QUANTUM ADVISORY
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QUANTUM NEWS

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DC

A decade of ***adapt***

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In 2008, Quantum Advisory launched ***adapt***, a form of capped income drawdown available to members of occupational DC schemes, as an alternative to traditional annuities. It allowed members to take their 25% tax-free cash allowance over time up to age 75 by taking ad hoc sums or using their tax-free allowance to top up their income.

Under income drawdown, members' pots remain invested to benefit from any return on investments in a tax-favoured environment. Any funds not used are available to be passed on to members' dependants when they die. While this would not offer a guaranteed income, restrictions were put in place to limit income, so that the risk that income would have to be reduced under adverse investment or economic conditions was minimised. This was way ahead of its time, with nothing similar made available to other occupational schemes at that time.

Roll on ten years and many occupational scheme members can now benefit from pensions freedoms that were introduced in April 2015, with forms of income drawdown almost being the norm compared to annuities.

So how successful has the ***adapt*** facility been? The first member to take the plunge and opt for ***adapt*** did so in April 2009. This member chose to take their full 25% tax-free cash as a lump sum (around £10,000), and used the remaining pot (around £30,000) to provide an annual income (£1,267). Fast forward to their 9th annual renewal and they have seen their income increase by a tasty 37% (now £1,738) and their pot is currently slightly higher than the amount originally left after tax-free cash (now £32,000) and therefore still available for their dependants when they die.

With examples like this, it's no surprise that for the clients of Quantum that have introduced ***adapt***, it has proved to be the more popular choice amongst retiring members compared to annuities. It is worth noting that not all cases will be as successful as this example, as a member's investments can go up as well as down whilst using ***adapt***.

Quantum Advisory is now looking to introduce a new simplified model of ***adapt***, giving members the choice of an income of 3%, 4% or 5% of their pot values per annum, at a lower charge to the member that the original version

Before the going gets tough, get Critical Illness cover

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If you are as old as I then you would be thinking – the heading should read 'when the going gets tough, the tough get going', a popular 80's classic by Billy Ocean. The 80's were my favourite music era, although as I reach another milestone age, I am more concerned I have plenty of support in case, one day, the going does indeed get tough.

Being diagnosed with a critical illness falls into the tough category. Faced with an illness that takes you away from your normal routine and changes your focus to a fight to hold onto everything you took for granted, is my definition of tough.

No one wants a critical illness, and there are plenty of reports about increasing rates of diagnosis of critical illnesses, like cancer, heart attacks and strokes. However, advances in medical science mean that for those suffering a critical illness event, there is a much better chance of survival, so it's not all doom and gloom.

Faced with an illness that takes you away from your normal routine and changes your focus to a fight to hold onto everything you took for granted, is my definition of tough.

If a critical illness event occurs and the individual survives, the next biggest issue is dealing with the aftermath. If rehabilitation is required, this can take months and may require a degree of lifestyle modification.

What can help, other than the support of family and friends, is employment related support, in the form of critical illness cover, which provides a tax-free lump sum payment directly to the insured in the event of an eligible claim. Such a payment can help the individual focus

on their recovery and not worry about their financial commitments. A lump sum payment could help to finance modifications required at home or be used to support lifestyle changes.

Most group critical illness policies include complementary child cover at 25% of the rate provided to the insured and possibly wellbeing support for the claimant to help them better understand their condition and consequences of their diagnosis.

Each year, group risk reinsurer Swiss Re produces a summary of group risk market performance from all insurers, for each product. The critical illness performance for 2016 – 2017 shows that:

- insured benefits increased by 7.9%, equivalent to an increase of £2.7 billion,

- annual premium payments increased by 7.4%, equivalent to an increase of £7.1 million,

- policies in force increased by 11.1%, equivalent to an increase of 3,679 policies, and

- 64.3% of premiums paid are to critical illness policies provided via a flexible benefit or voluntary arrangement.

Although group critical illness is relatively new, this growth shows the value is recognised by both employers and employees.

The attraction of providing cover under a flexible benefit arrangement is so employees can select the preferred level of cover within a pre-defined range. This is important because one of the key differences between a critical illness policy purchased by an individual and that purchased by an employer is the underwriting method.

Individual policies are underwritten prior to cover being formally confirmed, so any limitations are explicit at commencement. Under a group policy, a pre-existing condition exclusion (PECE) is applied, so any insurable critical illness event, or related event that the employee had previously is not covered by the insurer to prevent policies being taken out when claims are likely.

Underwriting is not required because of the PECE, as in the event of a claim, the employee's medical history is reviewed to ensure the employee has not previously been diagnosed with the condition, or a condition related to that being assessed. Where critical illness cover is provided on a group basis it is essential that the PECE is communicated so that the provision of cover is clear.

Whilst this may appear to be an unusual approach, it works. Those with health conditions might be underwritten under an individual policy and face loaded premiums or a declination. Receiving a declination causes issues with future insurance applications, as the declination must be disclosed. Under a group arrangement, although existing medical conditions may not be covered, a range of others will without the inconvenience of underwriting, restrictions to cover or premium loadings.

Offering a flexible benefits package allows individuals to consider their medical history and decide if they want to proceed, along with the means to secure cover in a quick and convenient manner.

It's fair to say that critical illness cover is unlikely to be at the top of anyone's 'to do' list if they are too young to know Billy Ocean, but it really should be as health conditions generally increase as we age.

DB

CDI – Is it time to go with the 'cash' flow?

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In June 2018, The Bank of England kept interest rates at the current level of 0.5%.

The Bank of England voted 6-3 to keep the base rate as is. A few months ago, the consensus was that there would be a rate rise with the market already pricing one in! The timing of future rate rises is also increasingly uncertain, and it feels like a good time to revisit what impact this is having on defined benefit pension schemes.

For example, low interest rates mean Cash Equivalent Transfer Values (CETVs) - the transfer value from a final salary scheme – remain high. Great news for the member, but not so good for the scheme that must fund it. Large pension payments coupled with material CETVs, will result in more and more schemes becoming cashflow negative. These increasing cashflow requirements, coupled with chronic underfunding, turns up the heat on scheme sponsors. Growth assets may deliver the targeted returns in the long-term however, several years of poor returns may drain a scheme's assets to the extent that meeting long term funding targets becomes a remote possibility.

Therefore, an investment solution is required to ensure suitable liquid assets are available when required to meet these benefit payments.

Cashflow Driven Investment (CDI) presents a viable solution for those waiting for interest rates to rise before increasing their exposure to 'protection assets'. A diversified portfolio of growth assets may offer a more attractive return potential but can carry too much risk over such short periods. CDI can help mitigate this short-term risk.

A relatively new breed of credit based pooled funds could offer the best of both worlds. These provide a degree of extra return above cash plus predictable cash flows that mirror the short-term benefit outgo. The cash flows are sculpted from the coupons and redemptions of a combination of gilts, global buy-and-maintain credit and amortising multi-asset credit, plus derivatives to fill any gaps.

A CDI strategy does not necessarily need to be at the expense of a Liability Driven Investment (LDI) strategy which has long been a practical tool to help remove the volatility in results and provide interest/inflation risk protection. In combination, LDI can manage interest rate and inflation rate risk, whereas CDI can deal with the short to medium term requirements.

Furthermore, it would be negligent to ignore the significant role that equities can play in generating cash flows to meet future benefits. From a valuation viewpoint, equities are risky relative to a liability as there is no easy way to create a liability-matching strategy using equities. However, equities concentrated on both yield and stability can be used to meet pension benefits over time as well as providing growth. At Quantum, we have clients with a wide array of investment attitudes, including some that prefer investing heavily in equities and high-yielding growth assets to meet their future liabilities.

In summary, there is not a one size fits all solution and CDI is not necessarily suitable for all. However, they are a valuable option that we feel all schemes should consider.

If you are interested in exploring how a CDI strategy may work for your Scheme, please feel free to contact us.

DB

Consolidation…
What you can do now and possible options in the future

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According to figures published in the PPF's Purple Book 2017, 36% of schemes have fewer than 100 members and another 44% fewer than 1,000. Concerns continue to exist (rightly or wrongly) that not all small and medium sized schemes meet the governance standards expected by the Regulator and that smaller schemes lose out from the benefits of economies of scale that could lead to lower investment manager charges, lower administration costs per member or schemes being able to gain access to beneficial investment opportunities or other products.

In the DWP's recent White Paper, the use of consolidation to improve the way that DB pension schemes operate was one of the big headlines with much talk being around new forms of consolidation vehicle such as "Superfunds" (more about that later) but what steps can be taken now.

Trustees, employers and members could currently benefit from consolidation through:

• Using an investment platform (such as Mobius Life, who are used by Quantum) thereby enabling Trustees to gain access to a wide range of funds whilst benefiting from reduced costs that platforms can achieve due to their scale.

• Consolidating services, possibly across several schemes, with one provider to provide a cheaper, more efficient service.

• Merging several schemes into one, thereby reducing ongoing fees although the initial cost of such exercises can be significant.

• Implementing a sole Trustee, either to replace a full Trustee Board or to act as Trustee across several schemes.

Buying out a scheme with an insurance company is also a form of consolidation although, as we know, the cost requirements of this are usually outside the reach of most employers.

DB master trusts, under which the assets and liabilities of a scheme are transferred into a section of a larger DB Trust also exist.

Superfunds

Superfunds are the proposed new consolidation vehicle, a framework for which has previously been outlined by the Pensions and Lifetime Savings Association Defined Benefit taskforce.

The main elements to the operation of a Superfund are as follows:

• Assets and liabilities are transferred to a Superfund along with the payment of either an additional one-off lump sum or a series of payments.

• The additional funding required would be lower than required by an insurance company for a buy-out, although higher than that for a pension scheme linked to an existing employer to be fully funded.

• Employers pass over their pension obligations to the Superfund and the payment of benefits is then dependent on the ongoing existence of the Superfund rather than the covenant of the employer.

• Additional capital would be required from external investors.

• Some Superfunds would prefer to operate such that benefits can be re-shaped to simplify their administration process.

• It is unclear whether Superfunds would however be eligible for the PPF if they were to fail.

"The Pension Superfund" led by former Pension Protection Fund chief executive Alan Rubenstein has recently been launched. The Pension Superfund is reported to have an initial £500m of capital (subject to transaction approvals) and already be in talks with several pension schemes. A second consolidator, Clara, is also expected to be in the market soon.

Consolidation tales from overseas

Both Australia and the Netherlands have significantly reduced the number of DB pension schemes over the years through consolidation. The ability to simplify past benefits in both has been a major factor in achieving this.

In addition to this, in Australia, employers have used Mastertrusts for many years making consolidating through this type of vehicle a more natural progression than is the case in the UK. In the Netherlands consolidation has been successfully encouraged by the regulator through highlighting the need to meet governance requirements which small schemes may feel unable to fulfil.

So, what's next?

The DWP will be consulting this year on proposals for a legislative framework under which the new forms of consolidation vehicles (such as Superfunds) would operate as well as a new accreditation scheme for existing forms of consolidation (such as Master Trusts). The DWP will also be working with the Regulator to raise awareness of the benefits of consolidation, so that's another unit in the Toolkit for Trustees to look forward to! ●

We all had a ball!

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In celebration of Quantum's continued success and growth, as well as our continued relationship with the children's hospice Tŷ Hafan, we held our first Black Tie dinner earlier this year. Originally organised for the weekend which befeld widespread snow disruptions, we overcame this set-back and held a very succesful evening two weeks later! Held at the Celtic Manor Resort, Newport the event saw around 180 colleagues, clients and friends join us for a glamorous night of fine dining, fun and fundraising, hosted by Welsh Rugby Union legend Paul Thorburn. Our efforts were rewarded with an incredible £10,000 raised, through a balloon raffle and spirited live auction! We are immensely proud to have raised this total, in addition to the fundraising we have already undertaken for the hospice over the last two years.

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. They provide emotional as well as practical support to parents and siblings, not only at the hospice but in the homes of the families or in hospital, doing so completely free of charge.

For further information on how you can support Tŷ Hafan, please visit www.tyhafan.org/support-us/ ●

DB Competitive buyout pricing emerges

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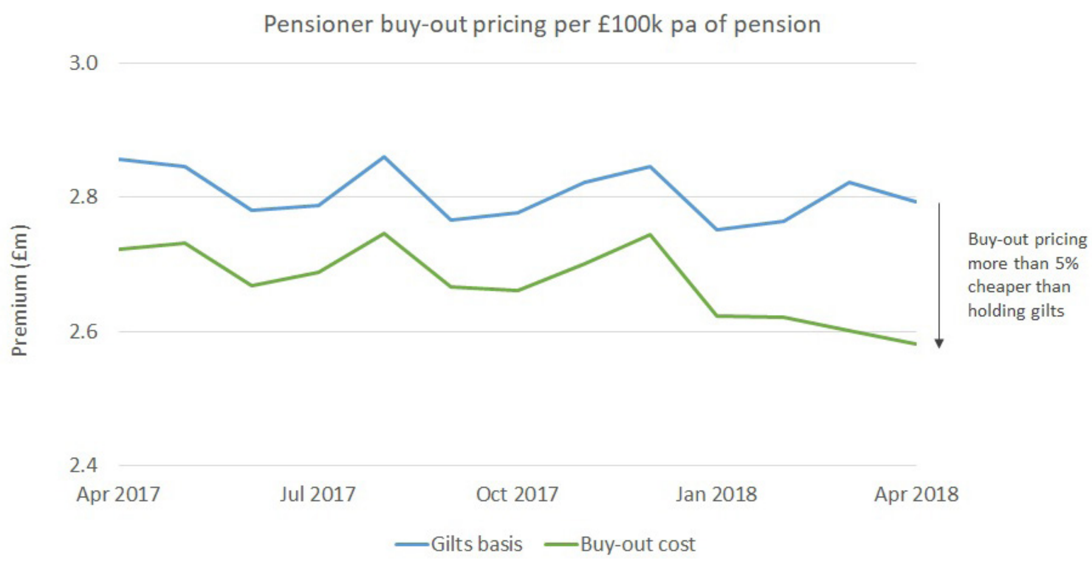

For the first time since our analysis began, we are seeing buyout prices more than 5% below the cost of holding gilts to pay pensions. This represents an increasingly attractive option for mature pension schemes that are looking to reduce risk and funding level volatility.

Trustees with defined benefit pension schemes will rarely want to run the scheme themselves until the last pensioner passes away. Instead they will, at some point, arrange for an insurance company to take over paying the benefits. This will either be as a buy-in, where the pensioners remain in the scheme, or as a buyout where the members leave the scheme and the insurer looks after them.

At Quantum, we track the typical pricing of buy-ins and buy-outs by working with a number of insurers in the market. This gives an idea of the what it might cost to buyout an average pension scheme. The analysis shows a trend of falling prices over the first few months of 2018, with the cost of buy-out (the green line) now materially below the cost of financing the same benefit by holding gilts (the blue line).

This improved pricing comes from a combination of market movements and changes in insurer pricing. During Q1 2018 corporate bond yields rose around 0.15% pa while gilts yields were broadly unchanged, and insurer pricing tends to be linked mainly to corporate bond yields. Market implied inflation was fairly stable, so the net impact was a reduction in price.

The analysis shows a trend of falling prices over the first few months of 2018, with the cost of buy-out now materially below the cost of financing the same benefit by holding gilts.

The increased difference between liabilities on a gilts basis and the buy-in/buy-out cost (the difference between the blue and green lines) offers an opportunity for schemes with a large proportion of gilts backing their pensioner liabilities to reduce risk at little, if any, cost.

Pricing for deferred members remains higher than for pensioners because of the additional risks they represent for an insurer. A scheme looking to sell gilts to fund a deferred member buy-in would still need to find an additional 10% - 20% on top of the value of the gilts.

The buy-in process

Transacting a buy-in will usually take a few months, but there are steps you can take to plan ahead and speed this up. These include:

- Ensuring that all scheme documentation is in good shape, including common sticking points such as Barber benefit equalisation.
- Ensuring that your membership data is complete and accurate.
- Reconciling GMPs with HMRC (note that you will need to equalise GMPs for gender differences as well before a buy-in).

We can assist with planning for a buy-in if you are considering this route. ●

DB

Defined Benefit landscape at risk of over-regulation?

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In its recently published white paper, titled "Protecting Defined Benefit Pension Schemes", the Department for Work and Pensions (DWP) stated it would work to improve "the effectiveness and efficiency" of the Pensions Regulator's (tPR's) existing anti-avoidance powers while tPR's code on Defined Benefit (DB) funding standards would also be revised, with more focus on prudence when assessing liabilities, the appropriate factors for recovery plans, and ensuring a long-term view is considered when setting the funding objective.

Over the past eighteen months or so, in the run up to the publication, we have seen tPR launch a campaign to improve the governance standards of pension schemes. The initial focus of this campaign sought to highlight the fundamental importance of good governance. According to tPR, "Good governance is the bedrock of a well-run pension scheme".

Most trustees welcomed this drive to improve governance, and well-run trustee boards often comprise individuals with a wide range of skills and experience who have a good relationship with their advisers. This allowed open and frank discussions with the overall goal being the provision of promised defined benefits to members whilst being as affordable as possible to the sponsoring employer.

Even so, tPR has been under a great deal of scrutiny over the past couple of years with high profile cases hitting the headlines. This has led to tPR having to hit back and in its corporate plan for the period 2018 to 2021, it has stated that it is committed to becoming a "clearer, quicker and tougher" regulator. The plan identifies eight priorities for tPR in the coming year, including:

• ensuring that DB schemes are effectively regulated;

• improving standards of trusteeship and scheme governance;

• authorising master trusts under the new statutory regime; and

• promoting the good administration of work-based pension schemes.

tPR will seek a more interventionist approach, however some commentators have warned that the DB landscape could be worn down by over excessive prescription as tPR is forced to incorporate new objectives laid down by central government.

The new Code will make it an explicit requirement for schemes to comply with specific areas of the guidance (unlike the current principles-based approach) and will also clearly highlight that it is the trustees' responsibility to demonstrate compliance.

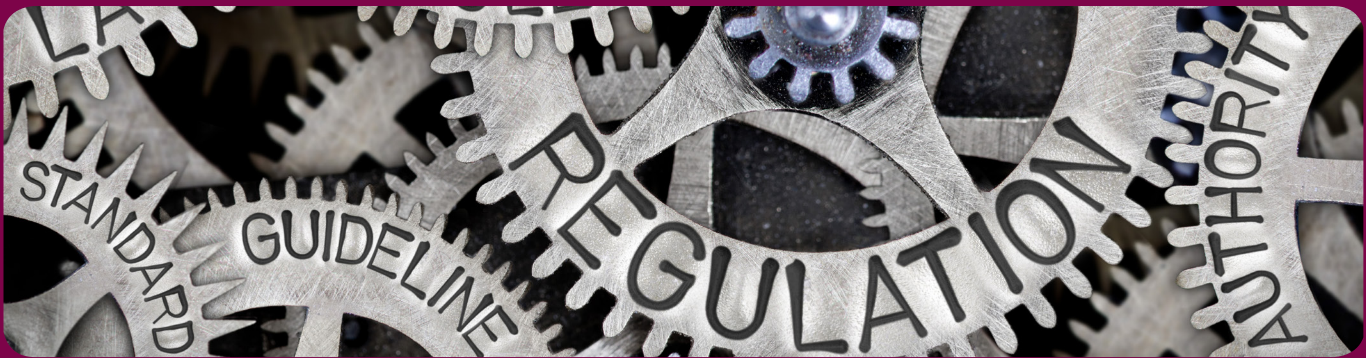
The proposals also introduce the requirement for DB schemes to appoint a Chair who will report to tPR as part of each actuarial valuation through a DB Chair's Statement, mirroring the current requirement for DC schemes.

It is expected that tPR will be given the power to impose punitive fines on those who "deliberately put their scheme at risk". In the most extreme circumstances, tPR will even be able to criminally prosecute those who commit "wilful or grossly reckless behaviour in relation to a pension scheme" and will have the power to propose the disqualification of company directors.

tPR's information gathering powers will also be widened, along with a review of the notifiable events framework to ensure all relevant events are covered and that tPR is informed of potential transactions earlier in the process. We hope that the replacement for Lesley Titcomb, tPR's Chief Executive, who will step down in February 2019 at the end of her four-year contract will push the proposed changes through which will go some way towards allaying the fears of some commentators who have been unduly critical of the watchdog.

There is a risk that the ever-increasing amount of regulation and guidance issued by the various regulatory bodies (including DWP, tPR, Treasury, FCA, PPF, etc.) could lead to behaviour that lowers the standards that trustee boards work to as they seek to meet the prescriptive requirements laid down but go no further which feels like an uncomfortable direction to be heading.

Quantum prides itself on provide clear and relevant advice focused on areas that have the most impact for schemes. This includes helping trustees to comply with legal and regulatory requirements and to aid trustees to run their schemes effectively, offering feedback and challenge whilst co-operating with other advisers. ●



Pensions Monitor

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BHS

At the time of writing, a report on the pre-sale audit of BHS is set to be published after the High Court refused to gag the Financial Reporting Council (FRC) despite an application from Sir Philip Green.

The report will provide commentary on the accounts that were presented to Dominic Chappell, who bought the company for £1 just after the report was signed off by PwC. The company collapsed just over a year later, with a buyout deficit estimated at nearly £600 million. Interestingly, PwC was adviser to BHS on its pension schemes for fourteen years until 2013.

The High Court ruling comes shortly after the FRC enforced its highest ever penalty, £10 million, against the collapsed company's auditor, PwC, while its senior partner, Steve Denison, who was responsible for the report, was given a 15-year ban from auditing work and personally fined £500,000.

A FRC spokesperson said it will "consider the detailed judgment" when the report becomes available. The Work and Pensions Committee said it will write to the Insolvency Service so that it reopens its investigation of former BHS directors. The report is the latest in a line of sanctions or financial demands on the former BHS owners.

£1 million fines to protect DB schemes?

The Department for Work and Pensions (DWP) has proposed that the government could impose civil fines of up to £1 million, as well as criminal sanctions on those deemed to be failing their DB scheme.

In its consultation, "Protecting defined benefit pension schemes – a stronger Pensions Regulator" it laid out plans for those involved with such schemes, with higher sanctions for the worse offences to strengthen The Pensions Regulator's authority (you will be aware that the Regulator has faced increased scrutiny recently, particularly following the collapse of Carillion and BHS).

The consultation, aimed at all parties involved with DB schemes, hopes to deliver a more proactive Regulator and be able to obtain scheme information from the sponsor at the right time to "get redress for members if things go wrong".

The Regulator has already said that it hopes the sanctions will be a strong deterrent.

Whilst there have been claims in the industry that the Regulator already has the necessary powers to act but maybe lacked the appetite to, most have welcomed the new "early warning" proposals as a positive step towards safeguarding DB schemes.

Under the proposals, the Regulator could impose a civil fine of up to £50,000 or disqualify the director, if a scheme fails to set the statutory funding objective, appoint a chair of trustees or produce a chair's statement on funding. This fine could increase if schemes fail to disclose a wide range of events and could enforce criminal sanctions if schemes fail to give the right information at the right time.

The Regulator could issue Carillion directors with a big bill

The Regulator is considering enforcing its powers against the Carillion directors, forcing them to pay into the collapsed pension schemes.

In a letter to the Work and Pensions Committee, the Regulator's CEO, Lesley Titcomb, said that it would investigate the issue of a contribution notice against individuals who would then be required to pay cash into the schemes or to the Pension Protection Fund (PPF).

The Regulator opened an investigation into Carillion's directors shortly afterward Carillion collapsed in mid-January 2018. There are other organisations also involved in conducting their own investigations which will be used by the Regulator to aid its decision.

The Committee chair Frank Field welcomed the news although questioned the timing. He urged the Regulator to step up to the plate and act as it has so long intimated it would.

The scale of the "problem" is huge. There have been suggestions that as little under £13 million could be paid across whilst records show that Carillion's six main directors received nearly £17 million in the ten years leading to the collapse. This could be deemed little recompense, given that the PPF has been landed with a record-breaking bill of £800 million following taking on the schemes.

Cold calling "left out in the cold"

The government has confirmed the ban on pensions cold-calling will now be delayed until at least the Autumn despite the promise of tackling pension scammers being almost two years old.

Whilst the Financial Guidance and Claims Bill which introduced provisions for the ban on cold-calling received Royal Assent in May 2018, final regulations enabling the ban are still to be put before parliament.

A spokesman has been quoted as saying "... following debates in parliament, and having considered evidence from the industry, we will launch a short consultation on the draft legislation to ensure it is as effective and robust as possible. We intend to lay the required regulations before parliament this Autumn."

A long-term campaigner against cold-calling, Baroness Ros Altmann said, "it is extremely disappointing to see that even this will not happen on time", after her having worked hard to try to get a ban on cold calling into the Bill. The sentiment was echoed by her predecessor Minister of State for Pensions, Sir Steve Webb.

The pensions dashboard – delayed?

You may not be surprised to read that there are increasing concerns that the pensions dashboard has fallen behind schedule and may not be ready by the original April 2019 launch date as was originally stated (or even scrapped altogether as at the date of going to print).

The Department for Work and Pensions (DWP), took over responsibility for the project from the Treasury last October and is still to publish its feasibility study. Initially the study had been due by the end of March 2018, then by the end of spring and now the DWP says it will come out "in due course".

Whilst (most of) the UK appreciates that topics such as Brexit are taking up most of the government's time, there has been work going on behind closed doors to keep this on track.

In mid-June, Origo, a Financial Technology company and supporter of the dashboard, announced that it has successfully tested the dashboard technology to accommodate 15 million users, demonstrating the IT infrastructure is able to cope with such high volume. Their testing was certainly in-depth, given that they tested a throughput of just over 2,000 transactions per second to deal with incoming traffic from the dashboard and the responses from the pension providers.

A delay may not be too bad though, given that many are stressing that it would be better to delay the launch to make sure it is done correctly. Compulsion has been talked about although as the concern is that without compelling all providers to feed into the dashboard, it would not have full coverage, giving the end-user a bad experience if they cannot see all their benefits when they log in.

Despite this, the industry is ploughing ahead and continues to aid the development with many, including the Pensions Administration Standards Association chairwoman, Margaret Snowdon expecting a dashboard being ready for use in 2019. Origo's managing director Anthony Rafferty expects most providers will not wait to be compelled and will be happy to provide input and support without legislation.

We say the sooner the better as the dashboard is set to revolutionise the financial services industry by enabling savers to view all their pension details in place and assist individuals plan better for retirement.●

I GDPR

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OK, so it's in now. Can we all relax?

The Data Protection Act 1998 morphed into the GDPR and subsequently the Data Protection Act 2018.

Many organisations we have come across have taken appropriate and proportionate measures to comply with the new regulations. Those that have not cannot say that they were not warned!

So, what is the biggest risk that data holders face now?

This is quite probably one of complacency. There has been a heavy focus on GDPR up to the 25 May 2018 deadline and now people are moving on to other projects around the pension scheme that have been put off but are now becoming more pressing – it might be valuation season, time for investment review or a tendering exercise.

Despite this, you still need to keep on top of:

- What information you retain
- How you retain it
- Who you distribute it to

Trustees should consider having a structured method of review, perhaps a standing annual agenda item that covers these points, or more frequently if appropriate.

The minutes from these meetings should reflect the discussions and actions taken to demonstrate engagement with the process – the quality of this engagement will likely reflect in the action taken by the Information Commissioner's Office (ICO) in respect of the future breach.

I say, "the future breach", because it is only when it is recognised that this will happen that the mind is truly focussed on how and what you will be reporting to stakeholders and the ICO in respect of a breach.

Hopefully it will never happen, but hope is a strategy with some flaws.

An honest and reasonable mistake against a backdrop of sensible attempts to comply will probably save a significant amount of money and reputational damage compared to the same breach seen against a backdrop of non-compliance and low levels of engagement.

Elizabeth Denham, the ICO Commissioner, has said that "...effective Data Protection requires clear evidence of commitment and ongoing effort" which, hopefully, we all know by now. She continues, "... organisations must continue to identify and address emerging privacy and security risks in the weeks, months and years beyond 2018".

It is for you to decide how you will demonstrate this, but we should all be aware of the risks of not doing so. ●

I The CMA Review

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As you may be aware, the Financial Conduct Authority (FCA) has referred a review of the supply and acquisition of investment consultant services and fiduciary management services to the Competitive Markets Authority (CMA) for investigation.

The referral was prompted by concerns that the concentration of suppliers in this market might have adverse consequences for the quality and value of advice to pension scheme stakeholders. This concern is brought into sharpest focus in relation to fiduciary management, where consultants both advise on and recommend investment products and solutions that they manage themselves. The question is: "Does this holistic approach promote greater efficiency, or are potential conflicts of interest too much of a barrier?"

Fiduciary management provides an investment governance framework which wraps advice and implementation on both strategic and tactical levels. The concept has gained considerable traction over the last few years with pension scheme decision makers, who struggle to fit the complexities of pension scheme problems and solutions into their own busy schedules.

The number of schemes purchasing fiduciary management services has increased over the last 10 years from 61 in 2007 to 805 in 2017, according to KPMG's 2017 UK Fiduciary Management Survey. Fiduciary management provides trustees with a nimble decision-making framework and a more stringent governance solution. Historically, such solutions were used by the larger pension schemes with greater governance budgets, however offerings that may appeal to smaller pension schemes have come to the market more recently.

So far, the CMA has concluded that the investment consulting market is reasonably diverse and that concentration is not yet a major issue. However, it sees higher concentration in the fiduciary management market and, whilst this is not yet excessive, it cautions that the barriers to entry and the ambitious plans of the largest providers could become a concern.

Of note is the prevalence of schemes, nearly 75%, that use the same provider for strategic investment advice and implementation. Furthermore, less than 10% of schemes using fiduciary managers have switched providers in the last five years. Together, these statistics suggest that clients are being steered into their current advisers' solutions and have insufficient experience to test alternatives.

> *The question is: "Does this holistic approach promote greater efficiency, or are potential conflicts of interest too much of a barrier?"*

The CMA has released a series of papers highlighting its research to date plus potential remedies and measures; which, in the extreme, could include a legal separation of the two service lines and requirements to re-tender the business after a certain period to encourage investors to assess other providers in the market and actively review the current provider.

The CMA continues to seek evidence and its provisional conclusions will be published in July, with a statutory deadline of March 2019 for its final decisions.

Our own view is that we support the aim of the review and the goal of higher standards, even if this requires further regulation. Of course, one should never throw the baby out with the bathwater and we suspect that measures that encourage independent, third party oversight might be adequate. We also believe that it makes sense for strategic advice and implementation to be provided by independent parties, but that this could be promoted on a comply or explain basis. ●

DC

State Pension costing nearly as much a year as the NHS

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The state pension is expected to cost around £97 billion for the current tax year. Compare this to the seemingly astronomical cost of running the NHS at £126 billion and you can see why the government has had to continually raise the state pension age to allow the state pension to remain sustainable.

The state pension is a 'pay as you go' scheme. That means that the generation that are working pay national insurance and this pays for the state pension for those currently receiving it.

However, we have a big problem as the workers to pensioners ratio is diminishing. So, what can we do to ensure that the state pension remains sustainable for future generations?

Well the state pension age can continue to increase further (even though we aren't all living as long as we were projecting a few years ago) or the state pension could be reduced.

One quick hit could be to remove the triple-lock. The triple-lock was introduced to help many pensioners get out of poverty and it has no doubt achieved this, which is a good thing. This rule guarantees that once in payment, a person's state pension will increase by the greater of inflation, average earnings or 2.5% every year. Recently, with low inflation and low average earnings, the increase has been 2.5%, which alone cost an extra £6bn in 2016. Had the triple lock not been in place, and the state pension increased in line with inflation, the government could have saved £2bn.

Another way that will help keep the state pension financially sustainable is increasing national insurance. As mentioned earlier, a proportion of the national insurance contributions paid by those in work are used to fund the State Pension. Currently, on earnings up to c£46K everyone pays 12% of their wages towards NI. Those earning above this threshold only pay 2% on subsequent earnings. Maybe this will have to change by either raising this ceiling or increasing the 2% rate. Or what about those over state pension age paying national insurance? This would certainly help the intergenerational gap that is currently in place.

However, there is no doubt that with so much uncertainty in relation to the state pension, it is even more important for the younger generation to save into a private pension in order to retire with a decent level of income. That is an article for the next edition of QNews!

Quantum chronicles

Past Events

- Seminar in conjunction with CIPD, Cardiff - 07.02.2018
- Quantum Advisory Tŷ Hafan Dinner @ The Celtic Manor, Newport - 03.03.2018
- Wales and South West Pensions for Breakfast @ The Celtic Manor, Newport - 08.03.2018
- Seminar in conjunction with CIPD, Taunton - 14.03.2018
- CIPD South West Wales roadshow - 01.05.2018
- Wales and South West Pensions for Breakfast @ The Celtic Manor, Newport - 06.06.2018
- Seminar in conjunction with Darwin Gray, Cardiff - 14.06.2018
- Community Housing Cymru (CHC) Finance Conference, Powys - 05.07.2018
- Conference and T20 cricket @ Sophia Gardens, Cardiff - 20.07.2018

Upcoming Events

- Trustee Training Course Part 1, Cardiff - 13.09.2018
- Trustee Training Course Part 2, Cardiff - 11.10.2018
- Wales and South West Pensions for Breakfast @ The Celtic Manor, Newport - 08.11.2018
- Trustee Training Course Part 3, Cardiff - 15.11.2018

New arrivals

Azam Tariq
Kieran Harwood
Mike Welford
Georgina Yates
Leanna Corless
Lee Hayes
Iram Awan-Shah
George Loizou
Lewis Grant
Marc Ashman
Sian Robbins

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

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
- Health and Wellbeing
- 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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