QUANTUM ADVISORY
WORKING IN PARTNERSHIP WITH YOU

QUANTUM NEWS

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Quantum's charity dinner

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In March of last year we successfully managed to raise £11,000 for our chosen charity Tŷ Hafan as part of their 'pay for a day' initiative, this £11k equating to the running costs needed to 'pay for a day' of care. However we did not stop there and have continued our relationship with Tŷ Hafan with a view to raise enough to support a further day of care. We are hoping to do this with a Black-tie dinner - a night of fun and fundraising to celebrate Quantum's continued success and growth, whilst raising much needed funds for the children's hospice.

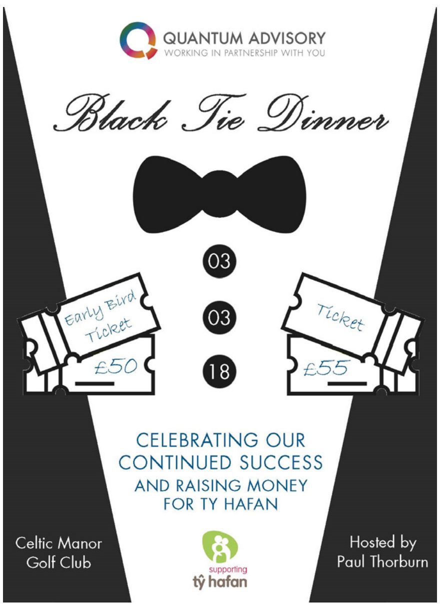
The event is taking place at the Celtic Manor, Newport, and promises to be a glamorous evening of fine dining and fabulous fundraising, hosted by Welsh Rugby Union legend Paul Thorburn, with entertainment from a superb jazz soul band!

Tickets include a welcome drink, three course meal and entertainment, along with the chance to bid on a selection of fantastic auction prizes! Tickets are available now. To purchase please visit https://www.eventbrite.co.uk/e/quantum-charity-black-tie-dinner-tickets-39911578606

Our chosen charity

Tŷ Hafan is one of the UK's leading paediatric palliative care charities, providing comfort care to life-limited children and young people throughout Wales. The work they do is focussed on quality of life rather than end of life, and they provide emotional and practical support to parents, siblings and extended family, helping to create precious memories.

Not only do they give this supprt at the hospice but also in the homes of the families or in hospital, doing this completely free of charge. Tŷ Hafan is not part of the health service and receives less than 5% statutory funding each year towards the £4 million needed to provide respite and support for the whole family ●



DB DC

"Take On Me, Take Me On..." A-ha(rd) transition made easy

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A pension scheme will undergo many significant events during its lifetime; perhaps the date that the accrual rate changed from 60ths to 80ths, or the date the pensionable salary definition changed from gross earnings to basic salary with a deduction; the date the basis switched from Final Salary to a CARE arrangement or when it closed to new entrants.

All these events are meticulously documented. Each change complicates the administration of the scheme and impacts the data that needs to be recorded to administer it correctly. To ensure the correct pension benefits are paid to members it is crucial that advisers understand how the scheme works and that reliable and correct data is held.

An important event, that is often taken for granted, is the transition of pension scheme data from one administrator to another. It is likely that each will use different administration systems, which can necessitate the need to decode or manipulate data. During the transition there are many dangers which can normally be negated by good planning and communication. However, across the industry there have been many occasions where data has been lost or misinterpreted which has resulted in increased liability to the scheme or possible detriment to the members. Quantum has taken on many schemes where significant gaps in data have been explained as being a "historic issue" caused by a bad transition some years in the past.

Quickly understand how the Scheme works

It is important for individuals transitioning data to understand how the incoming scheme works. This will be an understanding of benefit categories, key dates and calculation of benefits. This knowledge will help identify any data issues that in turn can be flagged, raised with the outgoing provider and hopefully resolved quickly. Data items required for ongoing administration need to be identified and mapped to data fields in the administration system to enable continuous administration and ease of automation of calculations.

Ensure all data required is received

An understanding of the scheme's benefits will allow the new administrators to ensure all data items needed for the ongoing administration have been received.

Each change complicates the administration of the scheme and impacts the data that needs to be recorded to administer it correctly.

Although data mappings and control totals can identify that data fields exist, the new administrators should check that this data is populated for all necessary members. In addition, it is important that data is received for all expected members. Checks on membership numbers can be completed against contribution schedules and pension payroll, as well as Annual Report & Accounts and Administration Reports.

Ensure no data is lost

If data needs to be manipulated there is a danger of data fields or complete data tables being missed or overlooked during the transition. If may also be possible to "lose" a number of rows from a spreadsheet or ignore a particular status or category of member. To ensure this doesn't happen, all data received should be documented, a data mapping specification prepared, and a checklist followed. Column totals checks and individual member print checks should ensure no data is lost.

Ensure all data is interpreted correctly

Some administration systems are old and inflexible, and contain a limited number of data fields that can be populated. If a scheme is particularly complex, it may have been difficult for the previous administrators to record all the necessary data items in the standard fields available. In this scenario, data fields may have been used to record a different data item without adequate relabelling. It is also possible that the previous administrators may overlook informing the new administrators or the note is hidden away in a "decode" document. It is important the receiving administrators can identify all the data items received and queries any data items that are not clear. Similarly, “Miscellaneous” and “Additional” data tables need to be interpreted correctly.

Ensure data not needed is not transitioned

Contrary to the existing (1998) Data Protection Act it has been known that pension administrators will seek to record data that is not required, or is no longer relevant, for the ongoing administration of the scheme. Under the incoming GDPR (applying from 25 May 2018) it is important that only data required for ongoing administration is recorded. This is likely to be a “hot” topic in the forthcoming months and although Trustees will need to make decisions concerning the processing of their scheme data, the transition process will form the basis of identifying the data held and the purpose of holding it.

Quantum has much experience, both of taking on new schemes’ data and the forthcoming GDPR requirements. If you would like to have a discussion without commitment, please contact us, we’d be delighted to assist you. ●

DB

Climate change - can actuaries save the world?

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You probably know the story of the frog being cooked alive in a pot of water but not realising it, because the heat was being turned up so gradually. When it comes to climate change, we are seeing more about it in the news – but are we really doing enough to stop it? Or, like the frog, are we doing nothing to turn down the heat, not knowing our fate?

Pension actuaries may not believe they have the power to help or to raise awareness of Resource and Environment (R&E) issues, or make their industry greener, but a recent paper from the Institute and Faculty of Actuaries (IFoA) on this subject is a first attempt to show they hold some sway.

The paper notes that R&E issues are unlikely to be the top issue for pension schemes, but they should be considered when looking at Integrated Risk Management as part of the longer-term funding considerations. Effects on funding assumptions, covenant strength, and investment returns all need to be considered.

Funding assumptions

Financial and mortality assumptions are likely to be affected by R&E issues, but these effects will only be visibly demonstrated over the long term. The IFoA is commissioning scenario analyses to help actuaries, trustees and companies understand the potential impact of these issues on investment returns, market yields and inflation expectations, and hence on pension scheme funding. Such factors could also affect the assumptions used by insurers leading to movements in buyout pricing.

Mortality rates may either improve or decline due to climate change – a reduction in cold-related deaths during winter may be offset by an increase in heat-related deaths, or deaths due to extreme weather events. It’s also plausible that attempts to mitigate climate change lead to an increase in mortality rates, with green-focused governments precipitating a resource-constrained economy, or increases in food prices leading to poorer nutrition and less spent on healthcare.

Covenant strength

Covenant strength is crucial when considering both funding and investment strategies for schemes, but R&E issues are difficult to quantify and therefore they may not be reflected adequately in covenant assessments. When assessing the covenant of a sponsor, trustees should ask the adviser to include R&E issues. By looking at how various areas of the business could be affected, it may be possible to assess how vulnerable a sponsor would be to run a business effectively in line with international targets.

Investment returns

Future investment returns are also likely to be affected by R&E issues. Examples of potential impacts might include changes to the energy sector, such as a movement from oil and gas to more renewable sources, falling property returns due to increased damage from flooding and storms and reputational damage on specific companies because of higher than acceptable levels of pollution. A resource-constrained economy could also lead to falling investment returns.

With enough careful observation, persistent efforts at prevention and by ensuring that the issues are considered by pension schemes, actuaries can help to curtail the effects of climate change or at least slow it considerably until a long-term solution is established. After all, a watched pot never boils ●

DB DC

The Role of the Scheme Secretary

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If you are reading this article, there is every chance you are a trustee of a modern day pension scheme. As such you will be inundated with ever increasing Regulations, regular updates on changes to the pensions landscape, and are probably struggling with issues such as funding and investment in the hope of minimising the deficit (if you have a defined benefit scheme) or optimising the outcome for members at retirement (if you have a defined contribution scheme).

No matter which experts you have appointed to assist with the running of your pension scheme, the Pensions Regulator (tPR) states that a trustee is accountable for all scheme activities, even where these are delegated. This means that the trustees need to monitor and oversee how their scheme is run – with clarity of roles, responsibilities, decision-making, governance structures and processes, all of which should be clearly documented. In addition to all of this, it is necessary for the trustees to act in the best interest of all beneficiaries, ensuring good governance and delivering good outcomes.

The trustees can, and in our experience, do, work with a number of professionals to ensure compliance with the requirements set by tPR; indeed, it is a regulatory requirement to appoint certain key individuals such as the Scheme Actuary and Auditor. However, a non-mandatory role that we recommend trustees consider filling is that of the scheme secretary. The role of scheme secretary, as defined by tPR, is to work with the trustee board to make sure the scheme is efficiently and properly run, members' benefits are secure and support efficient and effective governance. Where there is no scheme manager in place, the scheme secretary may also be expected to oversee day-to-day activities.

At Quantum we believe that the scheme secretary plays a crucial part in ensuring that a pension scheme is managed efficiently and effectively. Efficient operation of a pension scheme enables the trustees to focus on the important issues, leaving time at meetings for key decision making rather than more mundane

administrative tasks. As a minimum, the secretarial service offered to trustee boards should incorporate the following:-

• Arranging meetings, preparing and issuing supporting packs, production of draft minutes, and following up on the action points.

• Maintaining and updating the risk register, preparing the annual budget and timetable and ensuring the conflicts of interest register is kept up to date.

• Overseeing the production of the annual report and accounts, member communications and regular maintenance of any trustee online repository.

• Arranging elections for member nominated trustees, and keeping a log of all trustee training undertaken.

The challenge faced by trustees is seeking out a service which delivers more than the basic and expected compliance functions mentioned above, which actively helps the trustees deal with the challenges the current environment places on them. The scope of service, cost and independence (or not) of the scheme secretary should also be considered.

The ideal candidate for the role of a modern day scheme secretary is likely to be a seasoned professional with the experience required to ensure all third parties appointed by the trustees are used effectively and appropriately. To be highly effective, the scheme secretary will have excellent organisation and project management skills which they can combine with specialist knowledge and extensive pensions experience. Potentially significant cost savings are one of the additional benefits that can be achieved as appointment of a scheme secretary should:-

• Save on internal time (trustees and sponsoring employer) which can be taken up with managing pension issues, or having to appoint external (and potentially expensive) consultants to deal with relatively straightforward matters. Experienced individuals fulfilling the role of scheme secretaries will have extensive technical knowledge enabling them to provide updates on regulatory changes and market developments as part of their role.

• Ensure that external advisers and suppliers are used in an efficient and appropriate way, and that all parties work for the good of the trustees, the scheme and the members. The scheme secretary should be happy to challenge advisers – albeit in a courteous and professional manner.

• Help with the development of a robust governance framework, which not only meets the regulations and fulfils tPR's requirements, but also uses practical experience and industry knowledge to adopt best practice as a matter of course.

By appointing a good scheme secretary who has all the attributes mentioned above, the trustees can take comfort that whilst they remain responsible and accountable for all scheme activities, they do have a calm, supportive resource behind them keeping them on the straight and narrow.

DB DC

Going up! - What does the base rate increase mean to pensions?

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Despite voting 7-2 to maintain the base rate at 0.25% during its September 2017 meeting, the Monetary Policy Committee, as expected, raised interest rates from 0.25% to 0.5% during its October 2017 meeting.

The dichotomy between weak growth and elevated inflation provided a dilemma for policy makers at the Bank of England - whether to raise interest rates in order to bring inflation down towards its 2% target, or to maintain its former accommodative stance to help stimulate growth. The UK economy grew 0.4% during the third quarter of 2017, following growth of 0.3% during the second and 0.2% during the first, considerably slower than the upgraded Q4 2016 figure of 0.7%.

The case for an interest rate rise was very much premised on the assumption that the output gap, which represents the difference between current output and potential output, is now smaller, with spare capacity within the economy being absorbed quicker than anticipated.

An unemployment level of 4.3% in the three months leading up to July 2017 has been suggested as evidence of this with some economists believing that this level is at, or indeed below, the natural equilibrium level of full employment.

Inflation remains heightened; CPI rose to 3.0% during September 2017, well above its target of 2.0% and just below the level at which the Governor of the Bank of England has to write an open letter to the Chancellor explaining why the level has deviated from its target.

This is likely to remain elevated going forward; the Bank of England, as set out in the August 2017 Inflation Report, has forecast that CPI will remain above the 2% target up to mid-2020, as currency-induced cost pressures continue to exert their influence on the price level. Indeed, the recently released November reading saw CPI rise to 3.1%.

What will the interest rate rise mean for investors?

For some asset classes, movements in interest rates have direct effects; in others the implications are a lot less explicit.

In an environment where interest rates are rising, we can expect the prices of fixed income securities to decline; there is a direct inverse relationship between interest rates and prices.

In such an environment, newly issued bonds will offer investors a higher return than those currently trading on the secondary market. As such, the prices for these outstanding bonds will decline as the demand becomes depressed when investors naturally veer towards the securities offering a higher return. In addition, those bonds with longer maturities, like those to which pension schemes are often highly exposed, are more vulnerable to changes in interest rates and so price changes are amplified.

Increased borrowing costs are also likely to have a negative impact on mortgages, with interest expenses increasing for those on variable and base rate tracker contracts. This is likely to have a knock-on effect on the wider property market as expensive mortgages will depress house prices due to lower demand.

The effect on equities isn't quite as predictable. Conventional wisdom tells us that interest rate rises are negative for equities; the increase in the base rate will be mirrored by the high street banks, pushing up the cost of borrowing on credit cards and other form of debt. The added cost of interest payments would have a negative effect on disposable income, thus leading to a contraction in consumer spending. The repercussions of this would be tighter margins for companies and cuts to cash flows which ultimately make their equity less attractive for investors. Increased borrowing costs will also directly affect margins as debt servicing costs increase.

The interest rate charged on government bonds should also be considered. Above all viewed as the safest of investments, bonds are often used as a proxy for the risk-free rate – the theoretical return on an investment with zero risk, and representing the minimum return an investor would expect from an investment in any asset. The risk-free rate is of fundamental importance in financial theory, being used as the main component when calculating the discount rate, the rate by which future cash flows and dividends are discounted when calculating present values. The increase in the interest rate, therefore, will push up the discount rate, depressing the values of future cash flows, and therefore demand for these securities.

Conversely, rising interest rates are often indicative of a strengthening economy; as the economy grows and the population becomes wealthier, consumer spending increases. This boosts cash flows resulting in higher profits and higher earnings, which makes the stock more attractive for investors. However, as we have seen, the economy is currently experiencing a soft patch. The implications of the interest rate rise are therefore likely to be negative for equities, with investors potentially using this as an excuse to take profits.

Overall, the modest 0.25% increase in the interest rate rise has only reversed the interest rate cut made following the 2016 EU referendum. This is unlikely to have a material effect on investments. ●

DB DC

21st Century Trusteeship – raising the standard of governance

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We all know that good governance lies at the very heart of the effective management of occupational pension schemes.

There are many parties involved in the running of any pension scheme and it is vitally important that each is aware of its role and responsibilities and how they fit into the bigger picture. With this in mind, the Pensions Regulator (tPR) has launched its campaign to boost standards of governance across all occupational schemes.

The campaign is part of its "21st Century Trusteeship – raising the standards of governance" initiative, which followed its consultation with the pension industry in 2016 and was covered by Quantum at the time (see https://quantumadvisory.co.uk/quantum-press/are-you-a-21st-pension-trustee). Following the consultation, tPR raised serious concerns that many small to medium sized schemes were failing to meet even the basic standards of good governance or comply with tPR's Code of Practice.

tPR is aware that the roles and responsibilities of a trustee have developed significantly over the last few years and the challenges are more varied than ever – the strain brought on by a struggling economy, falling funding positions and the rapid changes in alternatives in the investment market leave many lay trustees feeling swamped by the large number of decisions that they must make and areas they must concern themselves with. tPR is also concerned that a failure of trustees and other organisations to carry out their governance duties may lead to poor member outcomes at retirement.

In its initial stage, the campaign will take the form of tPR sending emails to trustees, scheme managers, employers and advisers to remind them of a number of specific areas of responsibility with regards to governance, including a link to tPR's website where they can find further information. The particular areas of focus are as follows:

- Clear roles and responsibilities
- Clear purpose and strategy
- Competence and integrity
- Upskilling and training
- Managing advisers and providers
- Managing conflicts of interest
- Managing risk
- Meetings and decision-making
- Value for members

Those who click on the link to the new web page will see examples of what tPR thinks show good governance. Some of these include the basic duties that trustees need to consider, such as: "Do you complete the Scheme Return on time?", "Do you ensure that a Chair's Statement is completed?" and "Do you pay your Scheme levy on time?".

tPR believes that one of the most important ways of guaranteeing good governance is to ensure that the trustees are knowledgeable, engaged, motivated, skilled and that proper processes are in place and maintained to ensure decisions are made effectively. It is also important to note that tPR is not raising the standards of governance, merely reminding all parties involved of their responsibilities for the scheme. They also believe that the role of the chair of trustees is a vital one and that an effective chair will lead and ensure collective competence of the board at all times.

The campaign marks a further step in the direction that is being taken by tPR during 2018 onwards – a clearer, tougher and quicker Regulator. If the trustees, scheme manager and advisers fail to take these basic steps on governance, tPR has confirmed its intention to take enforcement action. This action can include fines, improvement notices, trustees' suspensions and prohibition of appointments.

So, the message from tPR is clear – governance is key – be aware of your duties and ensure that others are aware of theirs too!

If you have any concerns regarding your scheme, Quantum would be more than happy to help, and ensure that your scheme is governed well, now and into the bright new future.

DB DC

Employers and employees should be keeping an eye on their pension arrangements

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Automatic enrolment has been around since 2012, and many employers will now be or about to be going through the re-enrolment process. Employers should not find this difficult because it is largely a repeat of the original auto enrolment process carried out three years ago. Where most of the employees are already in a pension scheme, re-enrolment will require little work from the employer.

Some further good news for employers is that there is no need to re-enrol anyone who has opted out in the 12 months before the re-enrolment date nor employees who are working their notice period. Those who have Lifetime Allowance protection are exempt too.

Finally, there is flexibility over the re-enrolment date, which can be three months either side of the three-year anniversary of the employer's original staging date.

Increase in contributions

Perhaps of more interest to employers and employees is the increase in the minimum level of contributions as set by auto enrolment regulations.

Many employers and employees currently pay these minimum rates and they will increase in April 2018 and again in April 2019. The rates depend on the definition of pay used to calculate the pension contributions but, broadly, employers will see the minimum rate increase from 1% to 2% and then 3% in 2019, while employees will see their minimum rate increase from 1% to 3% to 5% in 2019.

Employers will need to be aware of the revised rates for budgeting purposes and ensure that their payroll software/ provider is updated too so that the correct rate of contributions can be paid to the pension arrangement. Employers should also communicate these changes to their employees in advance so it does not come as a surprise when the rates increase.

Pensions Dashboard

Even with the increase in the minimum rate of contributions the amount being set aside for retirement savings is nowhere near enough to ensure that an adequate income is provided in retirement.

Further good news for employers is that there is no need to re-enrol anyone who has opted out in the 12 months before the re-enrolment date.

One useful piece of legislation that will help individuals keep tabs on their pension is the introduction of the Pensions Dashboard, which has the ambitious target of being ready by 2019.

The Pensions Dashboard will show an individual detail of all the private pension arrangements that they have in place along with their State Pension. As the average number of jobs in a working life in the UK now stands at 11 it will help to provide all who have more than one pension arrangement with an indication of the overall income they could expect in retirement.

This will provide individuals with:

- A better understanding of their likely finances in retirement, based on their current situation.
- A clearer grasp of the need for expert financial advice.
- More inclination to take a proactive role in managing their retirement.
- Most importantly, the understanding not to opt out of their employer's pension scheme when contributions are increased and motivate them to further increase their pension contributions, subject to their budget constraints.

The latter is a hope, you may say, but from my knowledge of the pension industry it is a necessity. ●

DB DC

Pension freedoms two (and a half) years in

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Prior to changes announced in the 2014 budget, most people in defined contribution (DC) arrangements bought annuities. The changes from 2015 offered greater flexibility in how people accessed their retirement funds, no longer forcing them to purchase annuities at historically low rates. Later, there were concerns that without advice, those using the new flexibilities might deplete their pots in a short period of time and become reliant on the State.

Two and a half years in, several reviews have taken place to assess changes in consumer behaviour. A review conducted by the Financial Conduct Authority (FCA) found that 72% of members' accounts placed in drawdown belong to those under 65, most opting for lump sum payments rather than a regular income.

This highlights a possible issue that may arise in later years as people continue to access their money early, without securing a regular income. The effect of early retirement is twofold. Firstly, the pot is typically smaller than it would have been if the individual had continued to work until later. Secondly, the pot must last longer.

The report shows that over half the pots designated for drawdown have been fully withdrawn (90% of these pots were below £30,000) with more than half placed in alternative saving accounts. This might not seem like a bad idea but the FCA suggests that this decision has been made as there is a perceived lack of trust in pensions. People could potentially end up paying more tax and missing out on superior investment growth.

The main issues highlighted at this stage include: people accepting drawdown from their current provider without shopping around and an increasing number of funds being put into drawdown without advice. Before the freedoms, only 5% of funds were placed into drawdown without advice, but this has now increased to 30%. Those who put funds into drawdown must manage their own investments and withdrawal strategies. Poorly informed individuals may choose investments that do not match their attitude to risk and may not devise an appropriate drawdown strategy, so they may struggle to maintain a steady retirement income.

The effect of early retirement is twofold. Firstly, the pot is typically smaller than it would have been if the individual had continued to work until later. Secondly, the pot must last longer.

Another issue is insurers deciding to withdraw from the annuity market as the lack of competition will weaken the annuity market (and therefore increase rates) over time.

Whilst it is too early to determine what the long-term effect of these freedoms might be, it is important to assess developing trends in consumer behaviour to protect long-term retirement outcomes. The government could consider introducing a set of criteria to be satisfied before individuals can put funds into drawdown.

One option could be to force individuals to purchase a deferred annuity with a portion of their pot. This would provide guaranteed income and increase the demand for annuity products, thereby stimulating competition in the open market. The balance of the pot could then be designated for drawdown, subject to receiving financial advice. The government could also encourage the development of retirement products such as care home bonds in which people could pay premiums to an insurance company during their working life (perhaps by salary sacrifice), to secure a place in a retirement home at their later stage in life. Those opting for this option should be able to designate funds for drawdown once they receive the necessary advice.

These options allow the current flexibilities to be retained and go some way to preventing reliance on the State. Naturally, as DC pots grow and become the main source of retirement income, the market will be forced to develop by providing more retirement products to suit the changing needs of the population.

QChoice - The next generation of flexible benefits

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Employment packages are increasingly about offering choice. Employees expect a more varied benefit offering to support their lifestyle and employers that are able to provide a range of benefits that are relevant to their employees will benefit from increased engagement.

Advances in employment related goods and services over the years means that generally there is more choice, although for various reasons, we may not all have an equal opportunity to choose.

Many employers have made little change to the format of their employee benefit provision for decades, the common theme being that sections of employees are grouped together and given the same benefits. Whilst this is commendably fair to all in that group, this approach fails to recognise the needs of each individual and scores low in terms of engagement, if the benefits offered are not relevant and understood by each employee.

Additionally, adopting this 'one size fits all' approach provides the employer with no insight about the needs of their employees, therefore missing a vital opportunity to influence key business markers like levels of staff retention, reducing the costs associated with recruiting and training new employees and reducing the impact of lost productivity in the period when an employee resigns and their replacement is settling in.

Engagement is the aim for employers wanting to influence the business makers mentioned above to achieve efficiencies within their business. Increasingly, employees have more complex needs, typically covered under the 'work/life balance' and 'health and wellbeing' banners. Getting both of these right within your business leads to happier employees, which ultimately filters through to business performance.

Historically, large employers have been better equipped to deal with this issue as they have more resources and finances to deploy. The solution, flexible benefits, has been around for a long time, but the cost and complexity of the solution has kept it out of reach for most small to medium sized enterprises (SMEs).

New for 2018, Quantum is launching QChoice, a product that allows SMEs (who have at least 50 employees) access to flexible benefits without needing large employer resources or finances. For large employers wanting to engage with flexible benefits, Quantum can offer a bespoke service, encapsulating their requirements.

QChoice and our bespoke service use new and exciting flexible benefit technology, designed to support the employer's need for management information (MI) about the benefits selected. After all, knowledge is power.

QChoice offers the employer a modular flexible benefits portal. The portal comes with a range of over twenty different benefit products, the employer may choose up to ten of these to place on their portal for their employees to use. Additionally, employees will have access to an online Total Reward Statement, ensuring that they understand the true value of the benefits provided.

MI from QChoice will help the employer understand the relevance of the products selected and at strategic review points the employer will be able to swap up to two less popular benefits for new products, ensuring that the flex portal remains relevant for employees. Quantum can also support the employer with targeted surveys to reveal employee preferences, helping the employer make better decisions regarding the product offering.

QChoice offers a range of protection, wellbeing and lifestyle products, offering support to individuals wherever they are in their working life.

Each QChoice product has been selected for the strength of the offering and many include enhanced features that would not normally be available to an SME in isolation. Including this element of care within our product selection allows the employer the opportunity to save on market review fees, meaning that QChoice really is a cost effective solution.

QChoice is an inclusive product which works best where all employees are provided with access. For protection products in particular, this allows the insurer to offer improved terms for cover as the risk represents a better balance.

Employers that address these needs within their benefits strategy have the best chance of improving business performance, which will support both the employer and their employees for years to come.

DC

Improvements to defined contribution charges and transaction costs

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On 26 October 2017, the Department for Work and Pensions (DWP) launched a consultation on improving the disclosure of charges, transaction costs and investments in money purchase/defined contribution (DC) occupational pension schemes (including hybrid schemes with a DC element), apart from:

• Schemes where the only DC benefits are attributable to Additional Voluntary Contributions

• Small Self-Administered Schemes

• Executive pension schemes

The aim is to provide greater transparency for members and enable them to make more informed decisions without overburdening trustees. It is also hoped that the requirements will provide greater clarity as to whether members are receiving value for money.

The consultation was short, ending on 7 December 2017. Alongside the consultation, the DWP has published draft regulations and draft statutory guidance. If the proposals go ahead, the changes will come into force on 6 April 2018 and will be introduced by the Occupational Pension Schemes (Administration and Disclosure) (Amendment) Regulations 2018.

Defined Benefit (DB) schemes are currently excluded from the proposals, however, the DWP has indicated that it will consider extending the requirements to DB schemes. In addition, in 2018, the Financial Conduct Authority intends to consult on corresponding rules for workplace personal pension schemes and stakeholder schemes.

The aim is to provide greater transparency for members and enable them to make more informed decisions without overburdening trustees.

The proposals

The Government is proposing to introduce regulations that require:

• DC schemes to publish information on transaction costs and charges and to disclose this to members, beneficiaries and recognised trade unions.

• Information on transaction costs and charges to be published on an internet site that the public can access.

• Benefit statements to include a web address where members can find information on their schemes' costs and charges.

• The cost and charge information within the annual Chair's Statement should set out the costs and charges for each fund option.

• Trustees and scheme managers should provide members with an illustration of the compounding effect of their schemes' costs and charges on the members' funds.

• A duty should be imposed on trustees and scheme managers to disclose to members and trade unions, on request, the top level of funds (in which members are directly invested), for which public information is available.

• Trustees and scheme managers must prepare and disclose the fund holdings over the scheme year, within seven months of the scheme year end date. They must also respond within two months of a request.

What is the penalty for non-compliance?

The penalties for non-compliance range from £500 up to £5,000 for an individual and £50,000 for an organisation.

DB DC

Is the age of active management dead?

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For years, the argument between active and passive management has raged, with devotees of both approaches claiming victory! Today, passive investment represents c. 15% of total assets under management globally (higher in the USA) and this is expected to continue to rise as the focus on low management costs grows. In the UK, the introduction of the charge cap for Defined Contribution default strategies has encouraged a greater focus on passive mandates, as pension schemes adapt to the new lower charge regime.

Is it, therefore, time to question the benefits of active management?

At university we were taught the principles of the efficient markets' hypothesis, which was established in the 1960s and which states it is not possible to consistently outperform the market, as share prices quickly incorporate and reflect all (known) relevant information. Thus, investors will struggle to purchase shares that are truly undervalued, or be able to sell for prices above their true value.

However, at several points over the last year alone, we have seen periods where the market has behaved irrationally – whether in response to an early morning tweet from the President, which sees individual company's share prices swing, or where whole sectors are driven by "herding" or "FOMO" (Fear of Missing Out).

Greater focus on charges

Today when discussing active versus passive mandates, I rarely find clients interested in the efficient markets' hypothesis, or the latest thinking of renowned economists. Instead, I find far greater importance is placed on the fees charged by active managers and the perceived better value of passive funds with lower charges.

The Pensions Policy Institute's impact of DC asset pooling report, published in November 2017, covers this very point – unsurprisingly, their findings show that higher charges can negatively impact members' funds. Although, improved investment returns have a significantly greater impact – the question here is whether active management can deliver better long-term returns.

It would also be fair to note that passive funds tend to have greater appeal in extended periods of rising markets with lower volatility, such as we have experienced for the last several years. It is perhaps when market volatility rises that active management becomes more highly valued, potentially providing the risk-management capabilities an index-tracking fund is likely to lack.

Conclusion

In our view, whilst some markets have been identified as highly efficient, the collective behaviour of investors can lead to pricing irregularities that provide profitable opportunities for dynamic and active managers.

Further, we do not believe you have to sit in the active or passive camp – we see great merit in using both approaches in different markets and believe an efficient portfolio can be designed which encompasses both strategies to the benefit of clients.

Quantum chronicles

Past Events

- LDI Conference and T20 in conjunction with Insight Investment @ SSE Swalec Stadium on 03.08.2017
- Wales and Southern pensions conferences in conjunction with Blake Morgan on 21.09.2017 (Cardiff) and 11.10.2017 (Southampton)
- Wales and South West Pensions for Breakfast @ The Celtic Manor on 08.11.2017

Upcoming Events

- CIPD seminar Cardiff 07.02.2018
- Quantum Advisory Tŷ Hafan Dinner @ The Celtic Manor on 03.03.2018
- Wales and South West Pensions for Breakfast @ The Celtic Manor on 08.03.2018
- Seminar in conjunction with CIPD, Taunton on 14.03.2018
- Seminar in conjunction with CIPD, Wrexham on 21.03.2018
- Seminar in conjunction with Darwin Gray, Cardiff on 26.04.2018
- CIPD South West Wales roadshow on 01.05.2018
- Wales and South West Pensions for Breakfast @ The Celtic Manor on 06.06.2018
- Conference and T20 cricket @ SSE Swalec Stadium on 20.07.2018

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

New arrivals

Alistair Thomson
John Plenderleith
Samantha Willoughby
Simon Freeman
Louisa Fieldhouse
Hayley Beynon
Charlie Laundon
Jenny Smith
Tessy Matthew
Gemma Pugh
Megan Zakrzewski
Suraj Gandecha
Danny McGovern
Chris Pinkney

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
- Trustee training
- Flexible benefits

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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