QUANTUM ADVISORY
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QUANTUM NEWS

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IN THIS ISSUE

DB Specific information for defined benefit (final salary/CARE) pension schemes

DC Specific information for defined contribution (money purchase) pension schemes

I General information about employee benefits

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Quantum approaches its coming of age

I

As some of you may know, Quantum first opened its doors for business in early January 2000, so will hit our 18th birthday in 2018. The shared vision of the company back in 2000 was to create a team that would deliver top quality advice and services at a competitive fee, whilst being fair to clients, staff and other stakeholders. That early vision remains true today and the continued success of the business can be measured by the number of long-standing clients and staff that have remained with us over the years.

Over the past 17 years, we have opened five offices and have gone from a small number of staff to nearly 100.

We have recently moved offices in Cardiff to cope with the increase in demand. Our new premises will allow us to double our workforce in Cardiff to nearly 120 over the coming years which we certainly would like to do so long as our client servicing capabilities are not compromised.

We certainly hope that the next 17 years have been as good as the first. It's been an incredible journey for us all and we would like to thank all of you who have contributed to our success along the way.

We look forward to working with you in 2017 and beyond.

DB DC

SORP: one year on

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This time last year we were all eagerly anticipating the launch of the new Pensions SORP. The revised SORP was applicable for accounting periods commencing on or after 1 January 2015, hence most administrators, auditors and trustees have now been through the process so we have the opportunity to step back and reflect on our experiences.

How did it go?

The general feedback given at the annual Pensions Research Accountants Group (PRAG) meeting in November was that overall it was easier than expected and that trustees found the new disclosures useful.

Fair Value Hierarchy

Early in 2016, the Financial Reporting Council (FRC) announced amendments to FRS102 fair value hierarchy disclosures for scheme years starting on or after 1 January 2017 and aligned these with International Financial Reporting Standards (IFRS). This would have been more beneficial if it had been agreed prior to the launch of the new SORP, however once released by the FRC most schemes adopted the disclosures early and this made the new disclosure simpler and most investment managers were equipped to easily provide the required information.

Investment risk disclosures

These new disclosures were always expected to be the more difficult area. There were always question marks over who would own this disclosure and with written disclosures there is always an element of subjectivity. This did prove to be the most challenging area. They often turned into quite lengthy documents with inconsistencies between the rest of the report. There were different approaches to quantifying the different risk areas. A summary approach began to emerge, however the presentation of the quantification varied.

- There were moons

		Market risk				
	Credit Risk	Currency	Investment Rate	Other Price	2015 Value	2014 Value
Defined benefit section						
Equities	○	◑	○	●	**11,067**	9,122
Bonds	●	◑	●	○	**10,436**	8,422
Property	◑	◑	○	●	**1,010**	995
Pooled investment vehicles						
Direct	●	◑	◑	◑		
Indirect	◑	◑	◑	◑	**4,996**	3,780

- there were ticks

		Market risk				
	Credit Risk	Currency	Investment Rate	Other Price	2015 Value	2014 Value
Defined benefit section						
Equities	-	✓	-	✓	**11,067**	9,122
Bonds	✓	✓	✓	-	**10,436**	8,422
Property	✓	✓	-	✓	**1,010**	995
Pooled investment vehicles						
Direct	✓	✓	✓	✓		
Indirect	✓	✓	✓	✓	**4,996**	3,780

- and there were asterisks

		Market risk				
	Credit Risk	Currency	Investment Rate	Other Price	2015 Value	2014 Value
Defined benefit section						
Equities	x	-	x	*	**11,067**	9,122
Bonds	*	-	*	x	**10,436**	8,422
Property	*	-	x	*	**1,010**	995
Pooled investment vehicles						
Direct	*	-	-	-		
Indirect	*	*	*	*	**4,996**	3,780

Going forward we expect to see some standardisation as to which of these approaches to use. Following the first year of completion, it is hoped the owner of these disclosures has now been established and they have a template of the required format.

Annuity valuations

The valuation of annuities for the first time seemed to be received timely and accurately when actuaries were involved. Delays were encountered when the information was being delivered by insurance providers. It is hoped now the insurance providers have gone through the first year of providing the information, it will be a smoother and more efficient process in the future.

Way forward

There is still the overall question of how much do the new disclosures add value to the accounts. Additional costs were incurred in the transition to the new SORP; these will reduce going forward but the increased disclosures are ongoing.

For smaller schemes e.g. less than £10 million net assets, it raises the question of whether we really need the same disclosures as in a much larger e.g. £100million plus scheme; who do the additional disclosures benefit? The extra costs and time to prepare can be quite a burden for a small scheme. Could we see a SORP adaptation for smaller schemes in the future e.g. something equivalent to the Financial Reporting Standard for Smaller Entities (FRSSE)? This would reduce costs and time of preparation. It is something that could be considered in the future but may prove difficult to justify that one pension scheme is more important than another purely based on size. ●

DB DC

Pensions Monitor

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Should the auto enrolment minimum contributions be raised?

Calls for the minimum contribution levels to increase to at least 12% have been made by the Pensions and Lifetime Savings Association, who despite agreeing that a noticeable improvement will be made to retirement benefits, some 13 million or so are still at risk of saving too little and would need to make higher contributions and/or work longer to achieve the Pension Commission's target income replacement rate of 67%. Of these, the so called Generation X (of which I am one!) were found to be the most affected as few had saved during their early careers and those that did, only contributed at the lowest rates possible.

Whilst the move can only have a positive impact upon financial outcomes for those individuals, some organisations have urged that more time is needed otherwise it could discourage support from employees and employers who would struggle to find the extra monies required. They have suggested that the current contribution structure be allowed time to bed in before changes are introduced.

Having said that, there has also been much success with the new initiative. Auto enrolment increased pension savings by £2.5bn a year to April 2015 (and is believed to have increased even further at the time of writing) as a direct factor of a large increase in pension membership. Auto enrolment increased participation among those eligible so that by April 2015, 88% of all private sector employees were members of a workplace pension scheme (up from around half of these employees before auto enrolment). In 2012 there were around 5.4m private sector employees who were members of a workplace pension scheme although by 2015 this had increased to 10.0m (of whom 4.4 million were as a direct result of auto enrolment).

Blissfully unaware?

A recent survey of over 3,000 pension scheme members by the Money Advice Service has indicated that most pension scheme members are unaware of the level of contributions that their employer pays into their defined contribution pot. More alarmingly, it seems that 43% are unable to confirm the level of their own contributions whilst a third do not know the name of their pension provider. This all comes despite the increasing levels of information made available to them.

Without this knowledge, many making life changing decisions can expose them to risk as their decisions may be irreversible. This may signify a need to change the communication methods employed, although from what we have seen, there may be little scope to do so.

Leaves on the line?

Whilst those in the South are struggling with their rail journeys, it is not all plain sailing for those in the pensions industry. HMRC has admitted that files submitted via the GMP Scheme Reconciliation Service in November 2016 would not be acknowledged until March 2017 at the earliest, with any response to queries raised not being addressed until June 2017.

This backlog could lead to many problems such as reputational damage for the industry and higher costs for schemes as administrators struggle with inaccurate GMP data. The knock-on effect of the delays means that members may be paid incorrect benefits or pension increases which will take further time and money to rectify.

At the time of writing, HMRC has not provided any indication as to how it intends to improve the service it provides so this may run for many months more.

Changes

The funding deficit of the UK's defined benefit schemes dropped almost 30% to £195bn in November, according to the Pension Protection Fund. Driven by rising gilt yields, the impact of changes to actuarial assumptions and the new Purple Book dataset, there was an £81bn fall compared to October. There was a corresponding improvement in the funding ratio of 88.1% for November as opposed to 84.1% at the end of October.

Total assets fell by 1.2% over November to £1.4trn whilst total liabilities decreased by 5.7% to £1.6trn, hence the improvement ●

DB

Actuary in the corner

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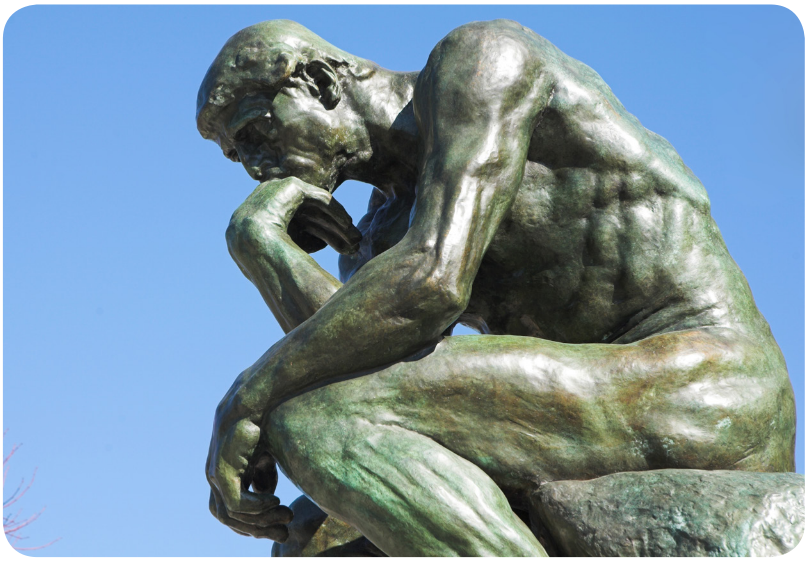
Scheme Actuaries and their Gilty Conscience…



A title that can be attributed to the merciless humour of those Christmas cracker one liners fresh in the memory, and the need for some respite from the depressing familiar story of low gilt yields and the persistent rise in pension scheme deficits. Please accept my apologies!

Background

When Scheme Actuaries sit down to draft their assumptions papers for scheme valuations, invariably it is difficult to move from the approach used to determine the present value of the defined benefit obligations by deriving a "market based" discount rate wedded to a "gilts plus a margin".

The margin typically allows for some asset outperformance over the gilt yield, the need for prudence and the sponsor's strength. However, in the current climate we see the valuation of Technical Provisions at unprecedented levels. With funding levels linked to gilt yields and in an attempt to reduce the volatility of future funding levels, trustees can feel pressured into pouring assets into premium priced gilts. This isn't fiddling whilst Rome burns, it's actively adding fuel to the fire!

This is an issue that has been persistently debated and consulted upon in recent years, but the magnitude of the problem will inevitably force the industry into action - The Work and Pensions Select Committee is now looking into "the balance between meeting pension obligations and ensuring the ongoing viability of sponsoring employers".

What are the alternatives?

One obvious solution to the problem would be to simply increase the "risk margin" (or to allow for gilt price reversion – "they must fall surely, it's just too painful if they don't"). If the margin is increased by the recent fall in yields, then overall return assumptions do not change and the impact on the Technical Provisions is nil. But, perversely, this also fuels the argument that the discount rate is no longer "market based", but instead a subjective and increasingly arbitrary figure.

It can also be argued that this masks the crucial consideration for sponsors and trustees – can we afford to pay for our members' benefits?

The Work and Pensions Select Committee is now looking into "the balance between meeting pension obligations and ensuring the ongoing viability of sponsoring employers"

The Pensions Regulator insists that there are flexibilities within existing legislation to tackle the low gilt yield environment and one of those is by adopting a discount rate based on a prudent assessment of the expected return of the scheme assets i.e. not using a rate that is simply a function on gilt yields.

However, for all of the reasons above, looking beyond the link between liability valuations and yields and instead concentrating on cash-flows and member outcomes seems like a pragmatic approach. Consequently, we would expect many future funding conversations to lead to an interconnected approach as follows:

- Funding – liability values calculated using an estimate of longer term returns that suitably reflect the scheme's investment strategy, with a view to avoiding inappropriately volatile funding positions and possibly unnecessary cash calls on the sponsors.

Considering payments from the Scheme as "short" and "long" term rather than the more traditional "pensioner" and "non-pensioner" is more appropriate. Some of the future pension payments for "younger" pensioners are not expected to be paid for another 30-40 years. Locking in assets now to meet an obligation so far into the future seems excessively prudent.

- Investment – adopting (or at least considering) a type of Liability Driven Investment (LDI) strategy that gives due consideration to the timing of future scheme cash-flows. This will balance protecting schemes from the effect of further falls in gilt yields on near term liabilities and provide a structure to protect the position of far term liabilities in future as gilt yields rise.

Alternatively, we expect investment managers/insurers to issue products that provide cash at certain points in the future to match relatively short term benefits payments. These will reduce the scheme's exposure to short term market fluctuations and allow other assets to be allocated to sectors with a longer investment time horizon.

- Sponsor covenant – increased scrutiny of the employer covenant, coupled with a "joined up" sponsor and trustee conversation about cash-flow requirements and how the business may support these, possibly via a tailored recovery plan.

Matching benefit payments with income from the sponsor, to the extent possible, can free up assets to be invested with a longer term time horizon. Subject to appropriate checks and balances, this could allow a more aggressive investment strategy, and hence funding strategy, to be applied for benefits payable over the longer term.

This closer correlation between investment strategy, funding plan and employer covenant should sound familiar to all trustees. Trustees are now required to consider the interaction of risks associated with each of these factors on the overall financial strength of the scheme... is it possible that we could have an integrated solution that optimises the opportunities that a situation affords a scheme? It's difficult for an actuary to say this, but there might be an upside and we might be able to take advantage of it...is it possible a Scheme Actuary's "Gilty Conscience" could become a "Gilty Pleasure"?

DB DC

Paying for mum and dad

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As we all know, some of the National Insurance contributions paid by those of us in work are used to pay the State Pension to those currently receiving it. We hope that by the time we reach State Pension Age, whatever age that may be, there are enough National Insurance contributions being paid by our children to pay for our State Pension, but that is an article for another day.

But surely, we do not pay for our parents' private pensions too? Well I think we do. Let me explain why...

For those of us in our twenties, thirties and forties, many of our parents are from the golden generation where they are very likely to have been, for a significant period of their working life, a member of their employer's defined benefit scheme. These schemes are now predominately closed to new entrants and us 'youngsters' now must join a defined contribution arrangement.

It is fair to say that in most, if not all, cases what is paid by employers into defined contribution schemes, and hence the ultimate benefits provided from these arrangements, are substandard compared to those of their defined benefit counterparts.

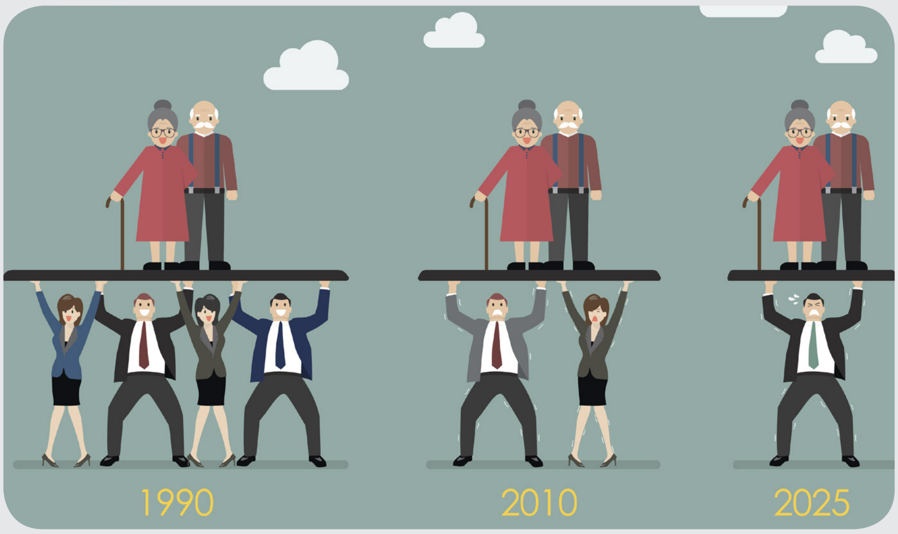
It could be argued that the reason employer contributions to defined contribution arrangements are low is that defined benefit schemes have large deficits, which need to be plugged with significant contributions from employers. In an ideal world, if there were no deficits, employers could pay more contributions into their defined contribution arrangements. Therefore, as you can see, we are subsidising our parents' private pensions too!

What can we do to overcome this?

Over the years, defined benefit schemes have fallen foul of legislation and are now riddled with extra guarantees that weren't originally in place when these schemes were set up. This is great for our parents but comes at a cost with us 'youngsters' ultimately footing the bill.

The government could look to reduce or remove some or all of these guarantees on benefits already built up. This would help reduce or even eliminate deficits in defined benefit arrangements and therefore more employer contributions could be directed into our defined contribution schemes.

The end result would be a reduction in our parents' benefits, which may not be palatable to them, but it would mean an increase in our benefits and in my opinion would help to create a more level playing field between generations.



DB

Take control of your PPF levy

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The Pension Protection Fund (PPF) provides a valuable safety net to members of defined benefit pension schemes, protecting members' benefits on employer insolvency. It is funded by a levy on those same schemes, and this is a significant cost for many schemes and sponsors.

The levy is largely based on the funding position of the scheme and the financial strength of the sponsoring employer, with those schemes that the PPF think pose the highest risk paying the highest levies. The PPF's methodology is publicly available, and this allows us to see where we can take steps to reduce the levy.

Improving your Experian score

In many cases the assessed strength of the employer can be improved. The PPF's assessment is based on a specially-designed credit score from Experian, which is designed to estimate the chance of employer insolvency during the next year. Because Experian must provide a score for every company sponsoring a UK pension scheme, they follow a simple calculation approach. Experian will:

1. Place the employer into one of eight 'scorecards' depending on the size and type of the business (e.g. large group with turnover greater than £50 million p.a.)

2. Extract 5-7 key metrics from the employer's most recently filed accounts and mortgage listings.

3. Calculate a PPF score, where the scorecard used (from step 1) determines the weighting applied to each of the metrics.

This suggests a few steps an employer can take to potentially improve its PPF Experian score:

1. Check that Experian has placed the employer in the correct scorecard. An example here might be where Experian has failed to identify that an employer is a charity. The Experian score would then penalise the employer for failing to make a profit, when they should in fact be in the 'not-for-profit' scorecard where profit does not feed into the score.

2. Check that Experian has picked up the latest filed accounts. Clearly the results within those accounts are important and may not be better than the previous year's, but Experian will penalise an employer's PPF score if they think accounts are overdue.

3. Check the age of the most recent mortgage recorded by Experian. The PPF Experian score treats older mortgages more favourably than younger mortgages, so refinancing can sometimes harm your score if it results in a new mortgage charge. Experian have a certification process to allow employers to override the 'young mortgage' effect if the mortgage is immaterial or if it directly replaced an older mortgage.

Reducing the 'risk' the PPF associate with your scheme

Looking beyond Experian scores, other options to reduce a scheme's PPF levy include:

1. Certifying deficit reduction contributions that have been paid into the scheme since the last valuation. This reduces the PPF deficit and hence the levy payable.

2. Carrying out bespoke investment stress testing (which overrides the PPF's standard stress tests). This has the most potential to reduce the PPF levy for schemes using liability driven or complex investment strategies where the PPF's standard stress tests cannot fully reflect the strategy.

3. Putting in place a PPF-compliant guarantee from a parent company. In this case the PPF will use the Experian score of the parent instead of the scheme's sponsoring employer, potentially reducing the PPF levy if the parent is deemed to be stronger. Such a guarantee places a legal obligation on the parent and care is needed around how this interacts with other creditors.

If you are thinking of taking any of the steps above, we can estimate the likely impact on your levy beforehand. Please get in touch with your usual Quantum contact if you would like to discuss your options.

Case study

One of our clients was facing a PPF levy of over £1 million, and asked us if we could help. We were able to reduce the levy by 10% through a combination of certifying deficit contributions (saving about £20,000) and carrying out a bespoke investment stress test (saving another £90,000). The levy reduction achieved through bespoke stress testing can also be replicated in future years for further savings. ●

DB GMP - It's not over 'til it's over

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At their heart, the responsibilities of trustees and pension administrators can be distilled into one simple golden rule: "Pay the right benefits, to the right people, at the right time". However historically for contracted out occupational pension schemes, important tranches of those benefits have been calculated using methods, earnings and revaluation requirements beyond their control. So, whilst the rule may still be golden, it has been far from simple. We are, of course, talking about Guaranteed Minimum Pensions (GMPs).

GMPs

GMPs accrued for service between 1978-1997 and were designed to provide an equivalent benefit to the earnings-related tier of the State Pension that the member would otherwise have earned had they not been a member of their employer's pension scheme. In 1997 they were replaced by Protected Rights, but accrued GMP rights endured, often as a time consuming administrative headache.

With the advent of a single tier State Pension, contracting out on a defined benefit basis ceased with effect from 5 April 2016 (having already ceased for defined contribution schemes in 2012). HMRC has engaged with schemes to encourage them to validate and reconcile their remaining records before they withdraw their support on the issue at the close of 2018.

What's new?

This confers a responsibility on trustees to ensure their records correctly reflect the changing complexities of the last 38 years. However, it also represents a great opportunity, with HMRC giving unprecedented access to their records through both the Scheme Reconciliation Service (SRS) and the excellent online GMP checker. This allows administrators to interrogate the HMRC database for individuals or groups of members producing earnings information and GMP calculations for a variety of dates and scenarios. It seems that HMRC are seeking a genuinely collaborative exchange to ensure the correct information is held.

It is important for trustees to engage with the opportunity to both ensure that their records correctly reflect the liabilities they hold and that they are not being held responsible for benefits that have rightly been discharged, through historic refunds, transfers and trivial commutation exercises etc. Schemes with deferred and pensioner members should already be some way down the road of confirming with HMRC the liabilities they hold and perhaps more importantly declaring those which they believe they do not!

What's next?

HMRC is next turning its attention to active members (i.e. those who were still contributing members of schemes at the point contracting out ceased in April 2016). Like the recent exercise for deferred and pensioner members, schemes who wish to gain access to HMRC's records to compare them with their own need to register to acquire the relevant data. HMRC launched this process on 6 December 2016 with a view to collating their data in respect of these members over the Christmas period. The results are expected to be available between January and March of 2017.

The responsibilities of trustees and pension administrators can be distilled into one simple golden rule: "Pay the right benefits, to the right people, at the right time"

What now?

This is far from the end, however and may only clear the path for the next development, that of Equalisation. Equalisation of benefits between men and women has been a thorny issue in pension administration circles since the Barber judgement of 1990. Draft regulations and guidance were first issued in respect of its effect on GMPs in 2012 only to be quickly abandoned due to complexities and industry concerns as to the burdens it would place on scheme administration.

Given Britain's decision in June 2016 to leave the EU, it was wondered whether, as an EU directive, the whole thing may be quietly dropped, but the DWP launched a consultation running to 15 January 2017 discussing ways that the issue may be handled. Any decisions of methodology will not be compulsory nor binding but perhaps they are hoping that a workable and equitable solution to the issue may remove one of the barriers to the obvious final chapter of the GMP story; conversion.

GMP conversion has been available since 2009 and allows trustees, subject to certain conditions (including equalisation), to convert GMPs and the ongoing administrative complexities they involve for benefits of actuarial equivalent value. Tellingly the requirement for equivalence applies only at the date of conversion and is not ongoing.

Conclusion

In attempting to finally end its involvement with GMPs, HMRC has expended more effort and become more helpfully engaged in the issue than at any time since 1997. This has in turn brought a sharper focus from trustees and administrators on to the subject and with the work already ongoing and the potential developments outlined above maybe still to come, it seems that reports of GMPs' imminent demise may be greatly exaggerated.

As ever, we will keep you posted of any progress made on the subject as and when it becomes available. ●

DB DC

An end to the sting in the pension tale?

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(Image Source: The Pensions Regulator)

"Corruption, embezzlement, fraud, these are all characteristics which exist everywhere. It is regrettably the way human nature functions, whether we like it or not. What successful economies do is keep it to a minimum. No one has ever eliminated any of that stuff." *Alan Greenspan (former Chairman of the Federal Reserve of the United States).*

But it looks as though the Government is going to have a try at eliminating it…at least in terms of pension fraud.

It's become an all too familiar story these days to read about members who have lost their retirement savings after being duped by scammers following cold calls and people turning up on their doorstep with transfer forms to complete.

But while many of us have wised up to the pension transfer fraud it seems that many are still being lured into signing away their retirement savings to investment vehicles with promises of eye-catching returns, but which deliver no returns or even eye-watering losses.

It is estimated that there are some 250 million cold calls each year, equivalent to eight potential fraud attempts every second.

And there is often a dilemma for pension scheme trustees when it comes to transferring member benefits – they are torn between taking a paternalistic view and wanting to protect their members from potential fraudsters, and avoiding a charge of maladministration should a member or spouse come back years later and claim that the transfer should not, in fact, have taken place. So, it can be tricky for trustees who despite when their scheme administrators have undertaken a sufficient due diligence exercise may find that they have not been discharged from their duty to provide benefits under the scheme.

Now in a bid to help both members and trustees, HMRC and the DWP have launched a consultation proposing a series of restrictions on pension transfers to try to halt the rise in pension fraud particularly since the launch of pension freedoms in 2015.

The consultation proposes the following approach:

- Imposing a ban on pensions "cold-calling"
- Placing restrictions on a member's statutory right to transfer their pension benefits
- Making it harder to set up potentially fraudulent small pension schemes (often a destination for pension scams).

Ban on cold-calling

It is estimated that there are some 250 million cold calls each year, equivalent to eight potential fraud attempts every second. A blanket ban on cold-calling will send out a clear message both to the public that no legitimate organisation will make cold-calls about pensions, and to the fraudsters, as potential fines of up to £500,000 could be imposed by the Information Commissioner's Office on any UK organisation breaching this ban. The government has outlined the sorts of telephone conversations that will fall foul of the ban which include: offers of a "free pensions review", inducements to release pension funds early and promotions of retirement income products, such as drawdown and annuity purchase.

Restrictions on transfers

It is generally difficult to block a transfer even where it is suspected that an individual may be transferring to a fraudulent scheme, because the individual generally has a statutory right to transfer. Indeed the government has said in this consultation: "The government is regularly informed by firms and schemes that they are frustrated and concerned because they feel current legislation gives them little scope to refuse a transfer to a scheme that displays the characteristics of a scam, despite their legitimate concerns as to the safety of members' savings."

To avoid the blocking of legitimate transfers, the government has said that clear criteria are now needed on when a transfer could be blocked in future.

The consultation proposes that a statutory transfer would only exist where the receiving scheme:

• is a personal pension operated by a FCA authorised firm or entity;

• is an occupational pension scheme and the individual can prove a genuine employment link with evidence of regular earnings and confirmation that the sponsoring employer has agreed to participate in the receiving scheme;

• is an occupational pension scheme established as an authorised Master Trust.

Setting up fraudulent schemes

The government also wants to make it harder to open fraudulent pension schemes in the first place. There has been a trend recently towards the setting up of small tax-registered schemes that require no registration with the Pensions Regulator and which often use a dormant company as the sponsoring employer. The consultation proposes that only companies that are actively trading will be able to establish a registered pension scheme which the government hopes will prevent the use of these dormant or shell companies as a sponsoring employer for the purpose of registering a pension scheme.

The consultation closes on 13 February 2017 and so, at the time of writing, we await the outcome of this. Whether any of the measures finally introduced will make an impact remains to be seen. History tells us that fraudsters can always find a loop in the system. ●

DB DC

Climate change and investment

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There has been much press comment recently, following the HSBC UK Pension Scheme's decision to adopt a climate change focused fund as its default for its DC members. What will this mean for DC (and DB) schemes in future?

What is a climate change focused fund?

There are various versions of these funds available. What they have in common is a strong focus on low carbon investments, or businesses targeting a reduced carbon footprint. They achieve this by screening potential investments against strict criteria to assess each investment's impact. Whilst it would be easy to exclude fossil fuel companies for example, other investments will be more nuanced. However, the Montreal Carbon Pledge commits those investment managers who have signed up to disclose the carbon footprint of all their equity funds. Managers will therefore have much of the information and will have already carried out the analysis on existing and potential investments.

Are these funds the future?

A number of pension schemes' existing investments will naturally have a lower carbon footprint than the FTSE All Share, or even the MSCI World, particularly if they tend to favour sectors other than energy for example. In addition, many companies have improved their environmental reporting in recent years and may have already become carbon neutral (e.g. Microsoft), or may be targeting specific reductions in carbon emissions, reduced water usage in manufacturing and reduced waste for example.

For actively managed funds, the manager will already be assessing the potential impact of climate change when making investment decisions. It is for the Trustees (and their advisers) to determine if their decisions are sufficiently robust.

Implications for pension schemes

The investment decision made by the Trustees of the HSBC Scheme has certainly raised the profile of these investments and we expect to see some of the following during 2017:

• greater disclosures in Schemes' Statements of Investment Principles on ESG issues, including climate change

• questions for active fund managers on how they manage the risks associated with climate change

• perhaps a greater focus on "green" default investment strategies for DC schemes

This will be an interesting area to watch and one we are certainly talking to clients about (not just DC clients). ●

The Association of Member Nominated Trustees (AMNT)

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We are pleased to announce our sponsorship of the AMNT.

The AMNT is a not-for-profit organisation supporting member-nominated trustees, member-nominated directors and employee representatives of UK based pension schemes in the private and public sector (funded and unfunded).

The AMNT launched in September 2010 because of feedback and comments from member nominated trustees who expressed a desire to be able to liaise with other member nominees, share experiences and build a community designed specifically to cater for their unique perspective within the pensions industry. Since then the association has won universal support, including in the pensions media and among the pensions' trade bodies: momentum continues to build.

With the help of sponsors such as Quantum, the AMNT's membership has grown more than 45% over the year and now stands at 685. Their members represent nearly 500 pension schemes, with an overall AUM of some £662 billion.

In addition to hosting many pensions related functions throughout the year they also organise quarterly conferences on hot pension topics, with the aim of keeping their membership fully up to date and aware of all things related to this fast-changing industry. Their meetings allow members to discuss various items of common interest and enables them to seek input into any concerns they have in relation to their pension schemes. In addition, the AMNT successfully established the Red Line Voting initiative to enable pension schemes to take a more active asset ownership role – to become more responsible investors. See their websites at http://amnt.org and http://redlinevoting.org for further information.

amnt Association of Member Nominated Trustees

And the nominees are...

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Group life assurance scheme trustees have full discretion over how a scheme's lump sum benefits are distributed. The trustees' decision can be made much simpler if members complete a nomination form, identifying the preferred beneficiaries and distribution basis. Although the trustees have ultimate discretion, they would use the completed nomination form along with any information gained from their own investigations to make an informed decision regarding the payment of benefits.

Without a completed nomination form, not only will the decision on settling any benefits be made more difficult for the trustees, but the employee loses a valuable opportunity to express how they would like the benefits to be distributed. In addition to this, the increased level of investigations that may be required into the member's personal circumstances in the absence of a nomination form may cause a delay in the settlement of benefits. This delay could have consequences for the dependants who may have to cover mortgage payments and other expenses on top of dealing with the bereavement itself.

It is therefore recommended that scheme trustees provide members with access to nomination forms, which could be made available to the member upon joining the scheme, issued with annual benefit statements and/or placed on the Company's intranet for the member to update if their personal circumstances were to change.

If you have any concerns regarding your own policy(ies) or would like a nomination form to be designed for distribution to your scheme members, then please get in contact and we will be happy to assist you.

The return of Fiscal Policy?

DB

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Since the Financial Crisis of 2008, global authorities have relied on monetary policy – specifically lower interest rates and expanded money supplies – to boost aggregate demand, sustain economic growth and prevent the slide into deflation, with fiscal policy largely constrained in the face of increasing budget deficits and stocks of public debt.

However, many commentators have attributed the UK's surprise vote to leave the European Union, and the equally unexpected victory of Donald Trump in the United States, to the failure of monetary policy to boost incomes amongst the lowest earners and the consequent persistence of inequality. This has fermented the idea, perpetuated by both Donald Trump and Nigel Farage, that politicians were 'out of touch' with working men and women, and part of a 'liberal, metropolitan elite,' unconcerned and oblivious to the wants and desires of the people that voted for them.

Voter dissatisfaction with the consensus suggests change is indeed coming, with fiscal policy likely to play an increasingly important role throughout the developed World. This should be encouraging for DB pension schemes.

Policy actions

In the UK, Chancellor Philip Hammond has abolished the strict deficit targets of his predecessor, allowing the government to cut taxes and increase spending. His promise to develop an industrial strategy – something which consecutive Conservative and Labour governments have lacked for decades – also promises to boost growth which, when matched with targeted infrastructure spending, could also serve to narrow the inequality divide. Public infrastructure not only increases economic growth by boosting aggregate demand, but also supports improvements to productivity and economic efficiency due to increased aggregate supply. The multiplier effect also ensures the benefits of the initial expense are transmitted throughout the economy; furthermore, with borrowing costs low, financing the increased budget deficit remains sustainable.

The election of Donald Trump in the States also promises to herald a new period of fiscal stimulus, with infrastructure and defence spending likely to see significant increases in the coming year. His commitment to cut taxes also supports increased economic growth, although the kind of tax cuts the President and his Republican colleagues in Congress are likely to enact are not those necessarily aimed at the lowest paid.

Impact on investments

Looser fiscal policy is likely to have a positive effect on equity prices relative to fixed income securities; defensive sectors such as Consumer Staples, Utilities and Healthcare are likely to underperform, with cyclical sectors performing better.

Increased government spending and lower taxes boost discretionary income, which thus boosts consumer spending; not only does this support inflation but, more importantly, it also increases inflation expectations, which is what the monetary authorities monitor when making their policy prescriptions. Higher inflation expectations will compel Central Banks to raise interest rates, negatively impacting government bonds and other fixed income securities, particularly those of long durations.

While the last few years have been torrid for DB pension schemes, the promise of higher inflation and higher interest rates suggests that, despite all the shocks that 2016 has given rise to, 2017 could finally herald brighter prospects. ●

Quantum chronicles

Events

Past Events

- London Pensions & Investment Seminar @ Merchant Taylors on 13th July 2016
- 'Race to the Stones' challenge in aid of Tŷ Hafan Children's Hospice on 16th July 2016
- Cardiff Pensions for Breakfast @ The Celtic Manor on 20th July 2016
- Birmingham Pensions & Investment Conference @ Opus on 20th October 2016

Upcoming Events

- Cardiff Trustee Training Part 1 on 9th February 2017
- Wales and South West Pensions for Breakfast @ The Celtic Manor on 28th February 2017
- Cardiff Trustee Training Part 2 on 2nd March 2017
- Wales HR Awards @ SSE Swalec Stadium on 23rd March 2017
- Cardiff Trustee Training Part 3 on 13th April 2017
- Wales and South West Pensions for Breakfast @ The Celtic Manor on 20th June 2017
- Wales and South West Pensions for Breakfast @ The Celtic Manor on 31st October 2017

For further information on any of our events, please visit www.quantumadvisory.co.uk/events/

New arrivals

Billy Jamieson
Deborah Wilson
Scott Moyle
James Melsa
Sherrilyn Jones
Paula Gibson

Who we are

Established in 2000, Quantum Advisory is an independent financial services consultancy that provides solution based pensions and employee benefit services to employers, scheme trustees and members.

We design, maintain and review pension schemes and related employee benefits so that they operate efficiently and effectively and are valued by employees. This means that you can get on with doing the things that you do best, therefore saving you time and money.

Products and services

We offer a range of services to companies and pension trustees, all designed to focus on your specific needs, including:

- Actuarial services
- Administration of defined contribution and defined benefit pension schemes
- Banking, accounting and pensioner payroll
- Company advice
- Employee benefits consultancy
- Governance
- Investment consultancy
- Pension and employee benefit communications
- Risk benefits advice
- Pension scheme wind up
- Secretarial services to trustees
- Trustee training

Getting in contact

We have offices in Amersham, Birmingham, Bristol, Cardiff and London. Give us a call to see how we can help with your pension and employee benefit challenges.

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