this issue is going to be addressed in the Pension Schemes Bill. It reaffirms us as a competent court for the purposes of Section 91 and, ultimately, it is going to make things a lot quicker and easier for all parties.

TPO had also seen case backlog concerns and increasing waiting times for complainants – what is the situation now?

The demand for our services has been increasing significantly year on year and we think that trend is going to continue. On the one hand, it's gratifying. The high demand reflects the important role that we play in the sector.

But it also unfortunately means that for a number of years, demand for our services has outstripped our capacity to resolve cases for complainants in a quick fashion. That means we've built up a large historical caseload and waiting times are now much longer than we would like.

That's not why I became the ombudsman. I came here to help people and trustees. I want to make sure that both applicants and respondents get a timely resolution to their complaints, and so reducing waiting times is my top priority.

Between 2022 and 2023, we had an approximately 30 per cent growth in demand, and we predict around 12 per cent growth in demand each year over the next three years. Yet indications so far is that it will be higher than 12 per cent this year.

In the 2022-23 year, my predecessor received DWP funding for a specialist team to deal with less complex cases. Just under 900 cases were closed by the team and it contributed to what was a good year for us generally. I think it was the first time we closed more complaints than we received for quite a while. But it was only a one-off increase in funding, and, because of that, it meant that the team had to focus on just the less complex cases. It didn't allow us to start looking at the queue of older, complex cases.

We've ended up wrapping up a lot of what we've learned from that specialist team into our wider Operating Model Review.

You mentioned a root and branch review of your operating model in your recently published 2024/25 Corporate Plan. Please could you explain what that entails?

As an organisation, we're very good on the accuracy side, but we're just not quick enough. So in the second half of last year, my first year as the ombudsman, I commissioned a root and branch operating model review to look at what levers we could pull to bring quick, accurate resolution of complaints.

Clearly there are some levers that we don't have control over. For example, I would love to have more adjudicators. I'd also love to have better IT solutions, but both of those things depend on funding, and that's not a lever I can pull myself.

So instead, we looked at what levers we can pull to make our own processes quicker and more efficient.

The goal is to be efficient, effective, and much more targeted in our use of our resources. But it's not just about the numbers, saying 'I want cases to close within six months'. We want to ensure we help people. The fewer cases that take the full two or three years, the more we can use our resources to concentrate on the cases with complicated issues.

So, we have three key workstreams at the moment.

The first is making sure that complainants effectively exhaust their scheme's formal complaint process before they come to us.

Secondly, we are looking at what sort of complaints we should be taking on. For instance, some schemes have suffered data breaches, so we have had quite a few members coming to us about this, but that is not our specialism. It's one for the Information Commissioner's Office.

And then the third one is making sure that we make decisions earlier in the process, where appropriate. We're looking at shorter form, expedited determinations. There was a case I looked at a couple of months ago, about overpayments on the BIC pension scheme, and my determination ran to about 80 pages. We can't do those for every complaint, and most complaints don't need that depth of analysis.

We're pretty hopeful that these workstreams will have quite a profound impact on the way we work and will allow our adjudicators to look at the complicated cases and the ones that have been in our queue for far too long.

"The goal is to be efficient, effective, and much more targeted in our use of our resources"

With this increasing demand, funding and resources have been a challenge for TPO. How are the conversations with the DWP about these progressing?

TPO funding comes from the general pensions levy, from pension schemes, and so I think the industry should expect us to use pension scheme money well. So, we're trying to show with our operating model review that we are an efficient organisation.

Our current three-year spending review ends this year, so it's exactly the discussion we're having at the moment with our colleagues at the DWP. We're working on a settlement with them that hopefully addresses those challenges, that recognises the increasing volumes of cases we are receiving, and also the increasing complexity of complaints.

In an ideal world, we would have a funding model that's more responsive to the demands placed on the organisation, and that allows us to deliver a longer term, more permanent staffing model as well.

Is there anything you would like those running pension schemes to improve upon, to help minimise the number of cases coming to TPO?

The trite answer is the better managers, trustees, administrators, run their scheme, the fewer complaints there will be. But pensions, ultimately, is really complicated, and we have to understand that, because of its complexity, mistakes can happen. It's about how you respond when mistakes happen. To deal with them quickly, transparently and honestly. With members, tell them what's going on and recognise that members will quite likely be stressed. This is often their one source of income, so you need to be able to deal with them empathetically.

But having said that, I think the pensions industry is full of people who are trying to do the right thing and do things well.

What would also be good is making sure that all of the issues at play are raised and dealt with during the internal dispute resolution process, so that when we get a complaint, we're not having to investigate points that haven't been initially examined.

One example of that is overpayments. A good trustee will say, 'I'm terribly sorry but you'll have to pay this back, unless you can show a reason why you shouldn't. These are the sort of defences that you might have to paying this money back'.

If they don't do that initially, then we will look at whether the member has any defences. We're having to do all that investigation, which increases the amount of time and resource required from us.

Also, if there are lots of complaints coming up of a particular type, please tell us about it. If there are, say, 500 members all affected by the same issue, we don't want 500 separate complaints coming through the door. We would much rather be in a position where the trustee picks up the phone to us at an early stage and says, 'we've got this issue; would you be able to look at it as an example case, determine it and publish it', and then they can use this lead case to help them decide how to deal with the other 499 cases lurking in the background.

Written by Laura Blows


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Blurred lines - Shaping the smart real asset sector of the future: *James Muir explores the increasing convergence of property and infrastructure investment under the 'real assets' umbrella* ***p38***

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Real assets focus:

Building connections

PATRIZIA head of strategic investments, James Muir

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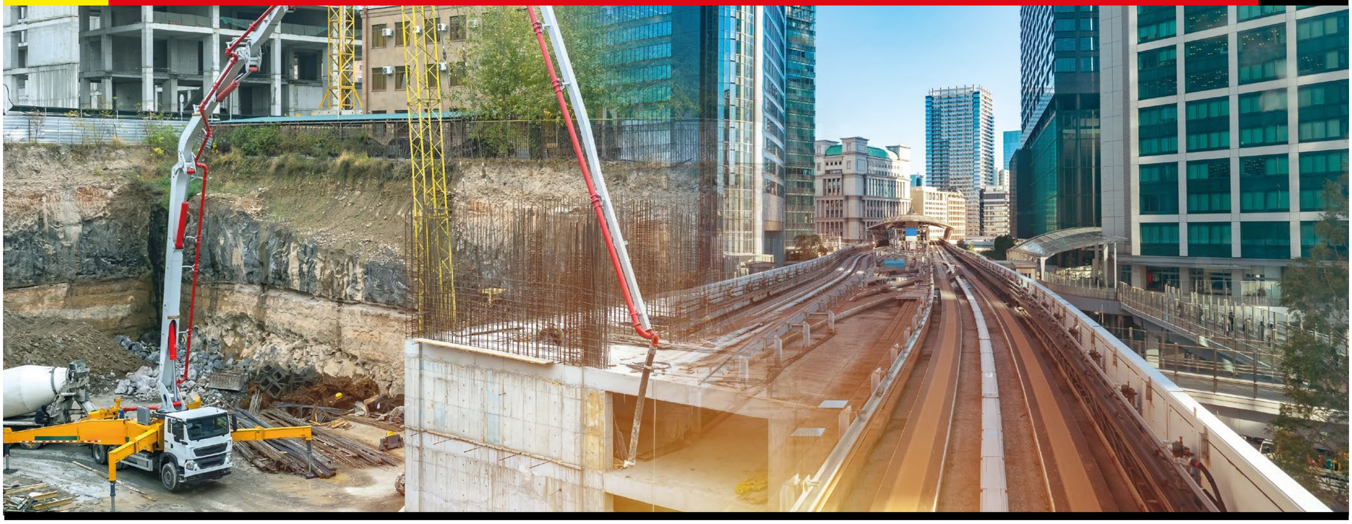


Blurred lines: Shaping the smart real asset sector of the future

James Muir explores the increasing convergence of property and infrastructure investment under the 'real assets' umbrella

While real estate and infrastructure have co-existed under the umbrella of 'real assets' for some time, the adoption of this term has grown significantly of late. Back in 2021, we witnessed the first signs of convergence between the two asset classes when PATRIZIA acquired Whitehelm Capital, while Nuveen and Schroders also made moves into infrastructure. Fast forward three years and we are seeing a renaissance of the trend, with BlackRock's proposed acquisition of Global Infrastructure Partners the clearest sign yet of this strategic shift among General Partners (GPs).

On the one hand, this mergers and acquisitions (M&A) activity is no surprise. While real estate is regarded as a larger and more mature market than infrastructure, there are strong synergies between the two. Resilient income with inflation protection, close alignment with the long-term megatrends and the ability to drive value from a physical asset are just three shared characteristics, all of which are highly complementary in a holistic real assets strategy.

With this in mind, it is no surprise to see managers coalescing under the real assets umbrella to leverage these synergies and create long-term value for clients. For GPs, a combined investment platform undoubtedly strengthens portfolio diversification and lowers risk, which is invaluable in these volatile times. Real estate is notoriously cyclical and last year represented arguably the nadir of the current cycle, while liquidity in infrastructure remained much more resilient.

But when we talk about the convergence between real estate and infrastructure, we believe it goes beyond an M&A trend. It is far more embedded than simply two similar investment options being offered by the same GP. Instead, we are witnessing a fundamental evolution in what it means to be an investor in real assets, with managers becoming much smarter in leveraging the two asset classes to offer innovative investment solutions for their clients. And the smartest GPs are the ones unlocking these solutions at both the asset and fund level, creating a smart real asset sector of the future.

Leveraging an integrated real assets platform

With a fully integrated real assets platform, the opportunities to drive value creation and tap into long-term growth are enormous. For GPs it's about harmonising the real estate and infrastructure value chains in order to generate value at every stage of the investment lifecycle. While for Limited Partners (LPs) it's about accessing new avenues for allocating capital that focuses on innovative assets and products underpinned by the major transition megatrends of our time: Digitalisation, urbanisation, the energy transition and modern living. So where do we see the smartest managers actively driving these synergies?

On an asset level, infrastructure is both a value-driver and decarbonisation strategy for real estate portfolios, helping the sector on its journey to net zero. While photovoltaic (PV) panels have been applied to real estate for decades, the successful installation and management of large-scale solar farms on the roof space of major logistics hubs requires specialist knowledge and asset management expertise.

In the Netherlands, one of the country's largest single logistics assets – the Maasvlakte distribution centre – is home to one of Europe's biggest rooftop solar installations. The 120,000 sq.m. PV system generates a capacity of 25 Megawatt peak (MWp) a year of clean energy, which is enough to meet the annual energy needs of approximately 8,000 households. This smart combination of real estate and infrastructure not only facilitates an industrial-scale renewables project, but it also delivers significant upside potential for the underlying asset, which now makes a meaningful contribution to the energy transition.

A similar story can be seen in the electric vehicle (EV) space where charging infrastructure has been installed in car parks and at roadsides since the dawn of EVs. In isolation these assets are relatively simple to manage, but rolling out a pipeline of ultrafast EV chargers across a portfolio of prime food-anchored retail stores requires a much broader skillset.

To give an example, in Germany our real estate heritage is playing an important role in our investment in the delivery of 400 ultrafast Numbat EV charging stations across a portfolio of Tegut supermarkets across the country. With a 40-year track-record managing complex asset management projects, we are well equipped with the knowledge and know-how to add value to such a programme. To drive further synergies, we are exploring installing solar panels on the roofs of the stores, with the energy generated fed back into the batteries in the EV charging stations. By bringing the two asset classes together in an intelligent way, we are enhancing the value of our investments in a much more holistic manner.

A shift to thematic investing

With this blending of assets comes the obvious question of where these investments sit at a fund level. For us, the answer is about taking a more thematic approach to investment strategies that complement and augment single sector funds. We believe the benefits of this hybrid approach are clear: We can create a more diverse product mix that addresses the challenges of the long-term transition megatrends, while clients have access to a broader platform of attractive investment solutions.

A great example is an investment strategy based around the theme of 'smart cities.' While its core proposition is investing in digital infrastructure like fibre networks to help communities become better connected, it could also invest in tech-enabled real estate like smart buildings that plug into this underlying digital infrastructure. A thematic strategy like smart cities generates real value by leveraging a GP's footprint and expertise across multiple real asset disciplines, such as sustainability, technology and real estate. So when successfully combined, you have a product that plays a leading role in driving the major transitions to digitalise and decarbonise our expanding urban communities.

However, a thematic approach like this doesn't comes without its challenges. One fundamental hurdle to overcome is around how LPs are structured, with individual real estate and infrastructure teams commanding separate allocations. Without a clearly defined core offering of either infrastructure or real estate, a blended strategy risks finding itself without capital from either pot. But merging LP teams to have one real assets allocation would certainly support thematic investing and the early movers in this space, such as AustralianSuper, are the ones who stand to benefit the most.

But change won't happen overnight, so GPs must do more to clearly articulate how thematic strategies can work for LPs to encourage this merger. There will always be assets that sit in a grey area like data centres, but from our perspective what should matter most for clients is that they like an investment's risk profile, its long-term cash flow and its position within their wider real assets portfolio. It's then our job as a manager to explain how it supports a holistic strategy.

In some cases, regulatory change would be advantageous and this is already underway for retail investors with the increased popularity of European Long-Term Investment Funds (ELTIFs). Reforms were agreed in 2023 that would allow a broader definition of real assets as well as relaxed rules for the ELTIF's holding of those assets amongst other changes. Similarly, the federal government in Germany is expected to be close to introducing new regulations that would allow infrastructure to be incorporated into real estate funds to a maximum share of 15 per cent of the fund's total.

But ultimately, the market will always move to where the demand is. We live in a world in transition where both infrastructure and real estate are absolutely fundamental in shaping the way we live in the future – so we firmly believe the most attractive investment solutions over the coming decades will combine the two. And it will be the managers who can best leverage the synergies at both the asset and fund level who will be in pole position for driving the smart real asset sector of the future.

Written by PATRIZIA head of strategic investments, James Muir

In association with PATRIZIA

Blending opportunities

Lynn Strongin Dodds explores the investment opportunities created by the increasing cross over between infrastructure and real estate sectors

Summary

- Real estate and infrastructure are converging in certain sectors such as energy transition and social services.
- The benefits are the same – income, inflation protection and diversification.
- The risks are also similar in terms of illiquidity, volatility and long-time horizons.
- Theme investing such as smart cities is evolving although will take time to develop.

Over the past three years, the investment lines have blurred between infrastructure and real estate sectors. This has opened the door wider to new opportunities and the ability to make an impact but the risks inherent in illiquid assets also need to be carefully examined.

"There are several mega economic and secular trends within infrastructure that are having an impact on traditional real estate assets," says Russell Investments head of strategic client solutions, David Rae. "These include digitalisation and transformation, energy transition, renewable energy and changes to social requirements. Historically there would have been a more rigid allocation to individual asset classes but today investors want more flexibility as long as it achieves their objectives and outcomes."

A trend old and new

Although this convergence may seem novel, it is in fact, decades old, with North American private investors looking at infrastructure projects as a way to capture underlying value from real estate investments. However, as the industry progressed, firms began to specialise, and divisions were drawn between the two.

As PATRIZIA head of strategic investments, James Muir, notes, real estate and infrastructure have co-existed under the umbrella of 'real assets' for some time, but the adoption of this term has grown significantly of late. One reason is the spurt of M&A activity, with PATRIZIA acquiring Whitehelm Capital in 2021, which broadened its reach into areas such as digital infrastructure, energy transition, water and environmental services, and social infrastructure.

More recently, BlackRock purchased Global Infrastructure Partners for around $12.5 billion in cash and stock, a move that has substantially boosted the $10 trillion money manager's footprint in alternative assets. It has given the world's largest fund manager approximately $150 billion in infrastructure assets across a portfolio that ranges from the US liquefied natural gas export market to wastewater services in France to airports in England and Australia.

The acquisitions are also a reflection of the overall growing interest in real assets, according to a recent study by Time Investments, which surveyed 200 UK wealth managers, financial advisers, discretionary fund managers, fund selectors and investment analysts. It found over three-quarters expect to increase their allocation to real estate over the next 12 months, with 74 per cent targeting infrastructure.

Mercer chief investment officer, James Lewis, also sees a growing interest in real assets, with its latest large asset owner barometer survey showing that, for example, over 70 per cent plan to increase or retain their infrastructure investments. "There is a real interest in assets that have an intrinsic link to the value of the economy," he adds. "They are attractive because they offer protection against inflation, diversification and can help dampen volatility."

Diversification

In addition, Hymans Robertson investment research senior consultant, Asad Rashid, says clients are also focusing on net-zero targets and having inflation-linked income streams in an uncertain economic environment. He believes that real assets are an important tool in client portfolios and tend to be a bigger part of larger and more sophisticated pension scheme portfolios. On average, real assets make up around 5-25 per cent of a pension scheme's portfolio.

JLL head of capital markets research in EMEA, Tom Mundy, also notes a much more granular focus on diversification, as well as managing cashflows. "We are in a different economic cycle now and there is a greater awareness that investors have to future proof their portfolios and drive excess returns, due to the high cost of capital," he adds. "This means not being overly exposed to one sector and instead balancing traditional core real estate with infrastructure."

To date, energy transition projects are one of the most popular because they enable investors to deploy at scale, adds JLL lead – energy and infrastructure advisory EMEA, Steve Jack. The investments include solar, wind and battery storage to help manage intermittent renewable energy generation.

As for specific projects, Muir points to the Maasvlakte distribution centre, one of the Netherland's largest single logistics assets as well as Europe's biggest rooftop solar installations. He says the combination of real estate and infrastructure not only facilitates an industrial-scale renewables project, but it also delivers significant upside potential for the underlying asset, which now makes a meaningful contribution to the energy transition.

He also says a similar story can be seen in the electric vehicle (EV) space where charging infrastructure has been installed in car parks and at roadsides. In isolation these assets are relatively simple to manage, but rolling out a pipeline of ultrafast EV chargers across a portfolio of prime food-anchored retail stores requires a much broader skillset.

Social infrastructure is another area where both sectors intersect. Market participants often define it as real estate that maintains and strengthens social services. It typically involves buying and potentially renovating or developing, real estate that is then let to service providers to operate from. This comprises facilities for primary, secondary and further education, as well as nurseries and special educational needs facilities. There is also healthcare such as hospitals, medical and specialist care facilities, as well as social housing, supported living and homelessness, extra care facilities, key worker housing and student accommodation.

Meanwhile, the Kings Cross development is a prime example of urban mix use regeneration encompassing both real estate and infrastructure. The once 27-hectare derelict area in London has been transformed into a vibrant area with office, retail and residential buildings alongside new schools and a university. It is also well-connected to transport facilities, education, health and leisure facilities.

"There are several mega economic and secular trends within infrastructure that are having an impact on traditional real estate assets"

Future

Looking ahead, Muir believes that investment themes such as smart cities will gain traction. He says at the moment the attention is on digital infrastructure like fibre networks to help communities become better connected. However, it could also mean investing in tech-enabled real estate like smart buildings that plug into this underlying digital infrastructure.

"A thematic strategy like smart cities generates real value by leveraging a general partner's (GP) footprint and expertise across multiple real asset disciplines, such as sustainability, technology and real estate," he adds. "So, when successfully combined, you have a product that plays a leading role in driving the major transitions to digitalise and decarbonise our expanding urban communities."

There are of course the risks that come with these assets such as illiquidity, the need for a long-time horizon and often specialist fund managers. However, with themes such as smart cities Muir says investors should assess how limited partners (LPs) are structured, with individual real estate and infrastructure teams commanding separate allocations. "Without a clearly defined core offering of either infrastructure or real estate, a blended strategy risks finding itself without capital from either pot," he adds. "But merging LP teams to have one real assets allocation would certainly support thematic investing."

Some consultants though think the concept of smart cities is not yet developed and it will take time in general for real estate and infrastructure to be viewed under one umbrella. Rashid contends that they remain quite distinct asset classes with different investment strategies.

Rashid points out that real estate focuses on getting the highest rent out of a particular piece of land, whereas infrastructure focuses on stable long-term income from providing an essential service from an asset. He adds that the opportunities span across the digital sector, such as fibre networks and data centres, transport/logistics sector – rail, ports, and roads as well as social services including waste management, hospitals, schools and energy-power generating assets, utility networks, pipelines.

"Given the breadth of infrastructure sectors, there will be some crossover with other asset classes, but it is limited crossover and calling it convergence is a step too far in our opinion," Rashid says.

Written by Lynn Strongin Dodds, a freelance journalist

In association with PATRIZIA

PLSA policy board member, Neil Mason

View on the LGPS

It's not the messiah, but it's also not a naughty boy, argues PLSA policy board member, Neil Mason

There is a scene in Monty Python's *Life of Brian* in which Judith, of the People's Front of Judea, (note, definitely not the Judean People's Front) confronts their leader, Reg, with the news that Brian has been arrested by the Romans.

"Right! This calls for immediate discussion!
What?
Immediate!
Right. New motion?
Completely new motion. Uh, that, uh, that there be immediate action.
Once the vote has been taken.
Obviously once the vote's been taken.
You can't act on a resolution till you've voted on it."

And on, and on…

Reg's reaction is a hilarious parody of bureaucracy but does also draw some comparison with the response of the Local Government Pension Scheme (LGPS) to the challenge of government on the pace of pooling, consolidation and investing more in UK assets.

Almost a decade on from the launch of LGPS pooling and just prior to the 2024 election, the Conservative government gave more of a steer on its expectations. The LGPS would be left with two basic options. Be in control of its fate and adapt in a way that meets government policy. Or argue government is wrong – and in doing so, run the risk of something being imposed upon it.

Whether we like it or not, government policy on the LGPS and pooling is clear and has six asks:

- Consider how funds can deliver better governance and drive efficiencies in the running of the scheme.
- Funds are to transition assets to the pools by March 2025. If insufficient progress is made, the government will legislate to mandate it.
- While funds remain responsible for strategy, investment implementation is to be delegated to the pool.
- By 2040 for there to be fewer than eight pools.
- Pools to provide LGPS funds with advice on investments.
- As a publicly funded pension scheme, for the LGPS to play a part in investing in the UK to drive economic growth and improve local communities.

The new Labour government, at least ostensibly, has suggested it will go further than this. It has announced its intention to carry out a pension review, with the LGPS on the vanguard. The Canadian 'Maple Eight' super-pool has also been vaunted as a desirable model to allow bigger lumps of cash to be shovelled into the Shangri-La that is UK growth. This comes with an implied criticism of the LGPS as being some sort of inefficient plaything of 'town hall barons'. The truth is much more complex and nuanced.

The LGPS is an incredibly intricate scheme – 86 regional funds, managing a combination of three different benefit structures to provide pensions for c6.49 million members[1]. It is the dumping ground for pensions for those public servants who don't really fit anywhere else. Not the unfunded pension schemes for rarified professions of teachers, doctors, judges, civil servants or MPs. LGPS members are teaching assistants, lollypop people, after school workers, amongst others. Some of the lowest paid people in the UK and overwhelming part-time women workers. The LGPS provides dignity in retirement by providing a decent pension to some of the unsung heroes of UK society.

There are also around 13,802 employers[2] who make up the LGPS. These range from councils to academy schools, but also an array of private companies that now carry out council services for local residents. It also includes those who have a community of interest with local authorities. Charities, special schools, housing associations, as well as other government bodies like the Environment Agency.

Nobody in good conscience is against supporting UK growth, but is a mega fund the best way to achieve this?

Are we also ignoring three key factors? Firstly, the assets of LGPS funds are owned by its beneficiaries, the members. Secondly, the LGPS has a duty to protect the interests of the thousands of employers who pay into the scheme on behalf of their current and ex-employees (as Nigel Giffin KC opined, it is the employers and not the government who are responsible for guaranteeing member benefits[3]). And lastly, there is the fiduciary duty of trustees (pension committee members) to consider.

Is a Canadian style consolidation consistent with these three factors?

I think the answer is intrinsically linked. Yes, the LGPS is not as efficient as it could be. Eighty-six funds is probably too many and too many decisions are still made through sub-optimal governance structures. There is plenty of evidence that more delegation of investment implementation to fewer managers of assets with internal capability, coupled with good oversight by local funds, can produce savings. But equally, that doesn't mean throwing it all into one pot.

LGPS funds are by their nature local. They have close and intuitive links with the local members and employers they serve. While the LGPS may currently be well funded nationwide, there is a myriad of distinct local differences in funding levels and cashflow positions. This provides opportunities for local funds with unique characteristics to have open conversations with their employers. This could lead to reviewing contribution rates (the experience of the Strathclyde fund in the 2023 Scottish triennial valuation proves this). The prospect of renegotiating employer contributions as part of the 2025 triennial valuation in England and Wales could bring tangible value to public sector bodies and the delivery of vital local public services. This is in stark contrast to the employer contribution experience of the unfunded public sector pension schemes.

Also, local funds are well placed to harness local intelligence and specialism to understand local investment opportunities and be sufficiently nimble to exploit them; recent investments ranging across the north of England in Greater Manchester and South Yorkshire and the south in Devon and Wiltshire (to name but a few) are evidence of this. However, pooling expertise can aid and not hinder this.

This is in no way an argument for the status quo. We can and should do more.

The experience at the Local Pension Partnership, Wandsworth Shared Service and West Yorkshire, et al, has shown that consolidation of administration services can bring efficiencies. However, again, there is evidence that when an administration service becomes too large, it instead brings diseconomies. Also, my answer to the constant lament in the LGPS of resource pressure is for more collaboration, across a greater range of services. I refuse to accept that we need 86 separate production teams for LGPS annual reports, governance, training, risk management and consultancy. The collection of funds in pools provides a structure for these economies of scale to be delivered. But we have to actually embrace it!

But let's return to the six-point exam question set by the government.

Governance

For me, improved governance is the key. The idea of 86 funds with appropriate governance sovereignty from their administering authorities and containing adequate resources to manage a pension fund to the standards expected by The Pensions Regulator is for the birds. Senior LGPS officers should recognise this and seek collective solutions with peers. Not after waiting for regulations to compel them to, but now!

Pace of pooling

There really is no excuse for not pooling all listed assets by April next year. Appropriate pooled solutions are out there.

Implementation delegated to pools

Funds should set high level strategy and then leave pools to implement.

Fewer pools by 2040

There is clearly a model of pooling that the government supports. If this becomes the policy intent, then market forces will take over, whether we like it or not. As I've said earlier, it would be far preferable if we recognised this and sought to reform organically.

Pools taking a more active part in the investment process

There is much evidence to suggest that LGPS funds add most value at a strategic level. The interpretation of what this means is diverse, but for me it consists of funds setting the risk and return parameters, including any local or sustainability objectives, and then leaving pools to produce the building blocks to deliver it. There is an argument that this creates an insurmountable conflict of interest but, provided the relationship between funds and pools is accompanied by a robust oversight framework, potential conflicts can be managed.

The LGPS supporting UK growth

Ahh, the £354 billion[4] question. This returns us to the quandary of fiduciary duty. If the LGPS is being asked to invest in the UK just because the government tells it to, it does not meet the Nigel Giffin KC test[5]. However, if, as the government appears to believe, more investment in the UK can deliver enhanced investment outcomes, then it is entirely consistent with fiduciary obligations. In fact, it could offer a fantastic opportunity.

My answer is for the eight pools to come together, coalesce with government to truly understand its aims and then collectively build the solution. If the investment case does indeed stack up, then it will accord with the aims of all LGPS funds (to provide the best outcome for its members and employers) and capital should follow.

To close, a number of LGPS funds have made good progress in answering the exam question set by government. But is there enough urgency from the LGPS to control its own fate or have that decision taken away from it?

To return to Judith: *"It's happening, LGPS! Something's actually happening, LGPS! Can't you understand?"*

Written by PLSA policy board member and chair of its Local Authority Committee, Neil Mason

[1, 2, 4] The LGPS Scheme Annual Report 2023 *LGPS Scheme Advisory Board – Scheme Annual Report (2023)* https://lgpsboard.org

[3, 5] *Duties of Administering Authorities Under the LGPS: Opinion – Nigel Giffin KC (2014)* https://lgpsboard.org/images/PDF/Publications/QCOpinionApril2014.pdf

Summary
• As much as £13 million is being pried away from pension savers every week due to fraud.
• Some say that, although auto-enrolment has been a major success, it has also created problems in terms of scams.
• Some in the pensions industry communicate minimally with members, doing little beyond sending an annual statement. That must change, according to experts.

Increasing financial literacy; lowering scams

As part of *Pensions Age*'s year-long special focus on financial literacy, Chris Newlands explores the relationship between financial literacy, or lack thereof, and the risk of falling for pension scams

Pension savings take decades to build but can be lost to scammers in just a matter of minutes.

According to figures obtained by the Pensions Management Institute, Britons have lost more than £2.6 billion to pension fraud since the start of 2020.

Between the beginning of the decade and the end of last year, almost 100,000 people have fallen victim to investment fraud, based on data obtained via a freedom of information request to the City of London Police's National Fraud Intelligence Bureau. The numbers show as much as £13 million is being pried away from pension savers every week.

The figures are dazzling for all the wrong reasons, and it raises the question of financial illiteracy and whether the pensions industry is working hard enough to educate its increasing number of customers, thanks to auto-enrolment.

Auto-enrolment impact

Redington senior vice president, Russell Wright, says: "Before pointing the finger at providers, it is important to consider the unintended consequences of automatic enrolment.

"Although this has been a major success in many ways, it has also created an environment where people have large pots of money that they understand very little about – the perfect hunting ground for criminals."

He says this makes it even more important for the industry to ensure it gets "the basics right".

Wright adds: "Have providers ensured their welcome communications have gone through member testing and adapted them to get the relationship off to a good start? Do their regular communications educate and empower members? And then there's the acid test – is it easy to speak to someone? This last point is so important for driving confidence in the industry and ensuring people have a trusted point of contact."

Auto-enrolment has not just created large pots of money, however, as for many, who work part-time or move jobs regularly, it has also created multiple workplace pensions to remember.

Around one in seven, or 7.3 million, UK adults have been the subject of an attempted pension scam in the past 12 months, according to LV=, with the insurer suggesting people's growing collection of pension pots is causing confusion and increasing the potential avenues for fraudsters to try and steal from savers.

Indeed, the research outlined that there are six million individuals with multiple pension pots who, the insurer says, "may be more exposed to scams".

LV= chief executive, David Hynam, said in a statement: "Avoiding falling prey to scams is becoming ever harder, with more people having a number of pension pots, and so keeping track is increasingly difficult for consumers."

Education

Returning to the question of whether the pensions industry might be partly to blame for the rise in scams, PensionBee director of public affairs, Becky O'Connor, agrees that "pointing fingers" can sometimes be counterproductive, but that constructive criticism is essential for driving positive change.

The industry does have a responsibility to educate and safeguard their customers, she says, but this should be seen as part of a broader effort that includes regulators, policymakers, and consumers themselves.

O'Connor tells *Pensions Age:* "Pensions are often seen as complex and intimidating, which is partly a result of a lack of engagement that hasn't exactly been counteracted by providers over the years, who have tended to communicate minimally with members beyond sending an annual statement.

"Scammers use this to their advantage. To combat this, pension providers need to demystify pensions through simple, jargon-free communication and practical examples. Reminders about scams must also be regular, throughout the year."

On the face of it, common sense would suggest there is a clear link between levels of financial literacy and being scammed. If people know more about how pensions and investments work, you expect them to be less likely to fall victim.

But, it is not as straightforward as that, says Financial Inclusion Centre co-director, Mick McAteer.

Attitudes and vulnerabilities

"Rather than financial literacy per se, the chances of falling victim to scams is as much about attitudes and vulnerabilities at a given point in time, and how likely a group is to be targeted by scammers. Knowledge of how scams work, and ability to detect scams rather than having detailed knowledge of pensions is also critical."

He points to of Financial Conduct Authority (FCA) research that surprisingly found that the more educated people were, the more likely they were to fall victim to a pension scam. Those with a university degree, for example, were 40 per cent more inclined to agree to a free pension review from an unfamiliar company, and 21 per cent more likely to accept an offer for early access to their pension – both common pension scams tactics.

McActeer says: "Overconfidence about knowledge of financial issues is a real problem. The same FCA research found that despite nearly two-thirds of people surveyed saying they are confident making decisions about their pension, the same proportion said they would trust someone offering pensions advice out of the blue – one of the main warning-signs of a scam."

"We need criminals to know pension scheme members are financially savvy and forearmed to spot and report a scam"

Another potential area of weakness within the sector, according to some market experts, is that the current pension system is designed for traditional patterns of work and is not suited to help employees who take significant career breaks, work in multiple or part-time roles, or frequently move between jobs.

Now Pensions head of campaigns, Samantha Gould, says: "That means for many that they don't tend to think about their pensions regularly or often, and that is where vulnerabilities can be found."

Gould believes further expansion of auto-enrolment could help with this and that the move to lower the age of those covered by the system would be beneficial.

"Getting more people saving via automatic enrolment would be an effective way to start addressing these vulnerabilities, as well as closing the current pension savings gaps faced by the UK's underpensioned. The Department for Work and Pensions announced in 2022 that the age of mandatory auto-enrolment will be reduced to 18 from 22 and that a mandatory 8 per cent of contributions to earnings will be applied from the first pound of earnings," she says.

"These are important steps in the right direction to help people make meaningful contributions and support savers in the longer-term. As people become more directly aware of their pension savings, their knowledge of financial scams and how to negate their effects are more likely to improve."

Gould hopes the long-awaited arrival of the pensions dashboard service, which will be introduced within the next couple of years, will "be a welcome introduction" to allow all pension savers to view their pensions and see the size of their pot. "This will help them to align their retirement goals with their pension saving journey and keep their pensions front of mind," Gould says.

Discouraging scams

What must not happen is being resigned to the fact scams will take place whatever steps they take – that it is a problem that will not go away whatever action is taken.

Wright says: "People install burglar alarms or put up 'beware of the dog' signs not because they're a sure way of stopping a robbery, but because it discourages the criminal from breaking in. We need to do the same with pensions.

"Structural changes like additional powers for HMRC, the ban on cold-calling and attempts to prevent fraudulent pension transfers are well intentioned measures to make life harder for scammers. But we also need criminals to know pension scheme members are financially savvy and forearmed to spot and report a scam – the equivalent of a Rottweiler waiting behind the front door. This will change the odds and discourage criminals from targeting pensions."

Written by Chris Newlands, a freelance journalist

Raising awareness – and maybe even contributions?

Pensions Age takes a closer look at the pensions awareness campaigns running in September, and why it's so important to get savers engaging with their pensions

September may mean back to school for many, but for the pensions industry, it also marks the start of a cross-industry awareness effort, with numerous industry campaigns running over the course of the month to help raise awareness of the key pension issues, and give members a safe space to quiz industry professionals.

This year's campaigns are bigger than ever, with three campaigns running over the next month: Pensions Awareness Week 2024, the Pay Your Pension Some Attention campaign's third year, and Pensions Dashboards Week.

Work is already underway and announcements are trickling in ahead of the big launch day, with the pair behind this year's Pension Attention campaign confirmed to be Gemma Collins and Iona Bain.

In addition to this, communications organisation Pension Geeks recently announced that Royal London will be its new partner for Pension Awareness Week 2024.

The campaign, originally established by Pension Geeks, will run from 9 September to 15 September and will feature live, digital TV shows. Pension Awareness Week 2024 marks the 11th year for the campaign, with sessions set to cover a number of key topics, including pension transfers, getting ready for retirement, and closing the gender pensions gap.

Speaking to *Pensions Age* about this year's campaign, Pension Geeks head geek and Pension Awareness founder, Rachel Parkinson, said: "At Pension Geeks, we can see that there's a lot of uncertainty building around people's futures, especially their pensions.

"After the pandemic and the cost-of-living crisis that has ravaged people's ability to save, there's more political uncertainty about what will happen to pensions in the future. In a world of inconsistency, volatility, and uncertainty, we're the bedrock. A household name. The go-to place that people think about when they want their pension questions answered.

"People trust us to deliver high-quality, reliable, financial education. And we do it all for free. We put financial wellbeing first, because even the smallest change today can breathe life into a retirement tomorrow."

This focus on financial wellbeing and rebuilding saver trust is clearly needed, as understanding, trust and engagement with pensions remains low. It is also particularly crucial now, given the rapid rise of finfluencers and unofficial advice from social media figures.

One recent video on my social media, for instance, highlighted opting out of your pension as a 'payslip hack' to help people get more money, warning that 'if you're paying into a pension, this will actually be costing you money that could be invested or go into your pocket'. As backwards as that may sound to many in the industry, savers often simply still don't think of their pension pot as theirs and may not realise the extent of the misinformation or misunderstandings being shared on social media.

Whilst the cost-of-living crisis has placed growing pressure on household finances, most simply cannot afford to opt out of their pensions, with analysis from the World Economic Forum estimating that the UK's pension gap will rise from £6 trillion to £25 trillion by 2050.

But improving pensions awareness and trust in the industry could make changes to encourage workers to save more, such as increasing the auto-enrolment (AE) minimum contributions, more agreeable for workers and help avoid a surge in opt-outs.

After all, you're more likely to give up some of your hard-earned pay if you know exactly where that money is going, how you will be able to access it, and how it is being looked after in the meantime.

This is especially important given this September will also mark the one-year anniversary for the Private Member's Bill to extend AE, which cleared parliament in September last year.

Whilst hailed as a move that is expected to ensure that "millions across the country can save more and save earlier", the bill has yet to have any tangible impact, with promises of a consultation never quite making it over the line.

This September is a chance to make sure that savers not only are aware of pensions, but understand them and trust the teams in charge of them – and maybe even save a bit more into them.

Written by Sophie Smith

Technology Guide 2024:

A digital revolution on the horizon?

Featuring:

- Pensions in the digital era
- Launching pensions dashboards
- Using technology to increase pension engagement
- Open finance and holistic savings viewing
- AI streamlining pension processes
- The challenges of old administration platforms
- Company profiles

Pensions in the digital era: Is the industry keeping up or falling behind?

The digital revolution is here to stay, but is the pension industry keeping up? What more can be done to encourage greater adoption of technology?

Summary
• Despite increased demand from members, the pensions industry as a whole continues to adopt technology at a slower pace compared to other sectors in the financial services industry.
• Many schemes have implemented technologies focused on improving member engagement, enhancing personalised communications and allowing members to manage their pension easier.
• Addressing member demand and regulation, such as the pension dashboard, will both play an important role in encouraging more pension schemes to embrace the digital revolution.

Many areas within the financial industry, such as the banking sector, have embraced technology, fundamentally transforming the delivery, management and consumption of their services.

The state of technology adoption
However, the pensions industry appears to be moving at a slower pace compared to other areas of the financial services sector, says Trafalgar House Pensions Administration director, Daniel Taylor.

"While other sectors have surged ahead, too many pension schemes are stuck in the past with no real digital presence. It's an embarrassing reality that needs urgent attention," he says.

Gallagher head of implementation and technology, Kris Elliot, agrees the industry is lagging behind. He notes the pension sector is typically slow to adopt leading-edge technology, largely due to its limited direct interaction with customers and the influential role of trustees in decision making.

"Ultimately, we can put technology in front of trustees, and while they may want to embrace it, they're having to make decisions and balance the risk and benefit of doing so because they're making decisions on behalf of the whole membership, as opposed to just them," he says.

It is also unsurprising that the pensions industry is falling behind other sectors, particularly the banking sector, as the pensions industry faces unique challenges compared to banking, adds Scottish Widows' workplace savings engagement and innovation specialist, Robert Cochran.

He notes that in banking, the technology needs were clear because customers engage regularly through various channels. Whereas pension members typically receive communication only once a year, making it harder to determine their specific technology needs.

"The challenge within pensions is to get people to engage, to get them to know what's in their pension, and then is it enough? What can they do next? In banking, the imperative is to let people do things like bank a cheque, pay somebody or move money around, which people are wanting to do on a regular basis," he says.

Taylor adds that although the pension industry is adopting technology more slowly, this is not because of a lack of demand from members.

"Members are crying out for more digital options. There's been a major shift towards digital because it's easier, more secure, and fits with how we live our lives today. The industry needs to catch up, fast," he says.

Technologies in use
Even though the industry seems to be falling behind, numerous forms of technologies have still been implemented into individual pension schemes.

Smart Pension CEO, Jamie Fiveash, says the most widely adopted technologies in the pension industry focus on three key areas: Removing the burden from employers, allowing members to manage their pension their own way and improving member education and information.

"Alongside those categories, two foundational aspects are tech that enables better value, which is an evergreen focus, and more recently artificial intelligence (AI) has become a hot topic," he adds.

PensionBee vice president for product, Martin Parzonka, says it has integrated an open banking provider to allow members to link their bank account to their pension account, so contributions to their pension are more seamless.

"Previously, customers would use standing orders from their bank account or a direct debit. Both of those come with negative consequences sometimes, so there's friction with sending money into us, which adds a lag to the time it can be invested. By enabling them to link their bank account directly to the pension account using open banking rails, it's seamless," he says.

Elliot notes that technology can also improve the personalisation of member communications, resulting in better engagement and education.

While many pension schemes have been offering digital benefit statements for a few years now, new technologies and data analytics are now providing even more personalised communications, he notes.

"If we can leverage the information that we've got now, we can provide an even further personalised communication. So, it's not just personalised to you or I, but it's actually information that's relevant, bearing in mind where you are on your journey," he says.

For example, the way a pension scheme communicates to a 20 year old that's just starting out on their retirement journey needs to be very different to somebody who's aged 55, he adds.

The positive impact of implementing technology in pension schemes on members is evident, says Moneyhub chief commercial officer, Dan Scholey.

"When polled, 84 per cent of users of Open Banking driven Pension Portals agreed they felt more in control of their finances after embracing the technology. A further 70 per cent felt they got better at saving or investing, with 68 per cent saying access to an app had helped them to better understand what they currently have for their retirement and how much they needed to achieve a chosen standard of living," he says.

"While other sectors have surged ahead, too many pension schemes are stuck in the past with no real digital presence. It's an embarrassing reality that needs urgent attention"

How can technology be further embraced?

Taylor says there is a real appetitive among trustees to embrace new technology, but many just don't know how to make it happen as full digital transformation, especially for DB schemes, remains a costly hurdle.

He recommends that there is a middle ground that every scheme should be aiming for – starting small and pushing forwards.

"We need clear, modernised guidelines that not only encourage digital adoption but make it the default. It's time the industry and regulators stepped up to meet the demands of the digital age," he adds.

Fiveash agrees that regulation will be important in encouraging more pension schemes to embrace technology, particularly the long-awaited pensions dashboard, which is a digital service that will allow members to access all their pension information online, securely and in one place.

"The upcoming Money and Pensions Service dashboard is going to push pension providers to embrace technology in a more meaningful way and Smart Pension is fully onboard with this. We're confident that this new interconnected system will help simplify pension saving and improve financial outcomes for savers in the long term," he says.

Parzonka adds the pension dashboard will help members recognise the importance of engaging with their pensions and foster communication between different providers, all supported by technology.

"The technology will enable the industry to connect together and understand what all consumers have in their pension pots, and those consumers will then log in to a centralised database," he adds.

In addition to the pension dashboard, upcoming regulations like the Digital Information and Smart Data Bill are set to promote the better implementation of technology. These regulations will simplify the use of data to enhance individuals' financial outcomes, adds Scholey.

"Things like dynamic saving, which will allow people to sweep spare cash via Open Banking's Variable Recurring Payments into investments and even pensions, will help people save for the long term. Combining this with digital taxation, means the impact will be huge and great news for consumers, providers and UK," he adds.

However, Elliot argues that regulation will only play a small part as it is generally behind the curve. Instead, the implementation of technology will be driven by industry capacity and consumer demand, he says.

"People expect accurate data and real time information," he says, adding, "it's that capacity and consumer demand that will drive the technology forwards, as opposed to regulation."

Written by Niamh Smith, a freelance journalist

Dashboards: Thought leadership, or thwart leadership?

David Rich explains how accurate data and a well-chosen ISP can help reduce the stumbling blocks to dashboards' launch – and provide members with a seamless user experience

It's frustrating when things don't work as they should online. Being thwarted from logging into an account because your password is wrong. The irritation of being prevented from accessing your digital banking app as it's down for maintenance. Or, how about when you enter your data to the pensions dashboards and the pensions you know you have aren't found?

That's the reality facing some members in the not-too-distant future, and it doesn't only create a poor member experience, it has the potential to develop into an administrative headache for pension teams too.

It's now under one year until the first schemes must connect to pensions dashboards, and preparations are, or should, be well and truly under way.

There are several important areas schemes must pay attention to in the run up to connection, not least prioritising data accuracy to ensure your members aren't thwarted and deciding how to connect your data to dashboards.

Among the helpful resources published is PASA's connection readiness guidance, which outlines the many steps that need to be taken. With the first wave of connections due to take place on the 30 April 2025, if you've yet to get started, there is no time to lose.

Most schemes not connecting directly to the dashboards ecosystem will have chosen, or be in the process of choosing an Integrated Service Provider (ISP) to handle their connection and provision of 'always on' data. A good ISP will guide you on the steps you need to take regarding your data, matching rules, and connection journey.

If you have not engaged with an ISP, it would be wise to do so now, as onboarding and implementation need to be planned, and schedules are filling up. No one will want to be caught up in a last-minute scramble to get over the line or miss the connection dates completely due to lack of preparation or ISP implementation availability, especially when it's entirely avoidable.

You will have heard so many times that data is increasingly key for all areas of pensions and when it comes to pensions dashboards, that is truer than ever. In fact, their entire success is contingent on accurate data. Inaccurate or incomplete member data can result in suboptimal member experiences, heightened administrative burdens, and potential exposure to legal penalties and regulatory scrutiny.

There are essentially two types of data key to pensions dashboards.

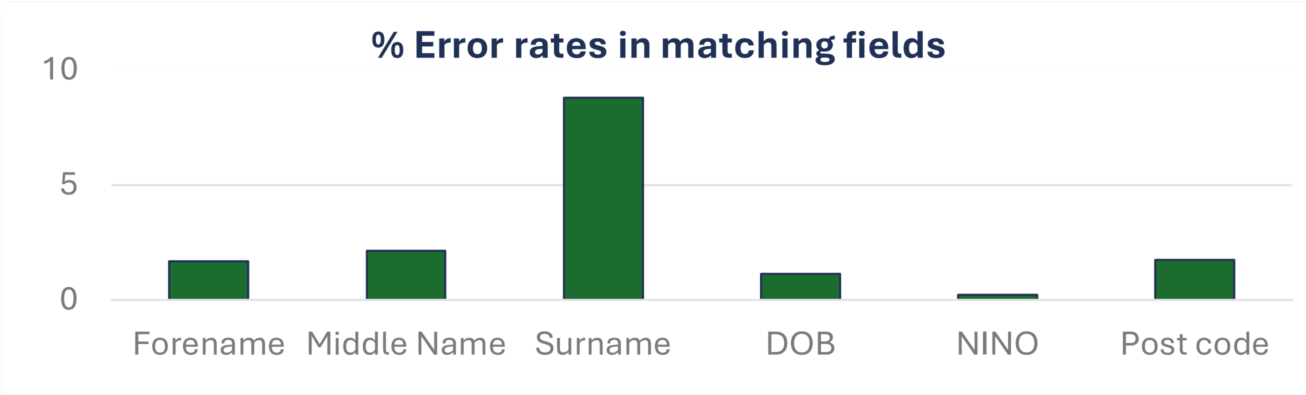
- Find data that matches a member to their pensions, and
- View data that is provided to a member, showing them the value of their pensions.

A good ISP will be able to audit your data to help you understand its accuracy and guide you on the steps you can take to improve it. Many will also be able to undertake the cleansing of personal data and validation and creation of benefit data to be used as View data.

Not having current names, addresses or dates of birth for members will lead to incorrect matches for members. This will of course inevitably lead to poor member decisions and increased member enquiries.

Where a member's data does not adequately match the data entered into the dashboard, a possible match could occur. Possible matches will almost certainly create a significant administrative burden, leading to:

- increased workloads dealing with member enquiries,
- potentially delayed responses and
- poor member outcomes.



What the data tells us

It might be worth pausing here and looking at the data. Heywood examined six core data fields – first name, middle name, surname, date of birth, national insurance number and post code – from 3.2 million member records. The data shows pensions schemes have very few issues regarding invalid National Insurance Numbers, though even an error rate of 0.21 per cent represents over 6,000 members.

Post codes were then examined, where it was found that 1.74 per cent were incorrect, and for dates of birth, this figure was 1.13 per cent. The percentages may be small, but extrapolated across 3.2 million members, that is a lot of people missing correct information.

The real eye-opener and something for schemes to be conscious of is incorrect surnames. Over 8 per cent of surnames were found to be incorrect on average. This is likely to be down to marriage, divorce, or the occasional typo, but these discrepancies highlight the need for meticulous data maintenance.

TPR requires scheme reporting on possible match levels and will investigate where those levels appear too high.

The time required to cleanse data should not be underestimated. Whilst the actual cleansing can often be performed quite quickly, the new and cleansed data then needs to be integrated back into administration systems. Also, there will be data that requires further investigation and checking before it is adopted. This can take time and resources that need to be planned in, so the recommendation is to start now with an initial data audit early in the process.

As well as getting Find and View data in good shape, you will need to:

- decide what matching criteria provides the best level of good matching outcomes for your scheme,
- how you will deal with possible matches and
- how you will work with any AVC provider to ensure members see all of the correct information.

PASA has you covered here too, with helpful guidance on matching criteria and Value data guidance.

Whilst many steps can be taken alongside each other, testing and agreeing matching criteria should be conducted with cleansed data. Failing to do so will lead to unreliable testing results, exposing you and your members to unpredictable outcomes.

Not only will you need good data and matching criteria, but you should also ensure that you or your ISP can provide that data to the dashboard ecosystem in the correct format and with robust systems meeting the required availability and response times.

It is also important to consider how you will maintain good data quality all the time. Once you are live to the public, data will need to be correct 24/7/365 and it is essential that reliable and efficient business as usual processes are in place, not only for data, but for new and increased administrative workloads.

All of these requirements may feel a little daunting, but with the right planning, preparation, testing and guidance, it is possible to have a smooth journey and a positive impact on member's retirement planning and journeys.

Officially, the live connections of pension schemes to pensions dashboards will begin in April 2025, but the journey should be underway right now. Successful pensions dashboards implementation depends on accurate data, well-tested matching rules, and a capable ISP to ensure smooth onboarding and regulatory compliance.

The clock is ticking. As dashboards approach the room for manoeuvre is closing, but it's still not too late. If you haven't already embarked on your preparation journey, now is the absolute critical moment to start. Accurate data and a well-chosen ISP can get you back on track.

Your members deserve a thwart-free, seamless experience, and your scheme deserves the peace of mind that comes from being well-prepared.

Written by Heywood head of data propositions, David Rich

In association with HEYWOOD

Will tech solve the pension engagement conundrum?

Is pension engagement heading for a brilliant digital revolution, asks Robert Cochran

Since the turn of the Millennium, pension member technology has been on the march – and the pace of change is going to get faster.

Back in 2000, pension member comms were usually an Annual Benefit Statement, with some of the more sophisticated schemes having rudimentary websites.

Video Benefit Statements

Most members, though, didn't understand their Annual Benefit Statements, so some bigger schemes began sending them an explainer.

These became generic Video Benefit Statements (VBS) which have since evolved into personalised, on-demand ones. Members can choose when to generate their own video on how their pension is doing, but undoubtedly the biggest impact is where the video delivers a personalised nudge that can be actioned.

At Scottish Widows, 64 per cent of those who watch a personalised VBS take action. They get hyper-personalised nudges as the video knows their scheme rules, policy information and compares their pension savings with the PLSA's Retirement Living Standards.

With organisations such as Money Alive building in avatars, more schemes can access high-quality VBS. Delivering these in-app in a timely way, with actionable insights is something I expect to see a lot more of and, of course, taking this VBS model into the eagerly anticipated pension dashboard could revolutionise people's understanding of how prepared they are for retirement by pulling in all their pensions into one place where they can see what they've got.

Video as a pension communication medium is here to stay, it will just get ever more personalised and evolve to help them take action.

Meanwhile, other providers embrace innovation that borrows from the consumer space, such as Aviva's take on Spotify Unwrapped to produce something similar for pensions. There is something nice about the familiarity of this look and feel for consumers – the future though is about creating friction-free, next best steps.

Websites vs apps

Pension scheme websites allow various levels of view, projection and transaction capability. Taking largely a desktop approach, what's fascinating is when they're compared with a pension app experience.

Around 40 per cent of visits to our Scottish Widows web portals are via mobile phone, and it's increasing as people increasingly opt to manage their lives via their phone.

This affects how they manage their pension, too. While desktop and websites are popular during work hours, Scottish Widows' app is used most from 7-9am and 7-9pm. There is a real sense that the relationship with a workplace pension becomes more personal when it's managed on your phone, in your time.

Golden age of the app

Apps are of course where it's at, with the likes of Nest joining the growing number of pension providers and schemes offering one. Increased interaction is one benefit, with Scottish Widows' active app users logging in three times more frequently than active web users. The simplicity of clicking on an app and accessing it via phone biometrics makes it much more convenient.

What do people do in the app? Well, it's no surprise that they tend to follow three steps.

What have I got?

The number one thing people do is look at their pension value, although some go deeper and look at their investments, and perhaps even their impact on the world.

Is it enough?

Next is projection, with people finding out how making changes to their pension plan will affect what they are on track to get.

What can I do next?

Nudging people to take the next best action is something an app can really help with – and design is pivotal to improving engagement and making the completion of journeys super simple.

Everything together

Pension dashboards are coming but not quickly enough to answer to 'what have I got?' As people accrue pension pots and apps, it's difficult to keep track. Into this space have stepped all-in-one solutions, including bespoke dashboards employing APIs that link pension plans and wider finances together.

Scottish Widows has partnered with Moneyhub to let users connect financial products to their pension app, with other providers taking a similar approach. Stats in the first few months showed £1 billion of policies connected; nearly 80 per cent of these were from other providers as people created their own pension dashboards.

This is a positive sign for the industry-wide dashboard programme as people doing this now manually connect policies. When the industry dashboard is in place, it should be friction free.

The second question of 'is it enough' is also being solved: Once people have connected their policies, they can get a projection based on all their pension plans, including state pension.

Design excellence

Onto the third point – what to do next. The future success of digital engagement will come down to the design of digital journeys, with a positive outcome being a better engaged pension population likely to retire better.

Artificial intelligence (AI) can do vast amounts in the pension space too, including making it much easier for people to get their questions answered.

One of my favourite examples is how it's being used with video where expressive avatars make it easy to create personalised messages in a range of characters at speed. Imagine if you chose the person who speaks to you about your pension and every time you log in, they're ready with a personalised message.

Can we gamify pensions to engage more people?

At Scottish Widows we launched the Pension Mirror last year using AI and gamification to boost pension engagement. With 600,000 uses so far, we know it worked – but gamification in pensions can be much more.

Gamification works in education, with the likes of Duolingo, with health in fitness watches and Strava, and should be embraced to improve retirement outcomes. We recently launched in-app games to take members on learning journeys with loads more to come.

The future, ultimately, will allow people to play with scenarios to test ways to use their retirement money. For many who've grown up with gaming, it will feel like a natural step, and for everybody it will be a great way to learn. But let's park gamification for now – it could have an article all to itself!

Connected 20s

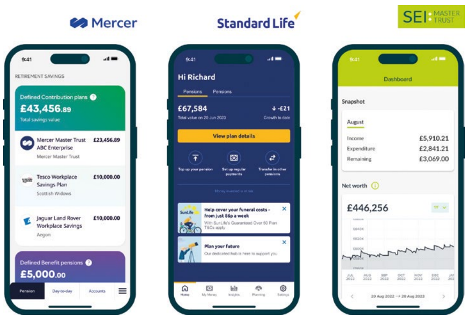
My view is that pension engagement is heading for a brilliant revolution driven by the free secure flow of data and the ability to see all financial assets in one place – not just pensions – to learn about them, model the future, get bite-sized advice and understand what it will take to make it happen. It could include investments, insurance and more, giving people a holistic view of their finances and putting them in charge of their money. None of this will happen, though, without brilliant design and it's something the pension industry hasn't quite grasped yet.

What about pension apps though – are they obsolescent? In the Connected 2020s we're in now where everyone's finances can be viewed in one place, will people just choose the one dashboard which pulls through their open banking, pension dashboard, and open finance solutions into one easy to manage place – and how will they choose?

Will it be Design? Brand? Convenience? Trust? Probably all those things and Pension Dashboards will be the first big test – designing them brilliantly and delighting people by finding lost pension pots – what a great way to start the next stage of digital pension engagement.

#Connected20s

Written by Scottish Widows engagement specialist, Robert Cochran



Monzo, Open Finance and the Pensions Revolution

John Parker highlights the importance of providing savers with a holistic view of their pensions and wider finances through Open Finance technology

Almost a year after its plans to move into the pensions market went public in August 2023, Monzo announced in July 2024 it will be launching a new pension consolidation solution that finds users' pension pots and brings them into one fund, accessible through the Monzo app.

The announcement comes as Monzo's research revealed that 51 per cent of UK adults don't know how much they have saved for retirement. It asked 2,000 people what would make engaging with their pension easier, and 38 per cent said a process that felt more accessible to manage alongside their everyday finances.

Pensions engagement in the UK

Earlier this year at Moneyhub, we conducted our own research[1] into consumer attitudes towards their pension and investment providers. We found that:

- 36 per cent of 35-44 year olds said too little information from their providers was putting them off adding to their pension or investments
- 2 in 5 (42 per cent) of all consumers say they don't find it easy to interact with their providers
- 4 in 5 (79 per cent) consumers "could save more money" if they had one app to view and manage all their bank accounts and financial products

And this lack of engagement is having a detrimental effect on financial health. Recent research has shown that around 88 per cent of individuals with workplace pensions have at least one pension that remains unclaimed[2] and there is an estimated £26.6 billion of lost pension pots in total and nearly a million pensioners in the UK are living in poverty[3].

The power of 'all in one place'

A holistic approach can lead to better outcomes, and it begins with virtual aggregation on an easy-to-use app, through mechanisms such as incoming pensions dashboards. Bringing pension pots together helps people understand their true financial position, and answer important questions like "will I have enough?" or "when can I retire?". It also helps people make better informed decisions based on the performance of their pensions over time, both financially and ethically, and explore options such as consolidation.

At Moneyhub we go one step further and bring other investments such as savings, shares and even property, debts and loans into that view. Quite often people will take a lump sum earlier, or draw down faster than they need to when they have other options open to them.

Monzo's solution reflects what we are seeing from major players within the pensions industry; pensions are one piece of the puzzle, and need to be understood in the wider context of someone's overall financial world.

Providers such as Mercer, Standard Life, SEI and Scottish Widows are taking a proactive approach to helping members engage with their pensions and understand what they have, and what they might need for a comfortable retirement. By using Open Finance to position pensions alongside daily spending, savings, investments, properties and all other financial accounts, these firms are increasing engagement and enabling better financial futures for their members.

The future of pensions and Open Finance

Monzo's announcement came hot on the heels of the King's Speech (17 July 2024) in which it was announced that the government will bring forward the Digital Information and Smart Data Bill, as well as a Pension Schemes Bill.

Paving the way for Open Finance legislation, the Smart Data Bill seeks to set a clear framework for consent-driven data sharing, offering new opportunities for innovation to firms, and improved transparency, products and services to consumers. The Pension Schemes Bill focuses the industry on value and outcomes for members. Paired with incoming and much needed commercial pensions dashboards, we see this as a positive step towards helping millions of consumers achieve healthier financial futures.

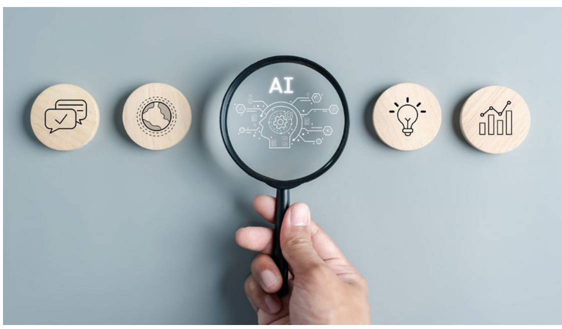
Written by Moneyhub sales director - pensions & wealth, John Parker

In association with moneyhub

[1] https://www.moneyhub.com/gift-for-you-report
[2] https://www.pensionsage.com/pa/Nine-in-ten-uk-savers-have-at-least-one-unclaimed-pension.php
[3] https://www.theguardian.com/society/2024/apr/16/nearly-1m-uk-pensioners-deprivation-official-figures

Can the artificial intelligence (AI) revolution help pension schemes?

An overview of machine learning algorithms and some AI applications for the streamlining of scheme data preparation and pension risk transfer processes



Artificial intelligence (AI) is rapidly becoming a reality that can transform the way we work. Unsurprisingly, it could have multiple applications to the pensions and insurance universe; it has the potential to streamline operations, enhance member care, manage risk, and identify trends and opportunities. This should not translate into jobs being lost – a fear commonly expressed in the industry and the media. At Just, we believe that AI will boost our industry's productivity and allow more professionals to use their specialist knowledge in a more rewarding and fruitful way.

Machine learning (ML) has been around for decades, but recent advancements in technology have made it more accessible and usable. If we want to make the most of AI in the pensions industry, it is crucial to understand what ML is, how it works, and where it can be useful. Our aim here is to give pensions industry professionals a bird's eye view of the sorts of problems that can be tackled with these powerful computational tools, and some of the techniques' limitations they should be aware of.

Before machine learning became popular, computers were mostly programmed with rule-based algorithms to solve data classification and regression problems. But this approach requires a deep knowledge of the subject matter at hand and also can result in complex computer programmes that must account for the many nuances associated with the problems they try to solve.

Conventional ML algorithms learn 'models' of data where a certain label or valuable characteristic is known: think of recognising a flower species from its petal and stem size, or predicting the sale price of a house based on its characteristics. These 'trained' models can then make predictions about new data where the labels are not known in advance. As such, this approach has traditionally been applied to tasks where there is a large pre-existing set of example data to train the model. For this reason, most ML algorithms are specialised for one task, and must be re-trained for each new task.

More recently, a new family of 'generative' machine learning models, now commonly referred to as 'AI' models, have gained widespread public attention due to their capability to adapt easily to new, unseen tasks and generate new content. This generality is achieved by training the models on enormous sets of data from many domains. These models are more flexible, since they have many more trainable parameters: billions, relative to thousands in conventional ML.

The excitement around generative models stems from their versatility across various scenarios with minimal training examples. However, this may occasionally sacrifice output quality, requiring vigilance. Think of conventional ML as a reliable old machine, and generative AI as a keen yet novice assistant – the first excels in a single task, while the second has broader but shallower potential and so needs supervision.

At Just, we believe there is value in combining the benefits of both approaches, but in a responsible way.

Some AI pensions applications

There are a number of ways AI can be applied in the pensions arena.

One of the biggest immediate potential applications of AI for pension schemes is the enhanced ability to manage scheme data. This is especially true where data are needed by parties outside of pension schemes themselves, such as buy-in and buyout providers like the Just Group.

Third-party administrators are at the centre of an active de-risking market and are increasingly under pressure to quickly prepare and finalise scheme data for de-risking exercises.

Imagine the benefits of being able to instantly validate scheme data and get a quick report on the quality and completeness of the data, including the detection of potential errors. Envision being able to generate a detailed summary report about scheme data at will, or being able to automate the extraction and tabularisation of relevant parameter values for use in pricing models. This is an application that we have advanced at Just, with the result that pre-pricing data preparation in minutes is close to becoming a reality. These ambitious goals can be achieved through a judicious use of a blend of rule-based algorithms, and conventional and generative machine learning models.

At Just, we think that a careful integration of AI in existing processes has the potential to transform a scheme's ability to cleanse pension scheme data – and thereby smoothen the scheme journey to buyout – as well as removing some of the pressure from scheme administrators.

Another particularly significant discriminative AI application that can be implemented to safeguard our customers is fraud detection – particularly in regard to scamming attempts.

A common thread in the pensions press over the past few years has been the damaging outcomes from pension scams, whereby customers have been mis-advised to cash in valuable defined benefits in exchange for (sometimes) fraudulent investment schemes. These scams have left some individuals bereft of their retirement savings.

Both ML and AI could be put to good in this scenario. Using data on historic scams from The Pensions Regulator and the FCA alongside our in-house data, we could teach models to recognise the hallmarks of fraudulent activity, alerting members at the point of offers being made, or at the point where transfer requests are made to us by members. Automation of these alerts and subsequent actions would provide an invisible and 'hassle-free' layer of security for our members.

Generative AI excels at language understanding and text generation: think of 'Large Language Model' (LLM) applications such as ChatGPT and Microsoft Copilot. At Just, we are applying these models to improve customer literature, setting the perfect tone-of-voice when communicating with our customers. In the future, we aim to tailor our communications and tone to individual customer's needs. Importantly, we want to continue to value the human element at the centre of our work: we use AI to empower our workforce, not replace it, to improve service, not to put a computer on the end of the phone.

We are also already applying LLMs to understand customer feedback, giving us the ability to have command over the quality of every dimension of our customer interactions. We are also using these models to process the large volumes of regulatory literature and internal guidelines to allow our workforce to work more efficiently for the customer. Furthermore, our software developers are using LLMs to more quickly develop new software to give our customers and clients a smoother and more enjoyable experience.

The reality of effective AI adoption is that the pensions landscape has a lot to gain from intelligent use of machine learning and artificial intelligence. It is not however without its challenges.

Challenges

For conventional ML to make accurate, it is crucial that the dataset used for training models meets certain quality and size standards. Specifically, considerable effort should be invested in ensuring that training data are unbiased, thereby preventing the generation of biased predictions. Also, the amount and breadth of data necessary to train a machine learning algorithm must be appropriate to the complexity of the problem being solved: More complex tasks require a higher quantity of more varied data. This necessarily also means that the model itself needs to be more flexible.

Another inevitable challenge arises from a rushed and imprudent use of LLMs. Although LLMs can produce highly convincing and accurate outputs, their outputs result from a sophisticated but ultimately approximate process, so they should always be verified and not taken as absolute truth. As a rule of thumb, we should also always strive to be able to challenge first, and then explain the results obtained with AI, which in itself has value in terms of understanding the underlying data and processes better.

A further challenge, which is particularly true when using LLMs, is the ability of ensuring the secure handling of sensitive data. Currently, LLMs are typically offered as online services that operate on the provider's servers. To process the data, they must be transferred to these servers, which requires a secure approach and arrangements with the providers to guarantee the integrity of shared data. However, there is also the option to run open-source models, such as Meta's Llama, on private local servers, provided that the servers possess the necessary hardware capabilities to run the models.

We all recognise that we are amid a technological revolution fuelled by machine learning. The pensions industry should seize this opportunity to enhance and streamline its operations. In order to do so it is essential that high quality data are collected and stored in a convenient format for accessibility.

While machine learning, and in particular generative AI, can be a potent tool, it must be used with caution. There are no guarantees of accurate or consistent outputs, and it remains the human user's ultimate responsibility to verify the correctness of their output before using it. Perhaps most importantly, particularly for Just, although ML and AI can provide great value, we must not forget the value of human input and ingenuity over automated processes and decision-making.

Written by Just Group's Pretty Sagoo and Ted Mackereth

In association with JUST. THE RETIREMENT SPECIALIST

Administration platforms: Starting again

Graeme Riddoch explains the challenges old administration platforms face in tackling today's pension scheme needs

"Well, I wouldn't have started from here."

There's an old joke about getting directions to somewhere hard to find. The punch line is "well I wouldn't have started from here". It's a pretty good metaphor for the technology underpinning DB pensions.

The technology and processes have grown up over decades. As such they are often disjointed and inefficient with data being moved between administration platforms to actuaries and other scheme advisers.

Many of the administration platforms were conceived years ago and as a result struggle to deliver to the needs of schemes and members now.

Typically, there can be a myriad of technology platforms used to run and support a DB scheme.

The administration platform

Often legacy platforms struggle to automate all benefit calculations, with the resulting inefficiency and delays in meeting member requests.

Having their roots in the distant past, few can deliver a modern engaging digital member experience, as they were never designed to.

Allied to a lack of full automation is the difficulty in serving estimated retirement incomes (ERIs) to the pensions dashboards. If you can't do it automatically then it's a manual process with the associated cost. One scheme we know of just received a £600,000 bill to validate data & calculate ERIs. You could replatform for that and still have money to spare!

Actuarial systems

Typically, the scheme actuary will require a data cut from the administration platform at least every three years to allow for the valuation. That requires an extract that needs to be formatted and loaded to the actuary's own system, with the associated cost.

It's hard to get a live funding position as calculations are only as current as the member data and asset position. This knocks on to decision making.

Where there is a corporate actuary, they typically will need their own data cut, which will require different configuration to marry up with their valuation software.

The related issue is that as different actuarial systems are being used with different calculation routines. Results can vary even when based on the same underlying data.

All this extraction and manipulation adds time and cost to the process.

What about the member?

The member is often on the receiving end of the service that can be delivered, rather than the service they should get. This is primarily a function of the capability of the administration platform to enable a responsive first-time right service, allied to the number of administrators supporting the scheme.

Trying to get to an efficient modern model, you wouldn't start from here. With a clean sheet of paper, you would start with a single system that would deliver first class administration whilst meeting the scheme's requirements, and that of all the advisers.

An administration, actuarial and risk management system running from live member data and asset feeds would always be up to date. Valuations would be available daily, resulting in improved decision making. Change the member data and it automatically feeds into the valuation calculations.

All scheme advisers could access the system with appropriate permissions to extract data or run their own calculations.

DB pensions lag other sectors such as banking in terms of online member services. That's generally due to the inability of the administration platform to serve up accurate numbers.

The key to getting members online is an easy registration process. Smartphones are now the way that most people access the internet, with apps predominating.

Hooked up to a modern fully automated administration platform, an app would make it easy for the member.

The other benefit of making it easy for the member to self-serve is reduced demand on the administrator, by up to 30 per cent.

Conclusion

Going back to first principles on systems can benefit all stakeholders.

If you look after the data well you get 100 per cent automation of calculations, which acts as the foundation of all the scheme services meaning:

- Operational costs reduced.
- Visibility improved.
- Decision making improved.
- Dashboard calculations are easy.
- Members get the service they deserve.

Written by Mantle head of sales and marketing, Graeme Riddoch

In association with mantle

Company Profiles

Heywood

With nearly five decades of experience, Heywood has established itself as a leading provider of pension administration solutions. The company is committed to simplifying complex pension management processes, offering seamless and stress-free services to its broad customer base.

Heywood has been involved with the Pensions Dashboards Programme from the outset in 2016. In June 2021 Heywood was appointed as an Alpha Integrated Service Provider (ISP) for early participation to help create a strong foundation for the programme. As part of the programme, Heywood were one of the first providers to build, connect and test its ISP solution to the dashboard central architecture and one of only three ISPs to have connected and tested.

In 2024 Heywood were appointed to the ISP and Provision of Member Data Services LGPS Framework, as the only supplier awarded all seven lots.

This achievement reinforces Heywood's position as a comprehensive end-to-end supplier for Pensions Dashboards ISP and data pensions services, for all pension providers and all sectors.

Heywood's team of seasoned experts is dedicated to delivering exceptional support to pension schemes and providers. Through streamlined processes, the company helps clients save both time and money. By adopting agile methodologies, Heywood can quickly adapt to industry changes and develop innovative solutions that meet evolving needs.

With a strong emphasis on quality, Heywood has built a solid reputation within the industry. The company's software plays a crucial role in safeguarding the financial futures of millions of people.

Scottish Widows

Scottish Widows enjoys a proud history of helping people plan for their financial futures for over 200 years. Today, as one of the most recognised and trusted brands in its sector*, they have over six million customers across a broad product range including life cover, critical illness, pensions, annuities, savings and investments.

Scottish Widows is committed to supporting advisers and their clients, using all of their experience to take on the future together. They do this by providing market insight and guidance, and continually innovating and improving their service, support and propositions. One of the key initiatives is 'Techtalk' which provides insight into industry changes and regulation affecting pensions, protection and investments. They also have a longstanding research programme on UK financial planning attitudes, and continue to promote the value of saving in pensions through involvement in the industry wide Pension Engagement Season initiative.

In 2023, Scottish Widows were recognised by intermediaries, securing a 5 Star rating for the Scottish Widows Platform and a 4 Star rating for Investments, Pensions & Protection at the Financial Adviser Service Awards, as well as winning Best Personal Pension Provider and Best Critical Illness Provider at the Investment Life & Pensions Moneyfacts Awards.

The organisation has a focus on sustainability and have launched a number of publications about their approach. This includes their Responsible Investment Framework and Stewardship Policy and their Climate Action Plan, which includes a key target of decarbonising all investments by 2050.

For more information on Scottish Widows, visit adviser.scottishwidows.co.uk

* Spontaneous Awareness rank: 2, Trust (Character) rank: 3, Trust (Competence): 3. IPSOS, December 2023.

Moneyhub

Moneyhub's goal is simple; to work with our clients to improve the financial wellness of people, their businesses, and their communities.

Hundreds of companies including Aon, L&G, Mercer, Scottish Widows, SEI, and Standard Life use our award-winning Open Banking, Open Finance and Pensions Dashboard technology to better understand their customers through data so they can comply with Consumer Duty, increase retirement savings engagement, and automate money management to ultimately increase their capacity to spend, save or invest more. To find out how to give the gift of financial wellness, and reap the rewards, visit www.moneyhub.com.

Just Group

Just (Just Group plc) is a FTSE-listed specialist UK financial services company.

Just is a leader in defined benefit (DB) de-risking, individual retirement income, and care markets. We've completed over 400 transactions since entering the defined benefit de-risking market in 2013.

Just reported record total DB sales in H1 2024 of £1.9 billion, up 31 per cent, and completed 55 transactions, compared to 35 transactions in H1 2023.

The >£17 billion of DB premiums we've secured have been invested to ensure we achieve the predictable cashflow required to pay the pensions of scheme members. We've invested billions of pounds sustainably, across social housing, utilities and infrastructure including offshore wind farms and solar. These investments deliver value for pension scheme members and help the UK economy to grow.

Just has over 650,000 customers and has been trusted to manage more than £25 billion of customers' retirement savings and has helped customers release over £6.8 billion from their properties. Just provides a wide range of products, advice and professional services to individual customers, financial intermediaries, corporate clients and pension scheme trustees.

Marketed products

- De-risking solutions for pension scheme trustees who want to remove the financial uncertainty of operating defined benefit pension schemes;
- Individually underwritten retirement income products delivering a guaranteed income for life;
- Long-term care plans that provide those people moving into residential care with peace of mind by knowing a regular payment will be made to the care provider for the rest of their life;
- Lifetime mortgages for people who want to safely release some of the value from their home.

Professional services

- Regulated financial advice and guidance services for individuals wanting help in using their pension savings and/or releasing some of the value from their home; and
- A range of business services tailored for our corporate clients, ranging from consultancy and software development to fully outsourced customer service delivery and marketing services.

The companies within Just Group are authorised and regulated in the United Kingdom by the Financial Conduct Authority and / or the Prudential Regulation Authority.

JUST.

THE RETIREMENT SPECIALIST

Company Profiles

Mantle Services

Mantle Services is a pension software development business with a difference. Developed in 2010 by a small group of passionate, pension professionals united by one mission. To create a unified solution that seamlessly integrates actuarial precision with efficient administration.

Our solutions range from Administration platforms to Actuarial, Asset Liability Management and much more. We have designed our modern, contemporary solutions to deliver the outcomes schemes and advisers need now, without the baggage of legacy systems. We license our software to in-house pension schemes and to third party administrators, actuarial firms and buyout providers.

For further information, contact us at enquiries@mantleservices.com or visit our website at www.mantleservices.com

Pensions Age

Pensions Age is the leading title targeting those managing UK pension funds and their consultants. Published monthly in print since 1996, and daily online, we invest heavily in our circulation and content to ensure we are the clear market leading title. Our in-house editorial team of Francesca Fabrizi (Editor in Chief), Laura Blows (Editor), Natalie Tuck (Associate Editor), Jack Gray (Deputy Editor), Sophie Smith (News Editor) and Paige Perrin (Reporter), ensure we cover the latest news and topical industry issues to help our readers make the best-informed decisions.

www.pensionsage.com is the leading website for pension funds and we look to cover the breaking stories as they happen. With over 24,000 subscribers to our email newsletter service, we offer our readers an unrivalled service. At the core of this is high-quality, news-breaking journalism, combined with in-depth knowledge of the target market and heavy research into data.

Pensions Age also runs highly successful conferences, and the Pensions Age Awards.

We also publish *European Pensions*, which targets pensions funds across Europe, as well as running the European Pensions Awards and Irish Pensions Awards.

Presenting the case for pension class actions

In recent months, the LGPS has been involved in high profile US class action cases with multi-million-pound settlements. Could these become more popular throughout the wider pension world?

Summary
- The LGPS has become involved in recent high profile class action cases; the lucrative settlements potentially stimulating greater engagement in this kind of litigation.
- Class action cases favour the LGPS due to the schemes' sheer size and resources – other pension funds may get involved, but they must be big enough to do so.
- The nature of the US and UK legal systems mean class actions will likely remain a matter for the American courts.
- Class action cases are serious undertakings and pension funds have to take into consideration many factors such as cost, complexity and the chance of legal matters rumbling on for years before a conclusion is reached.

This year, the LGPS has been involved in two high profile – and successful – US class action suits. In March, the Norfolk Pension Fund (NPF) secured a £380 million recovery in a class action case against Apple over claims the tech giant had made false and misleading statements to investors. A few months later, the North East Scotland Pension Fund (NESPF) was a lead plaintiff in a similar case against Under Armour and recovered £338.9 million *[see p66 for more information on this case]*. This has led some to question why the LGPS is involved in these class actions and if this is part of a growing trend.

As to the why, this can be attributed to the size of these schemes. According to Gowling WLG dispute resolution partner, Emma Carr, the LGPS will have the requisite scale needed to consider engaging in a class action.

"In addition, LGPS funds will be keen to be seen to lead the way (and may indeed owe fiduciary duties to its members to pursue legal recourse) in matters of shareholder activism in all of its guises," adds Carr. "A local government pension scheme is typically sponsored by employers, funded by taxpayers, so they may feel compelled to pursue claims to minimise the funding burden placed on employers and taxpayers."

Due to their scale, both the NPF and NESPF had sizeable investments in the companies they pursued class actions against. Burges Salmon partner, Michael Hayles, highlights that the LGPS is one of a reducing number of pension schemes that still have significant equity exposure.

"LGPS funds (and increasingly LGPS pools) will therefore have a significant interest in being involved in (or leading) class actions where they can recover losses in relation to equity investments," argues Hayles. "There does seem to be a growing trend for LGPS funds to consider their opportunities to bring such claims and we do not expect that to change. In particular, LGPS funds arguably have a greater range of stakeholders than a typical scheme – from local councils, members, taxpayers, employers and central government – who will have an interest in LGPS funds making recoveries for losses."

Not restricted to LGPS funds

LGPS funds may have the scale and resources to commit to class actions, but this is not unique to them.

"There is nothing stopping other large pension funds getting involved with class actions relevant to their investments and arguably they should be doing so

as a claim is an asset in the fund, which arguably the trustees should pursue," says RPC partner, Rachael Healey. "Furthermore, the way in which the US fund class actions can be attractive to pension schemes given that they tend to be funded on contingency arrangements and there is less risk to adverse costs if proceedings fail."

The eye-catching figures in the recent Under Armour and Apple rulings may garner greater attention from the wider pension community. Hayles says these sums may "stimulate interest" in class actions in all pension schemes, but that this may stay restricted to schemes with larger equity allocations.

"We might expect the LGPS and the other large pension funds – such as the Universities Superannuation Scheme – to be very focused on these opportunities," he says. "However, for legacy DB schemes in the UK, which are progressively de-risking, we may see a downturn – although collective DC (CDC) (when they come through to the market) and large-scale DC schemes may begin to take a greater interest in these claims – and the members of those schemes may expect appropriate action too."

UK expansion unlikely

Regardless of the kind of pension schemes that will pursue class action litigation in the future, these are likely to remain US cases, according to Irwin Mitchell partner, Garon Anthony.

"There is a long history of class actions in the US – the US is therefore more experienced in dealing with them, while they are comparatively rare in the UK," explains Anthony.

"The courts here impose quite high burdens that need to be satisfied before you even get one of these things off the ground. Funding is also a really

big issue here; you have to be very well funded in the UK and justify the class action is a good use of the scheme's money with legal fees being funded as you go. Some firms may agree to do these on a contingent basis but that is rare."

In contrast, the situation is more attractive for plaintiffs on the other side of the Atlantic. Pomerantz director of ESG and UK client services, Daniel Summerfield, outlines how the risk/reward proposition is different for aggrieved parties.

"In cases litigated in the US, there are absolutely no costs and no financial risks to serve as a lead plaintiff," says Summerfield. "All costs are covered by the attorneys leading the case; they will ask the court to approve that a portion of assets received in a settlement are paid to them to cover fees and expenses.

"The US, unlike many other jurisdictions, does not have a 'loser pays' system. Win or lose, a lead plaintiff is not responsible for any costs."

"Class actions may result in large recoveries, but experts warn about pursuing these actions purely for financial gain"

Cost and complexity considerations

The challenge of accessing UK funding for class actions speaks to the wider complexity of class actions in general. By their very nature, with a large number of plaintiffs, class actions are complex and therefore costly endeavours – factors that should not be overlooked from a risk management perspective, argues Healey.

"*[There are potentially extra risks]* if there are differences between the parties bringing the claim," she says. "The way in which pension schemes invest (with advice from fiduciary managers for example) means that they are sophisticated investors. This may put them in a different position to a member of the public making the same investment."

Lawyer selection is also vital. With UK pension schemes more likely to pursue class action-type litigation in the US than domestically, choosing the right law firm in the states is crucial. Here, a law firm having 'hands on' experience is important, Summerfield says.

"A scheme may also want to pursue claims against a company that might have particular resonance with its members, for example, one with poor corporate governance or environmental standards or a company which has not responded appropriately to investors' concerns," he adds.

Class actions may result in large recoveries, but experts warn about pursuing these actions purely for financial gain. Looking at the wider context, Carr points to the other potential side effects pension funds such as negative publicity and a distraction from primary duties.

"Often participation can be seen as a way of protecting members' interests, which is perceived positively, but there is always the risk of exposing the scheme to negative publicity if the case is controversial," says Carr. "Also, does the decision to participate align with the scheme's broader investment objectives and/or how the action may impact relationships with other companies or sectors which the scheme is invested in?"

This latter point speaks to the sheer amount of time class actions can take to resolve. The NPF's case against Apple was resolved in 2024 but first filed in 2019, with the tech giant steadfastly defending itself throughout. Anthony says the risk of lengthy legal proceedings, before a matter even nears a courtroom, has to be considered.

"The companies that are defendants in these claims will fight very hard," says Anthony, revealing that such companies will often make numerous applications to strike out and frustrate these claims throughout the process.

"On one hand you have a failed investment where you were misled, and on the other hand you are looking at a new investment to recoup your losses," he adds. "The latter can be significant in terms of time and resources to devote to allow your US lawyers to do the best possible job they can."

Written by Jon Yarker, a freelance journalist

North East Scotland Pension Fund investment manager, Graham Buntain, and Robbins Geller Rudman & Dowd co-founder and partner, Mark Solomon

Winning the battle

North East Scotland Pension Fund investment manager, Graham Buntain, and Robbins Geller Rudman & Dowd co-founder and partner, Mark Solomon, discuss their recent success in a battle for justice against American sportswear brand Under Armour

North East Scotland Pension Fund (NESPF) has recently helped secure a $434 million settlement in a class action against Under Armour, in which it was the lead plaintiff. How did the situation arise?

Mark Solomon: My law firm, Robbins Geller Rudman & Dowd and I have been legal counsel to NESPF with respect to its US securities fraud exposure for a number of years. We monitor for such fraud and perform analyses of the securities transactions of our clients worldwide who invest in listed securities generally, and in the United States in particular. NESPF's fraud-related losses in Under Armour came to light as a result of that monitoring programme. Shares of Under Armour had been purchased for NESPF during the time period we alleged that the company's share price was inflated by the defendant's misrepresentations about the company's true condition.

We alleged that instead of revealing to investors that demand for Under Armour's products was in decline, its CEO, Kevin Plank, masked the decline by pulling in sales from future quarters and engaging in other suspect sales practices. When the jig was up and the practice revealed, Under Armour's share price collapsed. NESPF led a class of investors globally in seeking to recover their losses and, after several years of litigation here in the US, we reached a settlement just three weeks before the trial was set to begin. NESPF won a recovery that is almost 50 times more than the $9 million Under Armour paid the Securities Exchange Commission to resolve similar charges.

What was it that motivated NESPF to take legal action against the company?

Graham Buntain: Simply put, because we felt we had to right the wrong. If we overpay for shares in a company because its leaders have been misleading the market, that overpayment financially harms the pension fund and its beneficiaries: Every £1 million lost to fraud is more than enough to fund over 100 pensions for a year. Multiply that by all of the losses caused by such fraud that we and other funds suffer across our portfolios and it's clear that if there's a remedy that we can reasonably take advantage of, we want to consider it. Here, after advice from Mark *[Solomon]*, we believed we could help provide some remedy, at no financial risk or out-of-pocket expense, for all investors damaged by the apparent wrongdoing. And, as a member of the Principles of Responsible Investment (PRI), in addition to financial recovery, we want to promote good governance and better functioning financial markets.

What extra work is involved for a pension fund acting as a lead plaintiff in a class action? How involved was NESPF in the legal process?

Solomon: The balance needs to be carefully struck. The cases require responsible leadership, and without such leadership from institutional investors, securities fraud would go without a remedy in many cases and consequently there would be far fewer recoveries for investors. As to their responsibilities, it's important that lead plaintiffs understand that they are expected in the formal 'discovery' stage of the litigation to provide any documents relevant to the litigation; identify any witnesses they may know of; confirm, often in a deposition, the foregoing as well as describe the process they have followed in becoming active in the litigation. Often, it is the lead plaintiff's external manager who will have the bulk of any relevant documentation.

Discovery aside, the lead plaintiff liaises with lead counsel throughout litigation. A large amount of lawyers' time is devoted to purely legal issues, but lead plaintiffs are directly involved in overall case strategy and instruct on case dispositive decisions. If the case succeeds via settlement or judgment, the lead plaintiff is allowed to apply for reimbursement for time spent pursuing the matter. Graham *[Buntain]* and his NESPF team liaised with us closely from the inception of their involvement in the case and were a critical factor in securing a precedent-setting resolution.

What are the next steps in this particular case now that an agreement has been reached?

Solomon: The federal jury trial, which had been scheduled to start on 15 July in Baltimore, has been called off; notice of the settlement is being circulated to class members; and the judge has set a final approval hearing for 7 November 2024. If approved, the net settlement proceeds then get distributed to class member claimants via a third-party claims administrator. Also, if approved, the governance reforms, which also are a component of the settlement, will kick in, including the enforced separation of the chair and CEO positions for at least three years and the imposition of enhanced performance metrics as a condition to any stock grants for the CEO, CFO and CLO (chief legal officer).

Are there any other class actions that NESPF is currently involved with or using stewardship to change procedures/strategies at any companies it invests in?

Buntain: There are no other ongoing class actions in which we currently are actively involved at the moment. In terms of overall stewardship, NESPF actively votes in-house on equity holdings and has a strong history of collaboration and engagement to help drive change.

What advice would you give to other schemes that could find themselves in a similar situation and considering legal action?

Buntain: I think in the same way that you would risk assess anything, it's important to understand the process involved and work with a trusted partner. The idea of legal action can seem a little daunting, but if a pension fund has done nothing wrong then why should it be penalised? You can make a difference by doing it and the reality is you are an expert in the subject matter, which is your own fund and its investments. Clearly, it's important to pick a specialist external legal adviser to help you navigate a US securities fraud case. As with any service provider, but here with heightened importance, securities fraud lawyers should be carefully assessed

"The idea of legal action can seem a little daunting, but if a pension fund has done nothing wrong then why should it be penalised?"

on their record, their reputation, their financial strength, relevant trial experience, and the data security they provide because, as they proceed to prosecute the case, the good reputation of the fund will be entrusted to them and the ability to secure any kind of recovery and governance reforms for our members.

There is an emerging trend of local government pension schemes (LGPS) taking on important roles in investor lawsuits like this case. What do you think is motivating LGPS funds to take part, compared to private sector schemes in the UK? Or is it the case that private sector schemes are involved but are just not publicising it?

Solomon: This important trend is a direct reflection of the responsible ownership and stewardship ethos of these funds. They recognise that the right to bring a claim to recover assets damaged by fraud is itself an asset that carries with it the obligation to maximise its potential where the cost of doing so doesn't outweigh the benefit. They have consequently embraced securities fraud monitoring services and have embarked on litigation where appropriate. Securities fraud litigation in the United States, which can be expertly prosecuted to obtain a recovery at no out-of-pocket cost to the claimants, provides injured funds a mechanism to recover compensation not just for themselves but for others similarly injured, too.

The stewards of public-facing funds such as LGPS funds in the UK, and their counterparts in state, local, and union funds in the USA, increasingly lead such actions. UK industry funds, such as the Mineworkers and British Coal Staff Pension Schemes and the Universities Superannuation Scheme, in addition to the LGPS, have also led recent cases. There's no reason in principle why corporate schemes, facing the same duties, many of the same issues and who benefit pro rata when they are members of successful classes, cannot similarly lead efforts to recover losses attributable to fraud – and it is slowly happening. More corporate schemes are seeking the lead plaintiff mantle and I expect that trend to continue across the spectrum of investors who attach value to corporate integrity, transparency, accountability and redress.

Written by Natalie Tuck

Summary
- CDC schemes offer greater investment potential through risk-sharing.
- They avoid the need to de-risk, staying in growth assets longer.
- Adoption challenges include regulatory clarity and scale issues.
- Experts urge further regulatory support to broaden CDC use.

CDC: Sharing investment risks and rewards

With Royal Mail's collective defined contribution (CDC) scheme set to launch in October, Paige Perrin examines how the risk-sharing nature of CDC schemes could enable greater investment opportunities

Discussions around collective defined contribution (CDC) pension schemes in the UK have intensified since 2018, particularly with the upcoming launch of Royal Mail's single employer CDC scheme, marking a significant milestone as the UK's first CDC scheme.

Industry experts seem optimistic about the potential of CDC schemes, with recent LCP research finding that the expected pension from a whole-of-life CDC scheme could be 50 per cent higher than traditional DC schemes with the same contribution levels.

LCP attributes this to the risk-sharing nature of CDC and the greater investment freedom this generates, creating the potential for "significantly higher pensions" at retirement.

So, how does the risk-sharing nature of CDC schemes allow greater 'freedom' to be taken with investments?

Investment

WTW head of CDC, Simon Eagle, explains: "In CDC schemes the member is in a pool of thousands of people and they will each receive income for as long as they live, basically because there's enough money to pay the income over the average lifespan."

He highlights that this pooled approach removes the "enormous individual longevity risk" present in traditional DC scheme drawdown.

Hymans Robertson head of DC markets, Paul Waters, says: "The risk pooling aspects of CDC mean that higher growth for longer, and therefore potentially higher volatility, can be sustained into retirement.

"Arguably, therefore the need to de-risk, as is seen within traditional DC, disappears almost completely, provided you maintain a stable shape of younger and older members in the scheme."

Additionally, Pensions and Lifetime Savings Association senior policy lead, Ruari Grant, explains there is no need to de-risk as someone nears retirement "because you're not dealing with individual pots that someone might want to withdraw cash from or buy a retirement product with".

Grant says: "For members in the growth phase, investment strategies will look similar – both DC and CDC will have high allocations to equities, and, increasingly, to private markets."

However, he suggests the difference is that CDC schemes have a "longer investment horizon" so there is no need to de-risk into gilts and bonds as someone nears retirement.

"Therefore, funds can stay invested in higher risk assets for longer, meaning more growth," he adds.

Society of Pension Professionals CDC Group chair, Edd Collins, echoes this: "CDC schemes provide the ability to invest in growth assets for the long term, and potentially in less liquid assets than may be the case for a traditional DC scheme. Over time, this would be expected to deliver better outcomes for individuals."

Unlike DC schemes, which Pensions Management Institute director of policy and external affairs, Tim Middleton, says, "need to start switching as they are closer to that decumulation phase", CDC schemes "can be invested significantly in growth assets" throughout retirement, as Association of Member Nominated Trustees co-chair, Maggie Rodger, notes.

Due to this, Rodger argues that CDC can "consider *[investing in]* infrastructure and other less liquid assets that DC struggles with and which offer better long-term returns".

Middleton and Grant both emphasise that the risk-sharing nature of CDC ensures members receive an income for life, eliminating the need to 'gamble' on life expectancy and avoid the risk of the member running out of money or having excess funds when they die.

CDC popularity

Despite the benefits of CDC schemes, several pension experts say that they feel the pension industry is not ready for CDC schemes yet, despite the industry discussions on the topic ramping up since 2018.

Eagle acknowledges there's still not a "high level" of understanding of CDCs in the pension industry.

"Although a lot of people are in favour of it now, I think many don't fully understand what it is and how it can work and therefore they don't necessarily have a high degree of trust in it yet," he remarks.

Collins adds that clarity is needed on the regulatory environment that will apply for broader adaptation of CDC schemes, arguing that "without that, employers are unable to commit to developing CDC schemes".

LCP head of CDC, Steven Taylor, says that the main challenges facing CDC are the "ability to build up scale and the fixed costs of getting a scheme off the ground".

He highlights that because of the scale of CDC, it could be "hard for smaller companies to participate".

Despite the challenges, Taylor suggests that there are opportunities CDC offers, including helping "bridge the savings gap for the next generation of savers and that naturally invests in growth-focused assets that are good for the economy".

In addition to this, Middleton argues: "CDC provides an entirely seamless journey for members, with everything operating by default through the induction to the accumulation phase.

"When they come to retire, CDC will by default start paying out a pension for them, whilst the amount of pension might not be guaranteed, the fact that it will be payable for the remainder of the individual's life is a considerable advantage over the current situation of conventional DC.

"They will be simple from the member's perspective, which makes them more attractive than DC."

However, Walters believes that, at this time, CDC becoming more popular than standard DC looks unlikely as "DC already has scale and momentum that is unlikely to slow".

"CDC schemes provide the ability to invest in growth assets for the long term, and potentially in less liquid assets than may be the case for a traditional DC scheme. Over time, this would be expected to deliver better outcomes for individuals"

Future outlook

With a new government, there have been discussions about the need for further regulatory adjustments and government action to encourage a broader adaption of CDC schemes.

In particular, Grant says: "We are currently awaiting draft regulations for multi-employer schemes. The government is also working on regulations for decumulation-only schemes."

Despite the advancements in recent years, Eagle argues that further adjustments are necessary because the current system doesn't allow multi-employer schemes and master trusts.

However, he notes: "The Department for Work and Pensions, under the previous government, said they are looking to allow them, and we are hoping the new government will carry on that path, maybe even more enthusiastically."

Several industry experts have said it is important for the new government to

"pick up the pace" on CDC and "quickly pick up where the past government left off if CDC is to be a quick success".

Taylor says to help smaller companies participate in CDC schemes the government could set up "a statutory scheme (perhaps linked to the existing Nest or Pension Protection Fund models) that would allow smaller groups of employees to join CDC schemes", suggesting it might also "help to encourage other commercial models".

He also expects the second round of regulations shortly after the summer recess, stressing the importance of this, as he says, "the initial regulations were designed with just the Royal Mail scheme in mind".

Waters suggests the priority should be a change in regulations to increase the flexibility of what can be offered under the CDC umbrella, "taking away any uncertainty will give confidence to other employers and providers that are keen to introduce their own flavour of CDC".

Whereas Middleton stresses the importance of making sure the CDC schemes are run properly, "it's crucial that The Pensions Regulator has quite a tight regulatory regime for them".

However, Rodger warns: "The regulations themselves do not cover a myriad of other decisions about the design of a scheme essential to its successful implementation."

Therefore, Collins argues that it's "essential" that the government brings forward its planned consultation at the "earliest possible opportunity", and then looks further to develop regulations for a decumulation-only version of CDC.

Written by Paige Perrin

Why we are listening to consumer voices during Pensions Dashboards Week 2024

As Bravura prepares to kick off Pensions Dashboards Week (PDW) 2024, it seems an opportune moment to set our intentions and what we hope to achieve with this year's programme of events

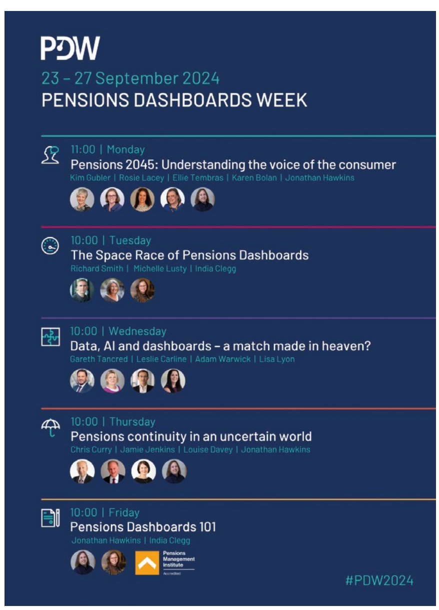
We created Pensions Dashboards Week (PDW) as a way to raise awareness, encourage best practice and bust some of the myths around pensions dashboards. This industry-wide initiative is led by us at Bravura and delivered in partnership with the Pensions Management Institute. Taking place between 23 and 27 September, PDW 2024 will feature a range of free online talks, webinars and Q&As involving leading figures in the pensions space. The aim is to get our industry sharing ideas and debating pensions dashboards and coming up with innovations and solutions to support implementation like ISPs (Integration Service Providers) such as Bravura's Dashboards Connect.

Our theme this year is 'The Voice of the Consumer'. We want it to be a moment for pension industry players to pause and reimagine how we can better work together with the ultimate aim of serving consumers better. Some of the topics to be covered in PDW 2024 include how pension scheme members will use dashboards, and what challenges stand in the way.

We will be asking what we can learn from the Netherlands, Belgium and Sweden, all of which have brought in their own versions of pensions dashboards as well as Australia, with its 'pot for life'. We will also explore how AI could help turbocharge the digital experience of dashboards, and how we should handle sensitive customer data. The new Labour government has announced plans for a wide-ranging pensions review aiming to boost investment and tackle waste in the pensions space, while increasing people's savings ports. Our agenda this year will delve into the government's plans and ask whether we can expect a change of direction on pensions.

The return

PDW returns this year after a two-year hiatus which reflected the Department for Work and Pensions' decision to pause and reset the pensions dashboards programme. We think this year's events will be especially important because the pensions dashboards implementation deadline is fast approaching, so the industry needs to come together and engage on both the big issues and the details.



We are just months away from the first deadline, 30 April 2025, by which time large scheme and providers will need to connect to the pensions dashboards ecosystem.

For regulators and providers, there is still work to be done ahead of this first deadline.

For the Pensions Dashboards Programme, there remains a number of standards to be published as well as guidance on connection and an online connection hub, all expected to be published later this year. The final connection deadline for all pension providers and schemes, large and small, is 31 October 2026.

Pension providers, third-party administrators, schemes and platforms are currently at different stages of connection. There are still decisions to be made and processes to refine around member data cleansing, connection plans and ISP providers. Educational initiatives such as PDW are needed to focus the efforts of all the players involved in making this project a success.

The point of pensions dashboards is to boost to consumer engagement with their pension pots and improve long-term savings rates. The project represents the biggest transformation in the pensions market for a generation, modernising pensions for today's world, so it's vital that we get it right.

We are urging our peers across the pensions space to join us and share their ideas during PDW, because we think collaboration is the key ingredient for success.

Written by Bravura propositions lead, Jonathan Hawkins

Not quite the end…

Alex Janiaud considers how DB schemes can best manage residual risks after an endgame solution

Summary
- There are similar residual risks for different endgame solutions, with bulk annuities and a consolidator endgame more likely to present issues than self-sufficiency.
- The administrative work required to avoid residual problems is significant.
- Insurance cover can be obtained against residual risks.

Surging pension scheme funding levels have encouraged trustees to bring forward plans for endgame solutions. But an endgame – be it a buy-in or buyout, consolidation or self-sufficiency – carries residual risks that merit trustees' careful attention.

A September 2023 survey of 84 schemes by consultancy WTW revealed that, over the course of the year, improved funding levels had enabled 54 per cent of schemes to advance their endgames. Forty-one per cent of schemes had not changed their timelines for endgame, while 5 per cent had delayed their plans.

The residual risks faced by trustees after an endgame solution depend on the type of endgame, says law firm Linklaters partner, Philip Goss. "There are similarities at their core," he continues, including incorrect scheme data, missing beneficiaries and even the risk that the law is changed in a way that boosts the scheme's liabilities.

"We have seen 'residual risk' issues arise after endgame solutions have been achieved," Goss says, who adds that these have tended to affect only individuals or small groups of members, and have not required material benefit changes for large numbers of members.

"Residual risks can often be seen as 'low likelihood but high potential impact,'' he continues. "They are not likely to arise, but if they do, the potential materiality could be very significant – there is typically no upper limit on how large the additional liability could be."

With the arrival of consolidator vehicles, the endgame options available to trustees are growing. Research from scheme services provider Brightwell indicates a degree of uncertainty surrounding endgames among larger schemes.

Published in March, Brightwell's January survey of 27 defined benefit schemes larger than £1 billion found that 41 per cent of those surveyed are undecided about their endgame, while 33 per cent are targeting buyout and 26 per cent are aspiring for run off.

Risk transfers can cause more problems

Consultancy Broadstone head of trustee

services, Chris Rice, believes that some endgame solutions can present more residual risks than others.

"A risk transfer (insurance or consolidation) approach throws up more challenges as it is necessary to complete due diligence to ensure any problems have been uncovered while the scheme is ongoing," he says.

"Much of this due diligence needs to be shared with indemnity insurers," he continues, "to allow cover to be provided and at a reasonable price."

"Run-on allows the scheme to address any data or benefit issues more slowly than a risk transfer as there is time. With a buyout time is often of the essence to ensure that the buyout price that has been secured can be transacted."

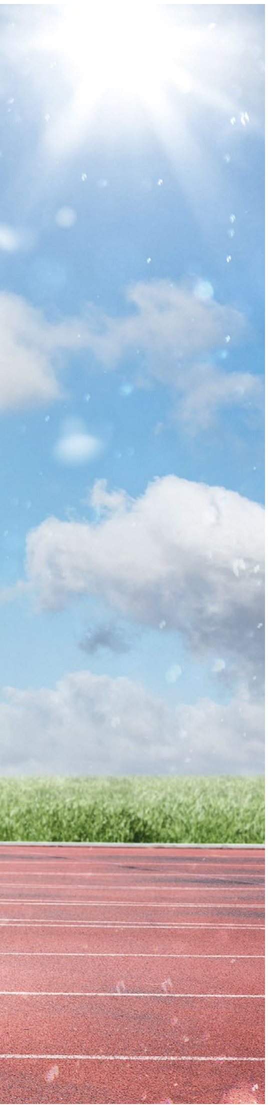
Consultancy Muse Advisory chief executive officer, Ian McQuade, says that while the preparation for a risk transfer is onerous, there are many overlooked activities that need to be handled after a buy-in.

"From an administration point of view, the work to prepare for buyout is significant," he says.

"In many cases, the effort in getting contractual and investment matters sorted will have been the priority up to the point of signing the buy-in," McQuade continues.

"Unless the scheme is in the fortunate position of having dealt with all the administration matters ahead of the buy-in (and few are), the hard work on administration really kicks off after signing. There is likely to be data cleanse work required, and potentially benefit rectification matters that have been identified through the process to be resolved."

Most trustees will check member records and ensure the information they



hold is correct before they approach the market for a bulk annuity, says law firm Squire Patton Boggs partner, Kirsty McLean. They will also have to prepare a benefits specification, which translates the rules and the benefits of the scheme into a schedule, setting out how individual benefits are calculated, to inform how an insurance policy pays out.

A data cleanse period takes place for two years after a bulk annuity policy is signed, in which the insurer will check every member's benefits line by line, McLean continues.

"By the time you get to final buyout and wind-up, you have crawled over everything you possibly could," she says.

"At that point, trustees should have a really high degree of confidence that they are providing the right benefits."

Consolidators offer less protection

There are nuances between the management of residual risks between risk transfers and consolidation endgame solutions.

"One key distinction between buy-in/out and consolidation endgames here is that the insurance provider may be offering 'residual risks cover', which is insurance against residual risks arising after the policy incepts," Goss says. This would be in addition to the core insurance, in respect of the known benefit liabilities of the scheme, and for which the insurer would charge an additional premium, he adds.

"My understanding is that, at least at present, consolidator vehicles do not offer this type of protection – they will typically only take on responsibility for the known and identified benefits at the point of transfer, and will exclude any residual risks," Goss continues. "As such, a consolidator endgame may offer less protection against residual risks."

Trustees considering self-sufficiency, on the other hand, are spared the lengthy data cleansing obligations that are imposed upon those considering buy-ins, buyouts or consolidators.

"Whilst many trustees think that once the buy-in is complete, the governance should get easier, the reality is the opposite"

"A self-sufficiency endgame is fundamentally different to buy-in/out and consolidator endgames in this regard, because there is no obligation to undertake any of these diligence and scheme cleanse processes," Goss says.

"As the scheme is effectively just running on (on a well-funded basis), the trustees do not need to go through any specific process to review historic and current practices and benefits and there will not be a third party carrying out any due diligence on the scheme," he continues.

"As such, it is much less likely that issues will be identified as part of achieving a self-sufficiency endgame than a buy-in/out or consolidator endgame."

Goss is seeing more schemes going through cleanse processes as a matter of good governance irrespective of their chosen endgame, "in some cases ahead of any decision being made on what their endgame solution will be".

"While trustees are not obliged to carry out such a process, it does seem a sensible approach to take, and we would support it for schemes targeting self-sufficiency as their endgame," he adds.

Governance can get harder once buy-in is complete

Law firm Eversheds Sutherland legal director, James Ellis, lists a number of measures that trustees can take to mitigate against residual risks.

He advises "detailed preparation, including consideration of the scheme's history and validity of benefit changes", while trustees can also secure "ongoing indemnification from the employer".

Residual risk insurance is also an option, "although consideration will need to be given to any exclusions in cover and whether the scheme is of sufficient size for such cover to be offered", he says. Separate run-off insurance exists with the same caveats.

McQuade notes that "whilst many trustees think that once the buy-in is complete, the governance should get easier, the reality is the opposite".

While the scheme's investment matters should have been simplified once the process is complete, in many cases some illiquid assets will need to be managed, McQuade observes. "There are so many moving parts that having strong and independent programme management is critical," he says.

"This role is akin to the conductor of an orchestra," he continues. "The orchestra maybe able to operate without a conductor, but it will be a far better experience for everyone concerned when one is in place, as everyone knows exactly what to do and when.

"Crucially everyone will know and be assured as to when they have reached the end of their journey. That will be the time to celebrate."

Written by Alex Janiaud, a freelance journalist

Risky business?

Summary

• The use of FundedRe has been increasing, offering one way to improve BPA market capacity amid a time of significant demand from DB schemes.

• Regulatory scrutiny surrounding the use of FundedRe has also been growing in tandem, with the Prudential Regulation Authority releasing new policy expectations for insurers on the issue.

• Many insurers are already taking action or aligned with these expectations, but the true test will be in the PRA's planned stress testing in 2025.

Funded reinsurance has faced growing scrutiny in recent months, but with capacity concerns being raised around the BPA market, it could also present an opportunity to reduce risk and meet the growing demand from DB schemes. Sophie Smith reports

Despite conversations around the potential benefits to run on, many companies have taken the recent DB funding improvements as an opportunity to reduce their pension risk exposure, with bulk purchase annuities (BPA) remaining the chosen method for many schemes.

And with BPA market volumes growing rapidly and unprecedented demand from DB schemes, some insurers have been increasingly choosing to cede both the longevity and asset risk obtained via these BPA deals to reinsurers through funded reinsurance (FundedRe) transactions.

"Used in the right way, FundedRe offers insurers additional scale and potentially improved economics on bulk annuity transactions," Hymans Robertson risk transfer specialist and partner, Lara Desay, says.

"That is to say, an insurer using funded reinsurance can write larger buy-ins/buyouts both from a capital and an investment perspective than it might otherwise have been able to. Less capital is used for writing the business if the risk is shared.

"Furthermore, it allows insurers to invest quickly at scale, e.g. for a £1 billion buy-in an insurer could use funded reinsurance for 50 per cent and only need to source £500 million of assets, rather than £1 billion."

This can be particularly helpful for some of the players who have traditionally operated at the smaller end, Vidett client director, James Duggan, says, agreeing that "it can give them the capacity to quote on larger transactions thus bringing more competition to deals at the larger end".

There are also broader benefits, as S&P Global Ratings EMEA insurance analyst, Charles-Marie Delpuech, says that, for BPA writers, the most important benefits are the opportunity to benefit from reinsurers' asset origination capabilities, and reduce the capital intensity of writing BPA business relative to transferring longevity risk alone.

This could also mean good news for pension schemes approaching the BPA market, as Desay says that the use of FundedRe has the potential to increase the availability and price attractiveness of the BPA market.

Too good to be true?

But FundedRe has faced increasing scrutiny in recent months, particularly around risk mitigation and transparency levels, with both UK and Bermudian regulators sharing new measures to help improve risk management on FundedRe transactions.

In particular, the Prudential Regulatory Authority (PRA) recently outlined its policy expectations on FundedRe, following concerns that the current growth in FundedRe transactions could, if not properly controlled, lead to a rapid build-up of risks in the sector.

The PRA also wrote to the CEOs of a number of life insurance firms to draw attention to its new final policy statement.

In the letter, the PRA clarified that whilst it has seen some evidence of firms developing and improving their risk management practices for these transactions, further improvements are still needed by UK insurers to meet the regulator's policies and expectations.

It stated: "The PRA will continue to monitor market practice and assess the risks to its objectives from this market over the coming months, taking into account growth of FundedRe in individual firms and the market as a whole.

"In particular, we will monitor closely the volume of FundedRe transacted by firms, any change in the quality of the collateral and the nature of FundedRe counterparties active in the market, and the progress firms make in implementing risk management and control arrangements in line with SS5/24."

The PRA's new expectations were broadly welcomed and, according to Delpuech, are set to have a "positive impact" on the insurance industry's risk management practices regarding controls and measurement of the risks related to the use of FundedRe.

"While the new guidance does not fundamentally bring new information to insurers' risk management practices, we think that the proposed measures will support needed discipline in the use of FundedRe," Delpuech explains.

"We are also likely to see enhanced risk management processes on the FundedRe side, as for instance some of the expectations on collateral policies may ultimately rely on the collateral management capabilities of FundedRe providers."

"Trustees can now take additional comfort from the measures put in place by the PRA and the level of scrutiny being placed on insurers"

A starting step

However, Aon has said that while the PRA's new requirements are a positive step, it remains concerned about the lack of public disclosure from insurers.

"We hope the continued attention to this area leads to more public disclosure to provide greater reassurance to customers," Aon senior partner and head of risk settlement, Martin Bird, states. "Despite the lack of disclosure, it is clear that insurers already do spend considerable time on risk controls in this area, and the PRA requirements should drive more consistency in their stringency."

Indeed, Standard Life managing director of DB, Kunal Sood, says that the group has been "actively participating" with the PRA through its thematic reviews and consultation process regarding the use of funded reinsurance.

"We fully support the core principle of the new regulations and will maintain strong risk and financial frameworks that align with them, and we are currently working through the details of the resulting Supervisory Statement," he says.

Both Delpuech and Bird also agree that the BPA market is unlikely to be negatively hit by the new policy expectations, with the annual BPA premium expected to remain about £50 billion over 2024-2026.

But despite the positive signals, Desay warns that the true impact of the policy expectations remains unclear.

"Dialogue with insurers would indicate that these expectations are already being met, but the tone of the PRA 'Dear CEO' letter, published 30 July 2024, which followed a PRA review of insurer practices, would suggest they think otherwise and that more needs to be done," she says.

And if further action is needed, it could impact the BPA market, as Desay warns that FundedRe pricing could increase as a result of tighter contractual requirements, and consequently the pricing that insurers are able to offer to pension schemes on certain transactions may also increase.

Making the right choice

For now, many are looking ahead to the PRA's plans to stress test life insurers and reinsurance, which Delpuech expects to provide useful information for the market regarding the magnitude of exposure and risk, particularly given that transparency regarding the use of FundedRe is "currently lacking".

In the meantime, Desay says that it is important that trustees entering into a buy-in policy have regard to the financial strength of the insurer and their risk management framework, including that related to the use of funded reinsurance.

"Importantly, this should focus on the usage across the portfolio and not just whether funded reinsurance is being used to support the transaction in question," she continues. "Trustees can now take additional comfort from the measures put in place by the PRA and the level of scrutiny being placed on insurers and in particular the focus on risk management."

Written by Sophie Smith

In association with

Diversity roundtable

CHAIR

Laura Blows, Editor, Pensions Age

Laura has been editor of Pensions Age for 13 years, during which time the title has cemented its place as the leading resource for those working in the institutional retirement sector. She is passionate about the pensions industry, gaining her PMI Retirement Provision Certificate in 2011. Laura is an award-winning journalist, specialising in writing in-depth features that shine a light on underreported industry issues. She has also been a Headline Money Awards judge for many years and regularly hosts awards, conferences and roundtables.

PANEL

Sharon Bellingham, Master Trust Lead & IGC Lead, Scottish Widows

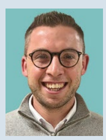
An experienced pensions professional, Sharon comes with 30 years DC pensions experience across a wide range of disciplines. She joined Scottish Widows in 2020 and is a member of the Master Trust Scheme Strategist Committee, which has responsibility for driving forward the strategy and development of the Scottish Widows Master Trust. She also works closely with the Master Trust Trustee Board. Sharon is an accredited professional pension trustee, a member of the PLSA Master Trust Committee and she also chairs the ABI Master Trust Working Group.

Christina Bowyer, Partner, Pinsent Masons

Christina is a partner and head of Pinsent Masons Pensions Services. As well as being a lawyer specialising in pensions, she is a professional independent trustee and was formerly an employee benefits consultant. She heads up a cross-office team comprising pension professionals from a range of backgrounds including in-house pension management, scheme administration and consultancy. She works closely with trustee boards, HR directors and finance directors to manage their pension and reputational risk through robust governance and legal compliance.

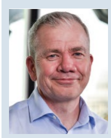
Sarah Butlin, Partner, Aon

Sarah is a partner at Aon and has over 35 years' experience working in pensions consulting, management and governance in a range of different roles. She leads the development of Aon's governance services and works closely with trustee boards and pension managers on board composition, diversity and inclusion and board effectiveness. Sarah also leads the development and management of Aon Pension Organiser. She is also regular contributor to the pensions press, and a knowledgeable commentator at industry roundtables.



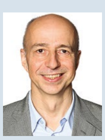
George Dollner, Policy Lead, PLSA

George is policy lead at the Pensions and Lifetime Savings Association (PLSA). Prior to joining the PLSA in September 2023, he spent almost six years at the Department for Work and Pensions working across various areas of pensions, health and disability policy. Most recently, he worked on the pensions dashboards project. He has a BA (hons) in Politics and International Relations from the University of Southampton and in his spare time is a keen runner. He is a regular contributor to the pensions press.



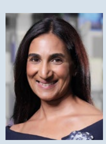
Tim Giles, Trustee Director, IGG

Tim has been working in pensions and investment for over 30 years. He is a recognised leader in the UK investment industry, as a result of having led one of the largest consulting firms in the market and having advised some of the largest UK pension schemes and financial institutions. He has actively promoted DE&I for many years. He served as chair of the Aon UK Inclusion and Diversity Committee, was on the CEO advisory board of the Diversity Project, and is now on IGG's Equality, Diversity and Inclusion Committee.



Alastair Meeks, Client Director, Zedra

Alastair is a client director at Zedra and acts as independent trustee across a wide range of DB and DC schemes with a particular focus on those that require impact trusteeship. Alastair is a qualified solicitor and has enjoyed a long and successful career as a pensions lawyer including heading up the pensions practice at a leading law firm. He was also chair of the Association of Pension Lawyers. He is a regular commentator on pensions issues and is particularly interested in diversity in the pensions industry, as well as the practical challenges that addressing diversity involves.



Kirshni Totaram, Global Head of Institutional Business, Coronation Fund Managers

Kirshni is global head of institutional business at Coronation Fund Managers. As a member of the executive committee, she has key responsibility for the global institutional business and product development. Kirshni is also a qualified actuary and a CFA charterholder. She has 30 years investment industry experience and is a regular and well respected contributor to the business, investment and pensions press, as well as a commentator at industry roundtables and events.

In association with

Diversity roundtable

DE&I evolution

Our panel of experts looks at how diversity, equity and inclusion (DE&I) has evolved in recent years in relation to the pensions and investment arena, why it is important, what more needs to be done, and what the future holds

Chair: Diversity, equity and inclusion (DE&I) has been talked about in the pensions space for several years, but it does feel that in the past few years it has risen up the agenda, particularly given the push from the various regulators.

So, are we moving on from talk now, from explaining what it is, to hopefully moving on to progress and action? Or are we still having to explain why it matters, why people in the industry – be it trustees, providers etc – should take an interest? I hope it's not being seen as a tick-box exercise. What are your thoughts?

George Dollner: It is an interesting time for this topic now. In recent years, there has been some negative rhetoric, even in government, saying that everyone is becoming too 'woke' and that we need to get back to old fashioned basic principles. That's not helpful and hasn't helped the progress on DE&I.

Saying that, there's also a lot to be encouraged by, especially the emphasis being placed on the issue by the new government. There's been announcements of some new legislation around DE&I too, which would be helpful and shows that this is being pushed into practice by government.

We also see, from engagement with our members, that people are passionate about the topic. Inevitably, there will be people at different stages of their journey. We see our role at the Pensions and Lifetime Savings Association (PLSA) as supporting them, giving them expertise where it might be lacking for them. There are various pieces of work that we do to support people in different ways on this.

So, overall, we're in a good place now, but it's about keeping the momentum going and driving things forward more.

Sharon Bellingham: Engagement across the industry on this important subject does vary. For the larger pension schemes, DE&I is at least being discussed and some schemes are making positive strides in this area; advisers, consultancies and legal firms who support these schemes also understand the importance of meaningful action.

But it's also well-recognised that trustee 'to do' lists are already groaning under the weight of busy scheme schedules – many boards are time poor and have limited resources which are already stretched, so DE&I may not be at the top of their list of priorities. As part of a purpose-led group (LBG), we work with different regulators and, although they're driving slightly different initiatives, they are heading in the same direction.

Consumer Duty in particular is a hugely positive Financial Conduct Authority (FCA) initiative, and schemes not regulated by the FCA can learn a lot from how it has significantly raised the bar in considering member needs and support solutions. We want everyone to get a fair opportunity to save for their future – and that's not the case yet. It's why DE&I is so important.

However, as not all schemes are regulated by the FCA, it creates a disparity in the member experience – this is particularly notable when it comes to helping those who have additional needs or may be classed as 'vulnerable'.

It's likely that we will all be classed 'vulnerable' at some point in our lives and there's opportunity for greater parity in pensions.

Christina Bowyer: From my perspective, it's clear that some of the big master trusts are really on it, and obviously the professional trustees are too, as are the big organisations and the big schemes. But there are some still that are quite traditional, and it hasn't permeated there yet. So, yes, we have made a bit of progress in the industry, but there's still some way to go.

Tim Giles: There was a survey published earlier this year by The Pensions Regulator (TPR) that

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Diversity roundtable

highlighted how diversity of trustees in relation to gender and age wasn't great. But the fact that professional trustees are coming more to the fore is a positive here, as professional trustee firms tend to be more diverse. As professional trustees are coming in and are having increasing roles, that's increasing diversity within it.

Is DE&I important? Fundamentally, the trustees are there to reflect their members. So, they should be diverse to reflect that but, equally, from a governance perspective, a diverse board works better. I can go back to times when there were groups that were very lacking in diversity. Their effectiveness to work through different issues was limited, so there is clear support for making a change. There are benefits from making a change, and you can see that happening. Newer organisations, including the master trusts and equally the professional trustee firms, can make that change quicker and faster.

Alastair Meeks: DE&I is important for two reasons. One is about better decision-making – if you have different people with different views and you chew the fat from different perspectives, you are likely to identify more blind spots. You're likely to identify more things that need consideration. You're probably going to get to a better decision in general.

There's another aspect too. It comes from the inclusion. It's about getting trust in the decision-making process. You can have two trustee boards reach the same decision, but if the membership doesn't have trust in the decision that's

come through, you're not going to have good outcomes in the longer term, even if the decision is the same. If people feel included, then you're more likely to get better outcomes even if the decision was in substance identical.

As to what we see, and whether it has become a tick-box exercise, I would argue that consultants love anything that can be measured. They will, correctly, go to their client base and talk to them about how this is done. The problem is that the engagement, in some ways, is coming from the outside in. It needs to come more from the inside out. If trustee boards aren't really on board with this, then it does turn into a tick-box exercise.

So, that's on the trustee boards to look at themselves and think this through.

The professionalisation of trustees helps enormously here, because professional trustee companies do have more regard to this, they take it more seriously at every single level than some of the more old-fashioned trustee boards.

Sarah Butlin: I agree that, generally, with the medium to larger-sized clients, you get more traction when you go into the board to talk about DE&I. Also, people always focus on the obvious areas, but it's not necessarily in the obvious we're trying to get diversity. So, it is about trying to get underneath that.

Once you start the conversation and you talk to the board about its sponsor's DE&I agenda and its policy, they very quickly start to see the synergies between what they're doing as a trustee board and the sponsor's responsibilities. That's quite an interesting driver in trying to push forward the agenda at trustee board level.

Finally, 15 years ago, quite often I would be the only woman in the room at trustee meetings – that is an obvious change I am calling out. The professional trustee firms are recruiting a lot of younger women too, and that's going to bring the average age down. In TPR's survey this year, age diversity was slightly improved compared to the last survey – that's possibly driven by the increase in professional trustees on boards, replacing the pensioner trustees that might have previously been chairing trustee boards. So, there is movement, but more to do.

Chair: I assume gender and age are still the main two categories where we're seeing improvements?

Butlin: They are some of the obvious ones and that's what came through in TPR's survey results.

We try to get beneath that and also look at things such as cognitive diversity and the range of skills on the board to demonstrate to the trustee board how they can be diverse even if it's not in those obvious ways.

DB versus DC

Chair: Are there differences here between the DC and the DB experience?

Butlin: Sometimes if you've got, for example, a closed legacy DB pension scheme, with a very male-dominated workforce, you're going to struggle to get female trustees on the board. So, you must weigh up all the different factors.

Bellingham: Interestingly, authorised master trusts are required to carry out an 'open and transparent' review of their 'non-affiliated' trustees at least every five years. Although it's a fairly involved exercise, it's a good discipline and provides regular opportunity to review trustee board diversity.

A master trust continually evolves – membership demographics, member services, how we use technology and even the regulatory environment, changes over time. What we were doing five years ago is different to what we're doing now, and is likely to be different to what we will be doing in five years. So skills and experience need to adapt.

This kind of continual change isn't seen in the same way in a DB pension scheme, where continuity towards end game may be a focus.

Butlin: Yes, in the DB world there is an argument for continuity, but you're still trying to look at the agenda of work over the next five or so years, and what skills might be needed to enable you to be successful in delivering that.

Even at the member-nominated trustee (MNT) recruitment piece, we're looking at targeting communications to bring certain skills on to the board. That's become a far more inclusive process than it would have been in the past.

Bowyer: I agree that, with some of the older DB arrangements that possibly have large-scale male populations as their members, it can be difficult to get other people onto the board, depending on how they're structured. But there's always a company appointment that could be used there.

Even if you need to somewhat mirror the membership, it's still better to have a more diverse board because, as has been mentioned, you do get better decision-making.

DE&I in investment

Chair: What about on the investment side? What progress are we seeing there?

Kirshni Totaram: The conversation so far today has largely been centred around construction of the trustee boards. That's obviously critical, even from an investment perspective, because that sets the stage for the appointment of your service providers, of which your investment managers are one.

But going back to the initial question of what we are seeing in terms of diversity and inclusion across the pensions and investments arena, it strikes home that there are just so many different pockets to this topic. If we really want to get a measure across the board it's hard, because there are so many different areas.

Across the investment space, I'll give two perspectives, first in terms of managers. This topic has become an increasing priority across more firms over the past five years. Some of the historical statistics are horrifying. The number of single-sex investment teams that you had across the board 10 years ago is quite scary. That is increasingly no longer acceptable. You don't see many of those. In that respect, there has been progress.

Second, in terms of the type of representation and seniority that you see, that takes time, and to me that's been the biggest challenge. In fields like investments, it's about skill, and skill is refined over time. It's not something you learn at university and then you can come in and manage money. It takes time to hone the craft and so, achieving diversity in senior positions has to happen over time, and it happens only if you have deliberate policies in place in an organisation or an industry to facilitate that.

We're seeing a lot more of this and that's great. Hopefully, over the course of the next five to 10 years, you're going to see more lead managers come through, more females taking on senior roles.

So, we are seeing progress, but I also do worry that the tick-box exercise is real. Just from a personal perspective, I've seen that impacting several people quite negatively. If you are moved into a position and you're treated as a token, and you don't have the skills to do the role, then things can go wrong, and you don't want that. The danger with targets and numbers is that companies can end up appointing token candidates, which does not achieve the desired result. So the cultural assessment of service providers needs to be onerous and come through.

From a trustee perspective, it's also

interesting to see how different regions have different objectives based on their demographics. When I engage with trustee boards in the UK, some are not as diverse as, for example, in South Africa or Asia. In many other European countries, there are also high numbers of very senior women sitting on boards, same as we see in Asia.

Dollner: In terms of the investment space, ultimately members are at the heart of the approaches that we take, and there have been steps taken to make pensions as a product more inclusive to the members. We have seen some good examples of that in the Local Government Pension Scheme (LGPS).

There is also more opportunity for members to feed back to their schemes what they want to see in terms of investments. That's positive as well.

We don't necessarily place as much emphasis on that side of DE&I as an industry. Fundamentally, pensions are for the people who have them, so it's about trying to factor that in as well.

Giles: Investment is very measured as well – you can look at the returns. There are definitely signs that there is benefit in having diversity of portfolio management teams, CIOs, all those things. You can see that flowing through the results because, fundamentally, investment is about making better decisions and having that wider view to make those decisions is a good thing.

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Totaram: Abnormal times can also highlight this – for example, when we went through Covid, we didn't really know what was happening in the world, things were changing quite rapidly. That's where I saw diverse views come into their own. It was a complicated and uncertain world at that time, and everybody came at it with different perspectives even though we were all looking at the same pieces of information.

So, you see it come through in uncertain, unusual times. It does steer better decision-making, without a doubt.

Meeks: There's a good example from Covid about how there can be blind spots. During 2020, there were all the various lockdowns. There were various exceptions. One of the things the government spent ages on was whether there should be an exception for grouse shooting from the rules.

But parliament did not consider at all the position of gyms! That was until a young personal trainer got about half a million signatories and brought it to their attention. Parliament didn't consider it until then, because politicians are generally not the sort who go working out. That's a collective failure of politicians not realising a lack of diversity.

Showcasing impact

Chair: How can we show those people who are perhaps reluctant, who see it as a tick-box exercise, that it can have a positive impact and that they need to get on board?

Bellingham: The fact that we're talking about DE&I more, and its importance, is a good thing and we're seeing initiatives being implemented.

I'd observe, however, that the conversation still focuses on trustee board diversity, but it's much more than this – for DE&I to be effective and meaningful, it needs to extend well beyond the trustee board. Our DE&I framework takes a holistic approach, reaching across governance, product design, how to support members, how we communicate and the overall experience and value all members receive.

Trustee board diversity is important but DE&I is a much broader matter.

Giles: What is measured is also changing. If you look at professional trustee statistics, the firms are surveyed regularly by various providers in the market, and the diversity of the firms is a lot more reflective of the population. The trustee boards – back to the TPR survey – are well away from where they should be on the grounds of gender and age. Professional trustee firms, on the other hand, are very close to it. We are tested and selected on an increasingly regular basis and expected to be diverse.

But also, while diversity may be being measured, you've then got to move into inclusion – see whether that diversity is bringing about inclusion and equally equity of outcome.

So, data is good for measurement, and it is leading to a change, but you've got to make sure we don't just get stuck in certain data aspects which aren't actually going to drive through to inclusion.

Bowyer: Seeing some of the big organisations, the professional trustees and some of the other master trusts, pushing this through has to be a good thing. We can hold it up to the light with different bodies and boards of the more traditional DB arrangements to say that this is happening. You can see the changes that are being made. You need to get on board with this.

With anything like this, it needs to be driven, otherwise it just flounders on the edges compared to everything else that everyone's got to do. Trustee boards are already busy.

Totaram: Something else that has been helpful is the fact that it's receiving a lot more attention – there are now DE&I categories at the various awards, for example, and there weren't before. There are also several awards now that are allocated to female portfolio managers, for example.

Dollner: That's where we, as a trade body that has a view across the industry, can help shine the spotlight. We consider factors though the lens of four key pillars: DE&I within investee companies; DE&I within the pensions industry; DE&I for the end-user; DE&I within individual companies.

Essentially, there are key groupings that we try to look at with all of our work and we think about how we can tailor the messages accordingly, with these groupings in mind – be that with our retirement living standards, DE&I , sustainable investing and so on.

Progress and implementation in DE&I

Chair: Do we feel like progress is happening fast enough?

Meeks: It's a bit like painting the Forth Bridge – you're forever having to come back to it and examine it from different perspectives. It's very easy to think about DE&I in a particular way, but then you keep yourself open to a lack of diversity in other ways. So, you must keep re-examining this from different angles.

Also, different industries have very different cultures. Advisers/consultants within pensions in general treat this a lot more seriously than perhaps they do in other areas. That does rub off over time on trustees more broadly.

Again, the professional trustee grouping helps enormously here because professional trustees tend to be drawn again from that same community of advisors of one form or another. So, it comes outwards that way also.

So, I do think there's progress. It'll never end. It'll be something that continues to evolve and that we will need to look at from a variety of directions indefinitely.

Chair: How do we encourage implementation?

Butlin: You've got to establish your diversity at board level, then you have to practically implement it and embed it in everything you do as a board. So, we encourage our trustee boards to think about those aspects when they're making decisions on anything, for example when looking at member communications and engagement and all areas of operation.

It is equally important in a DB scheme to make sure that it's coming through everything that you're doing – establishing a diverse board is no good if it's not actually working in a diverse way through everything that it does. So, we're encouraging trustees when they are making decisions to take a step back and think about the lens that they're applying to the decisions that they're making. That will eventually become second nature but it is a slow drip.

Totaram: From a service provider perspective, I don't think I've ever seen any business that we've been shortlisted for or won being on the back of having good DE&I criteria. We complete numerous surveys/databases, and I've never seen it practically amount to anything more than just data collection. The reason I say it is because I've walked into finalist presentations where some of the teams who we're competing against would be all white male or whatever the case may be. Largely, decisions are still being made predominantly on the back of performance and fees.

So, it is a question that constantly gets raised internally. Should we be filling out all the stats? What does it achieve?

Meeks: I had direct experience yesterday of this – we had a pitch with an investment manager and, to our surprise, all we saw were men. We did feed that back afterwards.

Giles: If a board of people turn up like that, there is obviously something lacking in their thought process to even consider doing that. That does resonate with people. I'm not sure it comes back to being a positive selection for, but it's a negative factor against.

Bellingham: Our trustee board, like many others, periodically reviews their advisers, and diversity is a measure of the review process. It's not just about who turns up to meetings, it's also the culture of that firm and what their DE&I strategy is. As a commercial provider, we are increasingly being asked pertinent questions relating to DE&I as part of tender processes – it is something that we're being measured on and I'm sure others are seeing the same.

Bowyer: We did a pitch recently which was very focused on DE&I. It was interesting that we were pushed on that quite considerably.

Also, just on that point about are we moving fast enough and what's happening, I'm certainly seeing more board effectiveness reviews. I feel like that's a way to stage DE&I. You can start thinking about how trustees make their decisions, whether they are thinking differently, and whether there is enough diversity in their thought process.

We also need to be careful we're not just thinking about men, women, or culture, but the whole spectrum of diversity. It's like an artichoke with lots of different layers and overlays. There's also neurodiversity that you don't see.

Dollner: Fundamentally, another challenge still is that boards have so many competing priorities. How do we support trustees to free them up? Or is it about, rather than freeing them up, encouraging them not to think about this as a separate thing, but rather embed DE&I into the decisions they make across all issues?

Bellingham: There's not much guidance on how to bridge the gap between theory and practice which is why we recently published a blueprint on what we've been doing in this area, with a view to helping other trustee boards.

The hardest bit is getting started as DE&I reaches so far and wide and will mean different things to each of us. But the first step is to come together to think about what DE&I means to you and your scheme with your members in mind. We found that those early discussions quickly turn into objectives and actions.

Build habits, like ensuring DE&I is considered in every trustee board meeting but try not to think about it as being a separate item, rather as something that's embedded in everything that you do.

It's also about small steps – perhaps just take three things that you want to achieve each year and monitor and track progress against those.

Chair: Getting started, as has been mentioned, can be considered difficult – where do people begin? Some people also cite a lack of time, but if it should be

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embedded into everything we do, then it shouldn't be about finding time, surely?

Meeks: If people are saying it's about a lack of time, to me that comes down to a lack of engagement in the subject. DE&I is about effective governance. You can't say, we'll leave effective governance until next year.

If you explain you need diversity because it's going to improve your decision-making, it's going to do all of these positive things and have all of these benefits, it should be very high up the agenda in terms of effective governance. So, probably what's happening there is there is a lack of belief.

It's important to remember also that people absorb information in a variety of different ways. Unless you're catering for everyone, you're not being inclusive.

Bellingham: Working with third parties can also work well, and sponsors may already have partnerships with charities or support services that a trustee board can promote or leverage.

A growing challenge for our organisation is how we communicate where English isn't the member's first language. We work with a translation partner so that when a member contacts us, there is an option to have a three-way conversation in the language of their choice.

Meeks: We have this on death benefit claims as well. We have multiple forms of vulnerability at that time. Almost by definition someone is vulnerable, because they've just been bereaved. They might have poor language skills. They might

have a number of different things going on all at the same time. You've got to ask some quite difficult questions of people, and actually the answers that they give might be really important. So, you've got to be able to allow them to present it in a way that they feel comfortable with, in a way that they're fairly presenting what they're saying, and that you're properly understanding what they're saying.

Bowyer: You can make poor decisions particularly about death benefits and such things if you aren't thinking widely because, as anyone who has made a decision about death benefits will know, people lead extraordinarily different and complex lives.

Giles: That's why it's so important to have different people involved in the decision-making process with very different backgrounds. So that people can understand the different lives that people lead.

Chair: What does the PLSA suggest to trustees and to companies in the industry about implementing a DE&I strategy?

Dollner: One of the things we've spoken about is the need for training and knowledge-building to support people. It's one thing having a strategy and saying that you're going to do a certain thing. It's then understanding in enough detail how you follow through on that.

The FCA consultation last year signalled a bit of a reduction in emphasis on training and knowledge-building, which we were a little concerned about.

Industry collaboration

Chair: Do we feel that the industry as a whole works together well enough to help improve DE&I?

Totaram: Everybody has different priorities, so it's very hard to assume that we're all necessarily trying to achieve the same thing.

The increased participation of women in the pensions industry is important as we see an increased percentage of women members of pension funds. Is there any recent data about the percentage of women that are now part and parcel of the pensions system? Historically we know it's been lower than men. Do we know whether that's changed, and if so, how that's changed? That's also a crucial aspect of this – ensuring that we see a change in the participation in the industry as a whole – in pensions, investments, across the board – and having more women involved in and aware of savings and the need for savings and financial security.

Bellingham: Our annual *Women in Retirement* research and report is in its 20th year and shows this remains a considerable challenge.

Giles: There is a lot more being published about the gender pensions gap which is great.

Going back to whether there is support for DE&I, there is a lot of community effort around this. There are many organisations, such as the Diversity Project, which freely share their resources.

So, if you want to find resources to support and drive diversity and inclusion in whatever way, then there is information and support out there to do so. It's ultimately about firstly having that drive within the leadership and then also trying to feed that through the organisation. Setting some measures and then measuring some of the outcomes.

Bellingham: Our DE&I blueprint includes a list of 10 things for trustees to consider, to get them started. One of the suggestions is to look at what the sponsor is doing and if there's opportunity for collaboration. Using our example, we're brilliantly supported by colleagues within Lloyds Banking Group who have also provided training for our trustee board.

Also, as a pensions community, it's important that we share as much as we can.

Totaram: When we talk about inclusion, that's a key measure of whether we're being successful. Ultimately, our efforts must boil down to participation and being a beneficiary of the savings industry.

Having the policies is one thing but if we still have a gender pensions gap, for example, that persists for whatever reason, because we haven't adjusted our rules or how we think about them, then we haven't adapted for the times. So, just the pension rules around gaps in employment, or maternity leave, amongst others, persist from 30 years ago. Those need to be refined in order to address this and the pensions affordability for women and other groupings that have been previously excluded from the financial services sector.

Chair: What more needs to be done?

Dollner: We've spoken today about engagement but there's still more that needs to be done to support schemes – in how you go about engaging members and getting the data and the information that you need to be able to set targets and make progress.

Bowyer: Support on a practical level is needed. It's great to say, let's have a policy on diversity strategy, but what you need is the implementation, and I'm not entirely sure there's the support for that. There is lots of information, it's just about how do we, in the industry, help our trustee boards implement this over a period of time? It's not going to happen overnight, we recognise that, but I feel like we need practical implementation.

Giles: Yes – the resources are there, but I can see that confidence to start is the harder piece. Knowing where to begin.

Butlin: Advisers and third-party providers are probably doing a lot to help trustee boards implement this without necessarily the trustee boards being aware of it.

Things like the DE&I approach that they're taking, to communication with members, those sorts of things that just get rolled out as part of your administration. If the trustees are not asking the questions, they're not always necessarily finding out what is going on and what they have already got as a benchmark to build on.

So, it is important that we start to shout a bit more about the things that are going on within schemes so that the trustees have visibility of them and can feel confident on building on top of that.

Also, back to that point about leveraging what the sponsor is doing. There is quite a lot of resource within most sponsors on DE&I now. There are a lot of synergies between the way the board operates and what the sponsor is doing on this that you can leverage to improve your own position.

Bellingham: TPR has highlighted that engaging the chair of trustees at an early stage is important in driving and promoting DE&I – we also have a DE&I lead, as well as broader focused support.

It's important to think about and agree what DE&I means; it will mean something to us as individuals as well as in a professional capacity, but getting together around the table and defining it will help drive meaningful action.

Finally, it's important to understand who your members are – issue surveys when you can, grab information at those key touch points; ask them what they think and what they tell you will help drive the action.

Butlin: We're just starting to introduce neurotech in our board surveys. It's a deeper dive survey that asks questions in different ways so that

you can get what each individual is really feeling, rather than how they think they should be responding. You're positioning the questions so that you get an honest response, rather than a tick-box response potentially. It gives you better data on areas there are discrepancies in how people are feeling compared to what they are saying to you, on which to make your decisions going forwards.

Meeks: I would like to raise two points here.

First, I think the horses have been led to water. But they've got to decide to drink. This is not a new subject. One can only make excuses for trustee boards that don't get involved with this for so long.

Second, I think this is a subset of a wider problem that you see too often in some pension schemes – what I sometimes think of as a report culture. People have a report, and they file it and then stick it away. You'll see that with risk registers, you'll see it with data protection, you'll see it with cyber.

Trustee boards have adopted all these things and then they'll shove it in a drawer, never to think about it again. That's too often seen on trustee boards where there's a passivity about the process that they follow and they're reliant too much on their advisers and not actually doing the job they're there to do.

Monitoring DE&I

Chair: How do we effectively monitor DE&I?

Bowyer: TPR is monitoring us through the trustees' survey, and they

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are going to continue to do that. So, we need to be able to show that we're measuring up. I do feel strongly about implementation rather than just talking about it. So, one of my objectives would be to be sure we're not just talking about it, but doing something about it too.

Totaram: Whatever gets measured gets managed. So, you've got to be so careful about what you choose to measure. We get measured on a number of different stats. It all comes down to stats. The number of women in the different teams, in different positions, the people of colour. It's across the board. The conversations that I often have with clients who are measuring this on a year-on-year basis emphasise that the fluctuations in numbers from one year to the next don't necessarily represent anything meaningful. Sometimes it could just be a function of one person leaving, or one person joining. Were they junior, were they senior? Did they move onto something better for their career? Why would that be seen as a negative? It shouldn't be seen as a negative.

There is just so much context that needs to be considered there. You can get the data, but is there a quality overlay? That's critical. The data alone won't tell the whole story. One needs the ability to say, we have X, Y, Z. They joined the business when they were 24 years old. Over this period they have progressed in these various ways and are now responsible for this very important role within this organisation. Isn't that a great success story of not just diversity but also inclusion and equity?

Also, I always feel that the one thing that numbers can't do is measure cognitive diversity, which in investments is just so crucial because that's something that can lend you a competitive edge. We can all look different but think the same because we've all had the same exposure. Or we live in the same neighbourhoods, whatever the case may be. I don't know what the answer to that is, but to me that is something that's super hard to communicate but offers a lot more richness in achieving real transformation in our industry.

Why do I think it's important? Well, how do we keep getting new entrants in if people don't see role models who look like them? Or sounds like them? That is just very powerful. So, it is important that we get it right.

Bowyer: Personas are important in that respect, so that you show that there are different people of different diversity strains if you like in organisations.

Giles: Diversity is, as has been said, being increasingly measured. Things will improve because of that. Different strains of diversity will be measured – things like social background is increasingly coming through now. Even neurodiversity – there are ways of looking at some of those things and measuring it.

So, you measure the diversity of the organisation.

The other thing to look at is the belonging of the people within an organisation. Do they feel they belong with their peers? Because diversity you measure, then inclusion is more of a feeling as much as anything.

Finally, there's something about outcomes. What was said earlier about member experience, that's valid. Are people getting the same levels of service as members from different perspectives?

Chair: That's an interesting point you make – it's one thing getting people of diverse backgrounds into the industry, but it's then a case of making them feel comfortable and keeping them in the industry. Then getting them to progress through to senior levels if they so wish.

Looking ahead

Chair: Where do we go from here? Any final comments?

Bowyer: As much as I've said it's about implementation, we do need to get the data because trustee boards need to understand who their membership is, what it's made of, and then how they can try to make inclusive decisions. They do need training on this as well. Everyone needs to understand the width and breadth of diversity and not just concentrate on the obvious points.

TPR is pushing us to think about the chair and the MNT appointments and the appointment of trustees. We do need to start thinking about how we overlay that and keep an eye on that.

Improvement of communications is one that could be an easy win if you do it well, if you've got maybe a communications adviser.

Finally, if boards are doing board effectiveness reviews and things like that now, then they could measure themselves in three to five years' time and have a look at how their decisions were made before and after. Put a marker in the sand and then they can measure against it.

Giles: Diversity is improving and will continue to improve but, back to the point made earlier, there's no real end point. It's got to be something you keep aspiring to. So, back to one of the earlier questions, are we going far enough probably rather than fast enough, I don't think we'll ever reach the end of having good diversity. It's measuring, it's improving. The professional trustees are playing a huge part in that.

I agree entirely with the point that it needs to move beyond just saying we've got a diverse board. We have got to have more inclusive decision-making. The board needs to work well together. It's including new members to it. It's embracing how they come together and making sure there are regular effective governance reviews.

The thing I'd like from the discussion here is then getting towards that outcome point for members. Ultimately this is about better outcomes for members, making members feel that they're being reflected in what the board is ultimately doing.

Totaram: DE&I is very important. The more that we can bring previously excluded groups into the financial services arena, the better off society is. The more people you bring into savings, into understanding investments, the better.

Also, in a changing world, in a changing planet with lots of issues, a wide diversity of perspectives does help bring about much needed differences of opinion and different ideas to solve some of these big issues. I also believe the financial arena has a big role to play there.

So, we need to keep going. There's lots more to be done. The steps that we've seen thus far are important. Also, the approach to improving diversity is very similar to how we've approached ESG. You can only do a little bit at a time. Start with one thing. Do that well, then go onto the next. You can't adopt it all in one go. If we go constructively and slowly, then we are more likely to do it well.

Meeks: I am very much in the outcomes-focused category when it comes to DE&I – if you do this well, you get high trust and high engagement. Those are things that can be measured in a number of very tangible ways.

I'd like to pick up on the Consumer Duty point raised earlier. I have had to look at multiple client policies and I think pension schemes, as a whole, could benefit enormously by looking more at this. It's a very tangible way of looking at some of the aspects of groups that are marginalised and often excluded, and thinking how we could be bringing them in, how we can help them – this is something that could help pension scheme trustees a lot more. I wouldn't be at all frightened of TPR focusing a little more on that area.

Finally, we didn't get a chance today to discuss what role AI could play. I'm afraid I'm gloomy about this. AI is a tool that, if it's not used carefully – and I think it won't be used carefully – is more likely to cause problems than help. The data that goes into AI comes from what's already produced. So, it reflects all the underlying biases, stereotypes, prejudices, whatever else. You can overcome that of course with careful work, but I don't think the careful work is going to be done, so it's more likely to make things worse rather than better.

Butlin: As I sit here reflecting on the development of DE&I over the past 10 to 15 years, we have made big strides and it will continue to evolve as naturally people's careers move on and new people, younger generations, come into the workforce. So, there's that aspect of it.

Within Aon, we introduced a practical guide for trustee boards some years ago now, then about 18 months ago we started working on a refresh to reflect developments and which covers all of the aspects that we've touched on today. We published it earlier this year. It's very much about acknowledging that every scheme, every trustee board, is starting form a different place in the journey. I very much liked the idea of picking one or two things and just saying, this is where we're going to start, this is what our focus needs to be on, because of X, Y, and Z. Then incrementally adding to that as you go forwards.

Dollner: Trustee training here is really important.

On AI, I agree, there's a lot of risk associated with the adoption of AI but there are ways that it can be used. We talk about trustee reporting, for example, the burden on trustees – are there safe ways it can be used that free them up to do things that we want them to do? Are there ways that it can make things more efficient?

Also, we talk a lot about progress, but measuring progress is not necessarily linear. As was mentioned earlier, it's a good thing if we're seeing people move on and doing better things. We don't want to have stagnation. We want improvements.

Bellingham: My perspective is to view DE&I holistically and embed it in everything that you do rather than think about it in isolation. Again, it's much broader than trustee board diversity.

It's key that trustees understand who their members are then it's about helping them. Set objectives, measure, learn, adapt as you go along and don't be afraid if something doesn't go as intended – just reset and keep going.

Finally, there are lessons to be learned from Consumer Duty and other FCA initiatives – parity across pensions is critical.

EM investment opportunities

Sandra Haurant explores the wide world of emerging markets equities

Summary
• Emerging markets (EM) equities are a mainstay of pensions investment thanks to the diversification they provide with regard to developed markets.
• The term itself lacks an official definition – instead, it refers to countries that are not yet economically 'advanced' according to the IMF's assessment criteria.
• The sector is huge and covers multiple countries with very different geopolitical circumstances – each unique but with countless interdependencies.
• Autocratic EM regimes have been shown to have poorer outcomes than those with traditional democracies.
• Volatility makes this an area that is less appealing to defined benefit schemes.
• The high number of elections in 2024 has provoked some volatility in EM markets, but the US election will likely have the greatest impact.
• Questions abound over the way in which US policy will affect China; some predict opportunities, while others are more concerned.
• Diversification is one of the benefits of EM equities, and another is the potential for higher growth and greater returns than those on offer from developed market stocks.

Emerging markets (EM) equities are a mainstay of the pension portfolio, providing diversification from developed economies and the potential of greater growth. But what exactly is an 'emerging market', and how does investment in this extensive area benefit pensions?

Defining features

For a term that is so widely used, it is perhaps surprising that there is no official definition of an 'emerging market'. In fact, the International Monetary Fund classifies 39 economies as 'advanced' based on factors like per capita income, exports, and integration into the global

financial system, while the rest of the world is broadly defined as 'emerging markets and developing economies.' And the IMF considers about 40 of those as 'emerging market and middle income.' The diversity of countries on the IMF's list shows just how broad a field this is; it includes Latin American countries such as Argentina, Brazil and Mexico, as well as China, the Philippines, Indonesia and Malaysia, and Hungary and Poland.

"These markets are unique, interconnected, and driven by diverse factors, entirely different to developed markets," says Invesco Asian and emerging market equities fund manager, Charles Bond, who adds that: "Emerging markets boast rising incomes, urbanisation, and favourable demographics, leading to a growing middle-class consumer base."

Diversification is key

While, for pensions, the role of emerging market equities is one of diversification from developed markets, they also provide greater potential for growth and higher returns, argues Tobam deputy CEO, Christophe Roehri. "Looking at the past 14 years, the growth of the leading EM countries has strongly outperformed the growth of the DM countries. The weight of China in the world economy (GDP) went from 9 per cent in 2008 to 18 per cent today." But this is a complex area, says Roehri, who adds: "The performance of EM equities, when measured via the return of market cap indices, has been significantly below developed markets (DM) equities."

China, specifically, he says, strongly underperformed over the same period; a global EM ex-China outperformed a global EM portfolio. "Why? Because of the huge concentration of DM markets driven by the mega cap US performance, and because of the poor performance of stocks listed in or highly exposed to autocratic regimes, like Russia or China, for example."

Indeed, says Roehri: "Long-term asset owners like pension funds should pay attention, monitor, and mitigate their exposure to autocratic regimes."

As such, the sector comes with characteristics that do not always suit pensions. PwC UK head of pensions, Gareth Henty, says: "When it comes to portfolios, emerging market equities can provide diversification and the potential for higher returns, but there is more volatility and risk. Funding level improvements and generally de-risking also means private sector defined benefit schemes hold little emerging markets equities." He adds: "The PPF *Purple Book* shows the average pension scheme now holds less than 20 per cent in equities, and of this, less than one tenth is in emerging market equities. Furthermore, disappointing returns over the past decade has meant, on a risk-adjusted basis, they have not been an attractive investment."

Highs and lows

That volatility has been evident this year. In what are considered to be 'traditional' democracies, more than four billion people have been eligible to vote across the globe in 2024, with EM elections in EM countries providing some surprises and some reassurance. The presidential election in Mexico saw the election of Claudia Sheinbaum. In India, the landslide victory anticipated for Narendra Modi did not happen as foreseen. And South Africa, too, saw a shift in power, with the ANC losing its majority for the first time since 1994.

Markets famously don't like uncertainty, and true to form, volatility followed the votes in each country, but while these three economies sit under the EM umbrella, it's clear that they are vastly different places with potentially divergent futures.

"Although India's election brought short-term volatility, it ultimately ended with a Modi victory and a strong signal of market-friendly economic continuity. The recent budget announcement was also a notable positive and it seems India continues on its unique path of profitable growth," says Global X ETFs head of EM strategy, Malcolm Dorson. "Mexico's election brought more volatility; Sheinbaum's victory was not a surprise, but the amount of power her party gained in congress and the senate gave investors pause over potential judiciary reform and increasing government intervention in the private sector. South Africa's election outcome was seen as a strong market positive."

Overall, says Dorson: "Despite many elections, 'higher for longer' rate rhetoric, and a strong USD, EM assets have performed well this year, which signals strong structural dynamics and less reliance on elections and central bank speculation."

Spheres of influence

The ballot with arguably the greatest potential to impact EM markets is due to play out soon in the United States. "The impending US election is creating uncertainty for markets, including global emerging markets. A key driver is the US-China relationship and how this will be impacted by the next president," says Eastspring Investments client portfolio manager, equities, Sam Bentley. "The US is the largest trade partner for China, which accounts for over 25 per cent of the MSCI EM index."

But Bentley argues that, while trade tariffs and embargoes could impact certain EM stocks, others may be "attractively valued" and largely unaffected by the US election outcome. He adds: "While the outcome of the election is uncertain, and even more so since the announcements of change in Democratic candidate, retaining process discipline is key to capturing any opportunities this might throw up."

At the time of writing, the polls are showing Kamala Harris and Donald Trump to be neck and neck, so making forecasts based on likely outcomes at this stage is close to impossible. Indeed, says

Bond: "As we saw in 2016, even if you did correctly predict the result, the market can go in the opposite direction of what might be expected. This is without even considering the unpredictability of decisions that could be made by the new president."

But what is striking, nonetheless, says Roehri, "is the bi-partisan aspect of the criticism and proposed actions against the Chinese regime". Both Republicans and Democrats plan to increase tariffs aimed at stemming Chinese domination. "The tone of the Democrats has somewhat converged towards the Trump administration's offensive posture that prevailed before Biden's," says Roehri.

Pinpointing potential

The US election outcome may be tough to call, but there are suggestions that parts of the EM equities area will react positively, whatever happens, says Bentley: "Over the next 12 months, we will pass through the US election cycle and into an interest rate cutting cycle," he says. "Lower uncertainty, lower interest rates and a weaker US dollar can be structurally supportive for emerging market equities. We see earnings delivery improving across emerging markets driven by investment in real infrastructure, decarbonisation and supply chain diversification, supported by the attractive valuation on offer in these traditional value names and sectors."

But within the wide world of EM equities, countries promising potential and those providing concern are constantly evolving. Bond says: "We seek opportunities in undervalued market areas, where overly negative reactions create attractive entry points. For example, in China, pessimism has led to significant undervaluation. Entrenched negativity, such as the 'Korea discount' due to corporate governance concerns and geopolitical tensions, also presents opportunities."

Improvements in Korean corporate governance and dividend payments could create "chances to invest in solid companies with good balance sheets and potential for shareholder returns," he says. "The portfolio includes manufacturers of semiconductors, electronics, autos, and companies in the EV battery supply chain."

Meanwhile, at Tobam, Roehri says: "We have set up a quarterly committee with internal and external geopolitical experts in order to assess the country risk of the countries that are within what we call the grey zone, meaning when our quantitatively driven assessment of the authoritarian exposure places them in the zone just above exclusions from our investment universe." The 'grey zone' include the likes of Hong Kong, Sri Lanka, India, Peru, he says. And while Bond sees potential in China, Roehri is perhaps more reticent: "On a market cap weighted basis and weights of influence, the three areas of concerns we have are: China, China and China."

The term emerging markets equities encompasses a broad spread of diverse economies at different stages of development and with varied interdependencies, and different regimes offer quite different outlooks. While the world assesses the results of recent waves of elections and prepares for the next big one, this sector may continue to provide diversification and plenty of potential for pensions, but its propensity for volatility and uncertainty are clear caveats.

Written by Sandra Haurant, a freelance journalist

All eyes on energy and infrastructure investment

The new government has already placed its focus on infrastructure and energy investment, with its proposed creations of Great British Energy (GBE) and a National Wealth Fund (NWF). What do these mean for these sectors, and what opportunities do they provide for pension funds as investors?

The new government is committed to economic growth powered by greater private sector investment – pension funds clearly have a significant role to play. The design of the state institutions designed to crowd in pension capital for UK 'nation-building' projects will be crucial: Namely how the new players i.e. Great British Energy (GBE) and the National Wealth Fund (NWF) interact with the existing UK Infrastructure Bank (UKIB) and British Business Bank (BBB).

There continues to be a major focus from the government on the demand side of the equation – consolidating UK pension funds so they become natural allocators to private markets. This is reasonable. Where UK pension funds are already significant investors in these asset classes it is the larger funds in the lead. But there are many small UK funds, so scaling up makes sense.

But more attention should be paid to the supply side, to the creation of a pipeline of investable assets. This demands public monies – largely taxpayer guarantees – to underwrite new technology risk and to structure nascent 'green' markets. This, as well as the 'structuring' role to be played by the state backed financing institutions whether GBE/NWF/UKIB/BBB, is the key to success in crowding in new pension capital. After all, there is no shortage of things to be done in the UK, if we are to deliver 2030 net zero targets, never mind 2050. Good financing models can unlock the capital needed for these new projects.

IFM Investors executive director, public affairs Europe, Gregg McClymont

Robust and well-maintained infrastructure is crucial for economic growth, productivity, and competitiveness because it facilitates trade, attracts investment, and enhances quality of life. The newly elected Labour government's initiatives demonstrate the UK's commitment to addressing the country's infrastructure needs and positioning the UK as a leader in sustainable and resilient infrastructure development.

The government's next decade infrastructure strategy has a particular focus on roads, railways, and the roll out of electric vehicles (EV) charging points. This focus on modernising the transport network is key for the UK's ambition to reduce its carbon footprint, since transport currently accounts for approximately a quarter of EU greenhouse gas emissions. Additionally, the modernisation of the UK economy requires investments in technology and digital infrastructure such as gigafactories for EVs, the roll out of national 5G coverage, and the removal of barriers to new data centres. The new National Wealth Fund aims to invest £7.3 billion in UK infrastructure which should complement the public-private partnerships (PPP) for the development of electric vehicle charging networks and to help fund initiatives for heat, power plants, battery storage, and others. Overall, an estimated £29 billion could be invested to modernise the UK infrastructure.

Global X ETFs head of investment strategy, Morgane Delledonne

The National Wealth Fund will only be effective if it solely funds areas where there is genuine market failure and has the potential to unlock large amounts of private capital. Examples of these market failures include investment in new grid infrastructure urgently needed to allow the adoption of renewable energy and BESS; investment in the planning and

permitting stages of new sustainable infrastructure projects needed to bring forward the environmental and social solutions we need; and funding of the rural alt-net sector; the bank market is currently closed due to over concentration to large urban fibre builds.
Gresham House managing director, sustainable infrastructure, Peter Bachmann

Above all, those making decisions on pension scheme investments will need certainty that such assets will work in the interests of members, either in backing the pension income they have been promised or generating returns to help them create an adequate pension fund for retirement.
Royal London director of policy, Jamie Jenkins

The government's plans to establish GB Energy and launch a National Wealth Fund have the potential to accelerate public and private investment in green infrastructure.

Various attempts have been made to mobilise such investment, but the absence of a pipeline of investable opportunities and the political uncertainty in recent years has made it difficult for this to become a reality.

The introduction of these new initiatives will hopefully start to realise this ambition by putting in place a structure that provides confidence and certainty for those making long-term investment decisions.

While there is clearly a lot of detail to work through, there is potential for the National Wealth Fund to act as the investment vehicle, powering GB Energy as the engine for change in renewal infrastructure.

The launch of GB Energy and Labour's ambitious renewable energy targets, including tripling solar capacity and quadrupling offshore wind by 2030, signal a significant shift in the energy landscape.

With £8.3 billion in funding for GB Energy and an additional £60 billion in private investment being sought, there is potential for considerable expansion. Pension funds may find these developments appealing, given the long-term, stable returns often associated with infrastructure investments. However, the success of these projects will depend on overcoming hurdles such as supply chain constraints, regulatory challenges, and community acceptance. Ed Miliband (the new Secretary of State for Energy Security and Net Zero) has specifically said his focus will be on tackling the 'four horsemen' of the UK's energy transition; grid delays, planning delays, supply chain problems and the skills gap.

Labour's proposal to create a £7.3 billion National Wealth Fund, aimed at financing infrastructure projects, presents another area of interest. It is intended to drive £20 billion of private sector money into low-carbon investment in the UK economy. The track record of the UK Infrastructure Bank, which has successfully mobilised private capital, suggests that the National Wealth Fund could attract significant private investment. However, the details of how the National Wealth Fund will operate, particularly its interaction with existing schemes and its approach to private sector partnership, will be crucial in determining the level of interest from investors.
Gravis spokesperson

The new Labour government has a particular focus on infrastructure and clean energy as one of the ways to create economic growth during their time in parliament. From their manifesto and the King's Speech, we understand that the initial areas of focus will be upgrading ports and the supply chain across the UK, building automotive gigafactories and rolling out EV charge points, rebuilding the steel industry, supporting sustainable aviation fuel, and investing in carbon capture and green hydrogen production.

We understand that Great British Energy will partner with industry and trade unions to deliver clean power by co-investing in leading technologies and supporting capital-intensive projects.

It's quite clear the Labour government wants to make the UK a renewable energy power with a state-owned energy company similar to France's EDF or Denmark's Orsted.

The clear ambition is a great signal to infrastructure investors because an infrastructure asset typically has a useful life of 20-45 years, and someone investing for that period of time wants to have a clear long-term direction of travel.

We have a new government that knows what it wants to achieve and wants to work with industry to get there. While the ambition is welcome, the difficult part of any infrastructure project is delivery in line with specifications on time and on budget.

That is the difference that investors

are waiting to see – if the new government will take the necessary actions to deliver on promises such as a net-zero power grid by 2030.

Creating the right environment that shows the government is willing to do what it takes to deliver the green transition will draw large institutional investors to the UK.

Within the UK, closed corporate defined benefit schemes, which are targeting long-term self-sufficiency, could be interested in investing in infrastructure due to the long-term inflation linked and contracted income such assets can provide.

Closed schemes targeting buyout would not be interested in these investments because they are too long-term for their investment strategy.

Local government pension schemes are interested in these assets and have been investing in them over the past five-ten years. These schemes already have an allocation to green infrastructure and while they could invest more, infrastructure is only be going to be a small part of their total portfolios due to the illiquidity and risk concentration of such investments.

Hence, UK pension schemes might invest a bit more in infrastructure given the new government's ambition and focus.

However, if the government successfully addresses the challenges of red tape around planning, slow connections to the grid and skills shortages in the green energy sector, that could unlock investment from foreign investors who will see that the United Kingdom is a place where return on investment has a high certainty. Once we see evidence that this government is doing things differently, this will help to draw back big infrastructure investors who can match the scale of the government's ambitions.

Hymans Robertson senior investment research consultant, Asad Rashid

We believe the NWF can serve as a key accelerant for the UK to do its part in transitioning to a low carbon economy and promoting growth in the UK.

The NWF is a new offering/opportunity for investors and has many desirable and laudable characteristics. The most notable characteristic is the goal of supporting and nurturing new industries of the future, including the design and targeting of green infrastructure investment.

The initial c£7 billion funding injection to the NWF from the UK Infrastructure Bank is a statement of intent. This funding can be thought of as seed investor capital with the government putting its money where its mouth is.

Given the infancy of the NWF, it is not clear yet to what extent pension funds will follow and allocate capital to the NWF. If we think of the pensions industry, as a whole, as having trillions of pounds of assets, the questions are:

1. how much of that is likely to be redeployed to the NWF; and
2. what are the consequences of doing so i.e. who is losing out as a result of having money taken away from them?

In practice, the key drivers of pension scheme investment in the NWF are likely to be:

- Investor time horizon
- Long term objective of the pension scheme
- Governance capacity and skill set of those running the scheme.

The NWF will be investing a large proportion of its funding in illiquid, J-curve infrastructure assets. Therefore, the investor time horizon for those schemes that are well-funded, with a target of securing the liabilities with an insurer, is unlikely to align with an investment in the NWF.

The most likely source of pension scheme investment in the early years at least, is likely to be schemes that are:

- Open to accrual, which is predominantly public sector arrangements but also some private sector schemes.
- Closed schemes that are looking to run-on the scheme in-house

We would expect this cohort of schemes to be relatively small by number but substantial in terms on pound amounts. So, assuming a £2-3 trillion pension scheme industry in the UK, if only those that are DB and open and LGPS allocate to the NWF, that is estimated to equate to c£570 billion of assets where the investor is likely to have a sufficiently long time horizon to consider investment in NWF. Typically speaking, pension schemes would have a c5 per cent allocation to any single illiquid investment opportunity, and so it is feasible that a further c£30 billion of private investment could flow into the NWF. If this were to materialise this would ensure that the political target of attracting £3 of private investment for every £1 of public funding from the UK Infrastructure Bank would be achieved.

Macquarie Asset Management managing director, Alastair Yates

Summary
- Around two million UK pensioners are living in poverty.
- Women, single people, ethnic minorities, the self-employed, those with disabilities and those that are still paying for housing costs in retirement are at greater risk of being in poverty as a pensioner.
- The number of pensioners in poverty is expected to rise in the near future.
- The industry can help reduce the number of pensioners in poverty by raising awareness of the benefits of increasing contributions while saving, highlighting the range of options available at retirement and signposting potential eligible state benefits.

On the rise: Pensioner poverty

Laura Blows explores why the number of pensioners living in poverty is increasing, the impact of this trend, and what the industry can do to help tackle the problem

Over two million pensioners in the UK are currently living in poverty.

Of these 2.1 million pensioners, 55 per cent are in deep poverty and 29 per cent in very deep poverty, the Centre for Ageing Better states.

The story is similar with Independent Age's findings. It puts the number of older people in poverty currently at around two million, with a further million hovering just on the edge and unable to make ends meet.

"That's 16 per cent of all older people in poverty, or one in six of everyone in later life," Independent Age head of policy and influencing, Morgan Vine, says.

"There are different measures of poverty, but this number is defined by those who have a household income of 60 per cent of the average in the UK, after housing costs," she explains.

According to the Department for Work and Pensions' (DWP) March statistics, there were 16 per cent of pensioners in 'relative' low income after housing costs at year end 2023, with 19 per cent being so before housing costs.

Meanwhile, 12 per cent were in 'absolute' low income (having 60 per cent below the average for year-end 2011, adjusted for inflation) after housing costs, and 15 per cent before housing costs.

And then, in even greater poverty, are the 8 per cent at year-end 2023 found to be in 'material deprivation' – being unable to afford 'items and activities deemed to be necessary for an acceptable standard of living'.

Increasing levels

Whichever poverty statistic you wish to use makes for grim reading, and, for many, the situation is getting worse.

For instance, those in 'material deprivation' – 8 per cent – is two percentage points higher than it was in 2020 and is at its highest level since end 2016. According to the DWP, it is the first recorded increase in the measure since 2014.

Hargreaves Lansdown head of retirement analysis, Helen Morrissey, notes that the two million pensioners in poverty – or 18 per cent of the retired population, according to the Joseph Rowntree Foundation's (JRF) statistics she quotes – "is far less than the 29 per cent estimated in the mid-90s but also a big uptick to the 13 per cent back in 2011/12".

Weak income growth amongst poorer pensioners triggered the increase in the level of pensioner poverty seen since 2011, the IFS research, published in July, states.

The research, which was funded by the JRF, shows that pensioner incomes increased much faster than incomes of working-age people from the early 2000s until 2011.

But since then, average incomes of pensioners have grown no faster than anyone else's, with the incomes of both pensioners and those of working age growing by 12–13 per cent between 2011 and 2022.

However, it also finds that, over the same period, incomes at the 10th percentile grew by just 5 per cent, meaning that the gap between poorer pensioners and those on average incomes grew.

According to PLSA interim head of DB, LGPS and investment, Justin Wray, "the poorest pensioners have not benefited from wage rises or private pension income, and, although they have received increases in the state pension, it has been offset by falling levels of other benefits, such as means-tested support".

It is little wonder that Scottish Widows' latest *Retirement Report* finds that 8 per cent of retirees are very pessimistic about the remainder of their retirement, the company's head of policy, Pete Glancy, says.

Wray also notes that "although incomes for pensioners have risen, these incomes have become more stretched, with poorer households particularly more challenged by recent issues such as the cost-of-living crisis".

Just group communications director, Stephen Lowe, states that 1.2 million retired households in the UK are largely dependent on the state pension for their retirement income.

However, he notes that the Pensions and Lifetime Savings Association's (PLSA) calculations show that the annual minimum income standard for a single pensioner should be £14,400 a year.

"With the state pension currently £11,502.40 a year, pensioners reliant on the state pension would fall short of this standard by around £3,000 and need to bridge that gap in order to achieve a minimum quality of life in retirement".

Indeed, the Centre for Ageing Better puts this minimum shortfall at £80 a week for couples, and £50 a week for single pensioners, which more than doubled for pensioner couples and almost quadrupled for single pensioners since the start of the cost-of-living crisis.

According to Lowe, single pensioners account for the majority of households largely reliant on the state pension, "with a clear gender imbalance, as three times as many women (580,000) as men (180,000) rely primarily on the state pension".

"The highest poverty rate among adults in this country is now among adults aged 60 and over who are heading towards retirement, which indicates the worst may yet be to come"

At-risk

Social factors mean that women are more vulnerable to an impoverished retirement (with 17 per cent of women in later life currently in poverty, compared to 15 per cent of men, Vine says), as are those that are disabled or self-employed.

Single people are also at risk – 25 per cent, compared to 14 per cent of couples, are in poverty at retirement, the Centre for Ageing Better research finds.

It also highlights regional differences, with 15 per cent of pensioners in relative poverty in the south-west of England, compared to 23 per cent in London, for example.

A similar number of pensioners from ethnic minorities also face an impoverished retirement – 25 per cent of Asian and Asian British older people are in poverty, as are 26 per cent of those of a Black/African/Caribbean/Black British background, Vine says.

There has also been an increase in the number of retirees that rent, increasing the likelihood of pensioner poverty, as, for instance, rent can cost as much as 130 per cent of the average pension income, Glancy says. "Even owner-occupiers may not have paid off their mortgages by the time they retire, significantly adding to their outgoings," he adds.

Consequences

There can be serious consequences for those facing a retirement in poverty.

"Older people in financial hardship tell us about the difficult decisions they have to make every day, including not washing, not using the cooker, not buying fresh fruit and vegetables, and sitting under blankets instead of using the heating, despite having long-term health conditions," Vine says.

"Poverty can increase feelings of loneliness and isolation, as people can't afford to meet friends and family. We also know that not being able to afford the basics in life can be a health and safety risk for people over 65. For example, if you can't afford to eat well, your physical health can deteriorate, and you can be more at risk of falls. We also talk to people who are really anxious that they will need to take on debt or won't be able to pay their rent," she adds.

The Centre for Ageing Better's research finds that 39 per cent of pensioners in poverty are eating less than they should, while 61 per cent are reducing the number of showers and baths they have, and 73 per cent are using the cooker or oven less.

Industry help

Even once a person is retiring and potentially facing a low income, there are still some things the pensions industry can do to help them boost their finances.

"There can be a role for providers to flag the full range of state entitlements and/or proactively signpost people to organisations like Independent Age or Citizens Advice, who can run a benefits check and help people to apply for what they're entitled to," Vine says.

Many older people are not receiving

all the income they should be from state entitlements like Pension Credit (an estimated 1.2 million eligible people are not claiming it), Housing Benefit or, for those with disabilities or health conditions, Attendance Allowance.

"Those missing out can include people with small private pension who have contact with pension providers," Vine adds.

Morrissey agrees that more needs to be done to boost the take up of Pension Credit.

"The Chancellor committed to boosting take up of this vital benefit when she made changes to Winter Fuel Allowance – this needs to be a major priority," she says.

The industry could also help ensure that there is a continuation of income paid from a deceased's pension arrangements, particularly in relationships where one partner has significantly more wealth, or greater pension income, Lowe suggests.

For instance, Glancy highlights how currently 85 per cent of annuities men buy are single-life polices, "despite their female partner, if they have one, being more likely to have a smaller pension provision and to live longer".

Future trends

The pensions industry can have an important role in trying to minimise the number of upcoming retirees facing poverty, especially as future trends are currently looking bleak.

"The highest poverty rate among adults in this country is now among adults aged 60 and over who are heading towards retirement, which indicates the worst may yet be to come," Centre of Ageing Better chief executive, Carole Easton, warned in March.

The Fabian Society's report, *When I'm 64*, released in April, also warns that the UK is facing a "hidden poverty crisis" among 60 to 65-year-olds.

It emphasises that current retirement savings do not make up the gap facing savers in retirement, as 470,000 people between 60 and 65 who are in poverty (40 per cent) are in a household with a private pension in payment.

"Concerningly, if current trends and policies stay the same, the number of older people in poverty could almost double by 2040, to affect almost four million people aged 65 and over, close to one in four," Vine states.

To address this issue, Morrissey emphasises that, while auto-enrolment will help matters as time goes on, "we need to look at how we can boost contribution rates where needed to make sure people retire with a decent amount saved".

She also suggests that more be done by the industry to encourage those who are able to keep working to do so, as this will enable them to keep building up their pension, while supporting their immediate income requirements.

Meanwhile, 'forward-thinking' organisations can provide financial wellness services to their employees, Lowe suggests, to help them avoid poorer financial outcomes both pre-and post-retirement.

After all, as Wray says, "if you are poor before you reach state pension age you are likely to be poor after you reach state pension age".

Written by Laura Blows

Multiple pensioner generations

Over a million families are expected to contain more than one retired generation by 2034, marking a 32 per cent increase on the 813,000 multi-retiree families that exist currently, research from St James's Place (SJP), published in May, reveals.

SJP's analysis finds that multi-retiree families are increasing faster than previously projected, with 813,000 families with more than one generation retired, over 100,000 higher than the 704,000 projected in 2018.

This trend shows no sign of stopping, as the research estimates that there will be between 60,000-100,000 more families than initially expected with more than one generation retired over the next 20 years.

According to the analysis, 963,000 families will contain more than one retired generation by 2029, marking an 18 per cent increase from now, with this figure set to grow to 1.4 million by 2044.

According to Scottish Widows head of policy, Pete Glancy, there are pros and cons to this new demographic trend.

One 'pro' is that a family may have numerous people all receiving state pensions to cover one set of household bills.

"However, older people are more likely to become disabled, "which can require an additional £800-£900 a month in costs", he says.

"Also, if you're in your 60s looking after someone in their 80s, you might you have been hoping to continue working part time post-retirement age to top up your pension, but you may be too constrained with caring responsibilities to do so," Glancy adds.

The industry has a role in highlighting this possibility to members, PLSA interim head of DB, LGPS and investment, Justin Wray, says, and to raise awareness of this phenomenon to savers.

Taxation changes

Rumours of potential reform to pension tax policy have begun to swirl following Chancellor, Rachel Reeves', need to plug a '£20 billion black hole' in public finances. *Pensions Age* asks: What pensions tax reform (if any) would you like to see occur?

I'm not against reforms to pensions tax policy provided these are designed to boost member outcomes, not just to reduce tax reliefs and increase tax receipts. Pensions are some of the longest-term investments anyone makes and are critical to individuals saving for a comfortable retirement lifestyle without falling back on the state. So any changes must be designed to incentivise and reward people for saving adequately.

Indeed, the government has just commenced its pensions review, and phase 2 will focus on adequacy. That should come first, and only then should the pensions tax system be reviewed as a potential part of the solution.

Any reforms must hold to the principle of pension saving being demonstrably beneficial to (virtually) all individuals. Failing that, the future success of auto-enrolment will be in jeopardy. The long-term nature of pension savings means change needs to be very carefully thought through. I'd welcome advance testing of behavioural responses across different ages and income tax bands. And it's essential that any change applies equally to both defined contribution and defined benefit schemes. Otherwise, the divide between public and private pensions will worsen.

The government has been quick to highlight that the nation's finances are currently stretched. It has also been quick to stress pensions and where they invest could play a big role in future economic growth. So we must avoid short-term reforms that prioritise reducing tax relief at the expense of pensions' wider appeal.

Aegon head of pensions, Steven Cameron

Changing when pensions are taxed could increase government investment into UK growth by over £20 billion a year, adding up to a staggering £100 billion over five years, as outlined in our recent paper. This could be done in a lifetime neutral way by reducing upfront tax relief on pensions, and making pensions in retirement tax-free. Using this method the lifetime tax relief provided is unchanged, and the level of take-home pension received stays the same – meaning individuals won't lose out. Meanwhile £20+ billion a year would be brought forward that the government should invest for future generations, for example in the National Wealth Fund and net-zero-aligned sectors, and UK communities and growth.

The principal element of our idea is to change only the timing of incentivising individuals to invest in their pension. Changing 'when', not 'how much' or 'to whom' incentives are provided. Changing 'when' is neutral in terms of outcome, regardless of income bracket, and so, with good communication, should be neutral to behaviours. All individuals, regardless of salary, instead would benefit from higher investment in the UK.

Reforming pensions tax more broadly must not be looked at in isolation. It should be reviewed in the wider context considering any government changes e.g. state pension and auto-enrolment. For example, introducing a flat rate of relief impacts 'who receives what' and 'how much'. These are hard questions that merit slow thinking as they can materially impact behaviours. We would recommend testing the impact before deciding, to avoid cliff edge reactions, on any transition allowing time for learning. For example, if higher earners opt out of pensions, this is likely to impact employers engaging with pensions, which in turn might lead to levelling down for all workers.

Hymans Robertson head of pensions policy innovation, Calum Cooper

In her 2018 paper, *The Everyday Economy,* Rachel Reeves suggested that "legislation could require that 20 per cent of all pension contributions be invested in employment-creating opportunities in exchange for the tax reliefs currently available to pension funds".

Since taking office as Chancellor, she has indicated a desire to encourage pension scheme investment into 'productive finance' whilst steadfastly refusing to rule out pensions tax reform. Might she be about to dust off her 2018 policy idea?

Whilst, in practice, it may not raise any additional revenue for the Exchequer, this policy has a number of positive attributes. I imagine the intended investment switch would be universally adopted, as the alternative of losing tax relief would be catastrophic. It may mean the rates and reach of pensions tax relief are otherwise left unchanged, which avoids a reduction in tax relief acting as a disincentive from pensions saving. It would help to drive the government's growth agenda by steering a huge amount of pensions assets into the UK economy; and it would effectively force the hand of trustees on investment strategy – this may be welcomed by trustees who would otherwise feel they need to de-risk their investment strategy as funding levels improve.

Squire Patton Boggs head of pensions, Matthew Giles

Nobody ever 'likes' to see higher levels of tax, but as a general rule of thumb it seems fair that wealthier people shoulder their share of the burden.

To that end, for example, the Chancellor could look to bring back the Lifetime Allowance as a way of taxing the largest pots but it seems unlikely Labour will make another U-turn on their positioning here. One of the only other ways left to tax the wealthiest pensioners would be to extend National Insurance to the over 65s, but again this is unlikely to politically palatable, especially in the short term, following the recent means-testing of the Winter Fuel Allowance.

As we approach the Budget, the calls to distribute the cost more fairly to the exchequer by reviewing pensions relief will grow. This would make pension saving more beneficial for low- and median-income workers. However, the intergenerational issue of 40 per cent tax rate players losing some of the benefit of pension savings may revive calls for more taxation on wealthier pensioners via a resurrected Lifetime Allowance.

My word to the wise: Pensions taxation is a Gordian Knot and any changes should be made with care.

Broadstone head of policy, David Brooks

Some people pay less tax in retirement as they move from the higher to basic rate band, but this is commensurate with a drop in income. At the other extreme, some people pay higher rates of tax in retirement in exchange for accessing large sums from their savings pot in a single tax year.

These principles underpin the success of automatic enrolment, in that people can be enrolled into workplace pensions on the basis that it is an appropriate savings vehicle for almost everyone.

Any review should respect the coherence of this model, and instead consider other elements of pension tax that create complexity, or simply appear anomalous. For example, there is disparity in the saving and payment of National Insurance contributions between workers and those in retirement, and the generous treatment of certain death benefits, either of which could merit reform.

Royal London director of policy, Jamie Jenkins

Rather than tax reform, a more effective action would be to implement simple policy changes to help positively shape the future for the £1.5 trillion of capital held by UK DB schemes.

Private sector DB schemes are sitting on over £200 billion of surpluses, according to The Pensions Regulator. With the right set of changes, which would include access to surplus assets without winding up a scheme and increasing PPF protection to 100 per cent of scheme benefit levels, surplus assets could be released to sponsors and members. This would generate over £50 billion of tax revenues over the next 12-24 months, far exceeding the reported £20 billion black hole.

We would therefore urge the government to include private sector DB schemes in the first phase of its announced pension review, adding DB alongside DC pensions and the LGPS. The sheer scale of DB assets demands attention, and the policy changes required should also be relatively easy to implement.

Insight Investment head of solution design, Jos Vermeulen

Pensions history

Back to school

All lessons draw on the knowledge and experience of the past. Attentive students of pensions policy will find useful pointers in the documents preserved in the Pension Archives Trust's collections.

Take the chairman of the Association of Consulting Actuaries, writing in its 1998 Review of the Year. Bubbling with frustration at the "over concentration on compliance issues arising from the Pensions Act 1995" and a system which remained "dogged by excessive regulation and complexity" there was a sense of weary scepticism about a promised government paper on pensions reform expected later that year. He concluded that it was difficult to be optimistic about the future of pension provision, particularly traditional final salary schemes. Such schemes had not been without problems, but they had substantially improved the income of many pensioners.

He was right to be pessimistic. Opinions may differ about the factors which led most private sector final salary schemes to close after almost a century of expansion, but the result for many employers is that the lion's share of pensions time and resources has had to be devoted to managing the risk and cost of what have become legacy schemes.

As the ACA chairman said 25 years ago, "pension schemes are long-term arrangements, and the real effect of policy changes made today may not emerge for many years when it will be too late if those changes were misguided".

The most important lesson? Listen to what you are being told.

Pensions Archive Trust director, Jane Marshall

www.pensionsarchivetrust.org.uk/our collections

The bright side

***Pensions Age* takes a closer look at some of the recent good news stories in the pensions industry...**

Canada Life has partnered with ELSA Next Generation, a not-for-profit organisation that provides targeted and transformational educational programmes to young people. The partnership aims to address 'critical gaps' in financial capability for young people in Hertfordshire and help boost career-readiness for those from less-advantaged socio-economic backgrounds.

Aviva has announced the latest funding partnerships via the Future Chances Fund. The funding will be provided through the Aviva Foundation. In particular, Aviva Foundation will provide over £500,000 of funding to support young people across the UK. The donation will fund charities and social enterprises in and around Aviva's regional locations in Bristol, Norwich, Perth and York.