Gender pensions pay gap
The pensions industry's efforts to shrink the savings gap between men and women at retirement

ESG
The changing nature of sustainable investing

Technology
Does the shift to digital communications risk leaving behind the less technologically savvy?

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July/August 2022

PENSIONS*Age*

The leading pensions magazine

Global pensions assets/GDP ratio: *Growing global pension assets and how asset allocations are changing*

Overseas pensions markets: *The latest happenings in key pensions markets across the world*

On thin ice

Is the UK's pension system teetering on the brink of disaster?

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Editorial Comment

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

For a long time, the UK pensions industry could have been accused of being blind to the world around it. Keeping its head down, focusing on its own issues and barely glancing up to acknowledge concerns not directly related to pensions saving.

Of course, it would always keep a beady eye on developments in the macro economy for how they relate to pension investments. But recently, that gaze has been cast wider, looking at developments that may not immediately, or directly, impact the running of the pension schemes.

One example is the increased investment focus on climate change, sustainable investing and ESG considerations. Considered for so long a 'nice-to-have' and not directly relevant to trustees' fiduciary duties, sustainable investing is now firmly in the sights of all pension funds. Regulatory rules have helped place climate matters into eyelines, but even without this push awareness had been growing of the power investment decisions can have to generate literally earth-saving changes.

You can't get much bigger than saving the world, so it's only right that we explore the evolution of ESG within this issue, with its theme of 'the big picture' – see page 60 for more details.

Tackling climate change involves looking ahead, by aiming to become net zero by 2050 for example. But a major issue affecting people right now is the cost-of-living crisis, as our feature on page 34 explores.

While petrol prices, rising energy bills and the need to change the weekly shop from Waitrose to Aldi does not seem to directly relate to pensions, they do if you look closely enough.

Pensioners grappling with soaring costs is the obvious link. But also of concern is whether savers will cut back or even stop their pension contributions to help ease their current financial strain – helping solve one problem now but potentially storing a future issue when it comes to retiring with a smaller pension pot. The industry will need to keep its eyes peeled.

Seeing the big picture, such as considering peoples' overall finances and not just looking at pension saving in silo, is great and needed. But the true image emerges in the details.

For instance, there are $60 trillion of global pension assets, with a pensions-assets-to-GDP ratio of 76 per cent.

However, exploring the numbers further, as done on p48 this issue, you see that just three countries (the US, UK and Japan) own 75 per cent of those assets and that there are wide pensions-to-GDP ratio variations between countries.

Plus a country's GDP ratio does not show the whole pensions story. For example, the UK's 100 per-cent-plus pension-assets-to-GDP ratio hides the fact that, despite active DC membership far outstripping active DB, the sheer size of legacy DB benefits means UK pension assets are split 80/20 in favour of DB.

Our cover feature *[see p42]* does some navel gazing at the UK pensions system and finds challenges almost everywhere it looks – too-low minimum AE contribution levels creating a future retired population with inadequate savings being just one of many concerns to watch out for.

For women the risk of insufficient savings is even greater. Recent research finds that at age 65, women will have a 33.5 per cent smaller pension than a 65-year-old man, due to factors such as women taking career breaks and being more likely to work part time, as our feature on page 46 finds.

Encouraging pension saving through effective communications is one way to help solve this challenge. To assist with this, the UK pensions sector is finally seeing the wonders technology brings to easily provide tailored, timely messages to members. However, pension schemes need to keep an eye on their non-digitally-savvy members to ensure they are not left behind, our feature on page 64 warns.

Pensions Age magazine will be back in September *[although the pensionsage.com website will still be bringing you your daily pensions news]*, refreshed and ready to see the latest industry challenges ahead, both big and small.

Laura Blows, Editor

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On thin ice

With woefully inadequate private sector DC contributions and increasingly unaffordable unfunded public sector provision, is the UK's pension system teetering on the brink of disaster?

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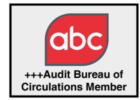

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Dateline - June 2022

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

6 June Government legislation that will take forward the recommendations set out in the **Competition and Markets Authority's** (CMA) final order will come into force from 1 October 2022. The CMA order was published in June 2019 and requires pension trustees to run a tender when selecting a fiduciary manager for more than 20 per cent of their assets and to set objectives for their investment consultants. The government's regulations will "broadly replicate" the CMA order and, subject to parliamentary approval, will come into force on 1 October 2022. This is a delay from the original date proposed in the consultation, which was launched after the CMA order was published, due to reprioritisation brought on by the onset of the Covid-19 pandemic. The Pensions Regulator (TPR) will oversee the new duties, which trustees have been complying with since the CMA order came into force.

7 June TPR and the **Financial Conduct Authority** (FCA) publish a feedback statement in response to their call for input on what can be done to help engage consumers to make informed decisions for better pension outcomes. It says that most respondents agree that the stages of the consumer journey that were set out provide a broad basis for engaging the consumer, although respondents note that the journey was highly personalised and non-linear, with consumer decisions and touchpoints mainly shaped by people's life events.

10 June TPR lays its new code of practice for the authorisation and supervision of collective defined contribution (CDC) schemes before parliament. This should allow the code to complete its legislative passage through parliament in time for trustees to apply for authorisation to operate a CDC scheme from 1 August, as set out in the consultation launched in January.

11 June Guy Opperman becomes the longest serving Pensions Minister, having been in the post for a total of 1,823 days, as of 11 June 2022. His ongoing tenure since 14 June 2017 means he has surpassed the 1,822 days Steve Webb was in the job between 12 May 2010 and 8 May 2015.

11 June The **Department for Work and Pensions** (DWP) launches a consultation on decumulation, as it seeks to understand what type of support savers need when they decide to access their pension pots. The call for evidence asks consumer organisations and pension savers what pension products and investment options are currently available from pension schemes, and what may be offered in the future. In addition, the government is keen to gather information on how savers want to be supported at three stages of decumulation: In the lead-up to taking their pension; when they access their pension; and after they have started to spend or further invest their savings. Previous research into decumulation by the FCA found that many people choose the 'path of least resistance' when accessing their savings. This usually means taking an annuity from their current pension provider without shopping around, or without being aware of how their savings are being further invested in an income drawdown arrangement. It also seeks views on whether Nest's range of decumulation options can be expanded.

13 June TPR will launch a second consultation on the defined benefit (DB) Funding Code in the autumn of this year, with the code to be operational from September 2023. In its announcement of its new corporate plan, TPR notes that changes in the code will be forward-looking, and therefore only schemes with valuation effective dates on or after its commencement date will be affected.

15 June The government is planning to launch a consultation on changes to **Local Government Pension Scheme** (LGPS) pooling regulations in autumn 2022, Department for Levelling Up, Housing and Communities head of local government pensions, Theresa Clay, announces. Addressing delegates at the PLSA Local Authority (LA) Conference, Clay states that the existing framework is "no longer fit for purpose" and the government is therefore looking to consult on strengthening it.

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

20 June The **government** is pushing ahead with requirements for pension trustees to calculate and disclose a portfolio alignment metric on the extent to which their investments are aligned with the Paris Agreement. The plans, which will come into force from 1 October 2022, will require trustees to obtain and use data to calculate their selected portfolio alignment metric "as far as they are able", and aim to ensure that more than 80 per cent of UK members will be invested in schemes that are helping to limit climate risk. The DWP confirms that it does not intend to make any change on the scope and timing of the measures, despite some industry concerns, particularly around data.

20 June The **DWP** confirms plans for over 160,000 scheme members to be encouraged to learn more about making greener pension choices in a new three-week 'green nudge' trial. The trial, which was initially commissioned as part of the government's COP 26 agenda, will look to explore the impact of behavioural nudges on increasing saver engagement with the sustainability of pension investments and how this could translate into greener pension decision-making.

22 June TPR launches a new campaign urging trustees to start preparing for the pensions dashboards deadline and publishes new guidance based on the draft regulations published by the government. The 'Deadline' campaign launches following research from TPR that found trustees are yet to get their preparations "sufficiently underway" and are at risk of failing to meet their legal pensions dashboards duties.

23 June The **Small Pots Co-ordination Group** publishes its spring 2022 report, outlining three potential solutions to address the increasing number of small, deferred pension pots in the auto-enrolment pension market. These include a 'pot follows member' model when an employee moves jobs, whereby their deferred pension pot in their former employer's scheme automatically moves with them to their new employer's scheme, with the opportunity to opt out.

23 June The **Pensions Dashboards Programme** (PDP) connects Moneyhub's pensions dashboard with its central digital architecture. Moneyhub's dashboard is the first commercial dashboard to be successfully connected to the architecture, in addition to the MoneyHelper non-commercial dashboard and the Money and Pensions Service. This connection means that the next phase of 'extensive detailed testing' can proceed through the second half of 2022 and beyond. Moneyhub is one of three potential commercial dashboard providers chosen to work with the PDP in the alpha phase. As multiple dashboards are now integrated with the government's central technology components, such as the identity service, the consent and authorisation service and the pension finder service, extensive end-to-end testing can begin through the central architecture and with the connected volunteer data providers, such as Altus/ITM, Heywood and Mercer. Heywood also announces that it has connected its internet service provider solution to the architecture and is starting to expand its testing of end-to-end transactions. The company's first involvement with the programme began in 2016, when it participated in building a dashboard prototype.

28 June The **DWP** launches a consultation seeking further views on the dashboards available point (DAP), and on the disclosure of information between the Money and Pensions Service (Maps) and TPR. Feedback from the initial consultation argues that the DAP should be "carefully selected" and agreed on by DWP, Maps, TPR and the FCA, with particular concerns raised that the availability of the state pension data could be the determining factor in when the DAP is.

News focus

PDP connects first commercial pensions dashboard

The PDP has successfully connected the first commercial pensions dashboard to its central digital architecture. Meanwhile, the DWP has launched a consultation on the dashboards available point and TPR published guidance ahead of the connection deadline

The Pensions Dashboards Programme (PDP) has connected Moneyhub's pensions dashboard with its central digital architecture.

Moneyhub's dashboard is the first commercial dashboard to be successfully connected to the architecture, in addition to the MoneyHelper non-commercial dashboard and the Money and Pensions Service (Maps).

This connection means that the next phase of 'extensive detailed testing' can proceed through the second half of 2022 and beyond.

Moneyhub was one of three potential commercial dashboard providers chosen to work with the PDP in the alpha phase.

As multiple dashboards are now integrated with the government's central technology components, such as the identity service, the consent and authorisation service and the pension finder service, extensive end-to-end testing can begin through the central architecture and with the connected volunteer data providers, such as Altus/ITM, Heywood and Mercer.

"We are delighted to have connected our dashboard in the planned six-month alpha timeline," commented Moneyhub CCO, Dan Scholey.

"There is now considerable appetite amongst pension providers, banks and other organisations to offer their customers a single view of their finances in order to make more informed decisions and deliver better outcomes.

"We are proud to be building on our pioneering open finance heritage, bringing solutions to our clients' customers, giving them control over their financial information, and enhancing their financial wellbeing."

Meanwhile, The Pensions Regulator (TPR) has launched a new campaign urging trustees to start preparing for the pensions dashboards deadline and published new guidance based on the draft regulations published by the government.

The 'Deadline' campaign has been launched following research from TPR that found trustees are yet to get their preparations "sufficiently underway" and are at risk of failing to meet their legal pensions dashboards duties.

TPR hopes that its new guidance will help trustees meet these responsibilities in time for the launch of dashboards.

It stated that robust and accessible data and failsafe systems were essential to ensuring that pensions dashboards offer savers the information they need to make informed decisions about their retirement savings.

According to research from the regulator, 51 per cent of defined contribution (DC) and 33 per cent of defined benefit (DB) schemes continue to hold at least some member records non-electronically, while just 4 per cent of DC and 9 per cent of DB schemes have begun to digitise the information they hold in preparation for dashboards.

Furthermore, just 37 per cent of schemes have discussed pensions dashboards at their trustee board meetings, while a similar proportion have engaged with their administrators about their scheme data.

"Clear pensions information at the touch of a button will ensure savers are better informed and more engaged and will help people plan more effectively for retirement," commented Pensions Minister, Guy Opperman.

"It's vital providers are preparing for their introduction and I urge them to take action now if they have not done so already."

TPR urged trustees to check their connection deadline, have dashboards firmly on their board agendas, decide how they will connect, and take stock and digitise their data.

It also called on trustees, scheme managers and administrators to attend a pensions dashboards webinar on 28 July.

More detailed and up-to-date guidance will be published by TPR later this year, and will reflect the final regulations and technical standards being developed by Maps.

Later in the month, the Department for Work and Pensions (DWP) launched a consultation seeking further views on the dashboards available point (DAP), and on the disclosure of information between Maps and TPR.

The DWP previously ran a consultation on the draft pensions dashboards regulations, which outline the requirements pensions dashboards and their providers, and the trustees and managers of relevant occupational pension schemes, will need to meet.

Feedback from this initial consultation argued that the DAP should be "carefully selected" and agreed on by DWP, Maps, TPR and the Financial Conduct Authority, with particular concerns raised that the availability of the state pension data could be the determining factor in when the DAP is.

In light of this, the DWP's latest consultation, which closes on 19 July, has proposed including a provision on the DAP within the regulations, which would require the Secretary of State to issue a notice on when the DAP will be on the government website.

In deciding the date for the DAP, according to the consultation, the Secretary of State "must be satisfied that the dashboard ecosystem is ready to support the widespread use of qualifying pensions dashboard services", including consulting with Maps, TPR and the FCA, and considering matters such as security and conformance testing.

The formal announcement by the Secretary of State would be a "final confirmation", although DWP has committed to working transparently with Maps and the broader industry to provide updates on plans for the DAP "well in advance" of this formal notice.

"There will be significant communications between the government, Maps, and industry in the lead up to any announcement and so at the point at which the DAP is announced, it should not come as a surprise," the consultation stated.

Indeed, the DWP also acknowledged the need for the notice period, the time between the issuing of the final confirmation and the DAP itself, to "strike the right balance", suggesting that a period of three months or 90 days would be "sufficient".

The consultation is also seeking views on the sharing of information between Maps and TPR, with a new draft provision that looks to establish a 'clear power' to expressly enable Maps to disclose information to TPR in relation to pensions dashboard services.

Written by Jack Gray and Sophie Smith

VIEW FROM TPR

Tough prison sentences alone aren't enough to dissuade all scammers and secure savers' pension pots.

The sentencing of Alan Barratt and Susan Dalton after they admitted charges of fraud by abuse of position arising from their roles as pension scheme trustees highlights our commitment to pursue scammers and protect savers.

Dalton and Barratt's crimes took place between 2012 and 2014, but there's much we can do to keep savers safe from scams now. That's where we need the pension industry's help.

First, we need trustees to make use of new powers to block transfers they suspect are scams and second, to report any suspected scams.

Our recognition of the potential power industry holds in stopping scams is why we launched our Pledge to Combat Pension Scams campaign.

I encourage everyone in the industry to get to know the warning signs of a pension scam. They should regularly warn members about the risk of scams. And we want to see trustees of defined contribution schemes following our guidance on meeting new duties to offer to book Pension Wise appointments for members.

Importantly, schemes should report concerns about scams to the authorities. To help ensure that this can be done effectively we and our partners have published a guide to reporting pension scams.

The pension industry is best placed to recognise signs of a scam and has the power to act. I urge everyone in the industry not to sit on suspicions but help protect savers by reporting concerns.

TPR executive director of frontline regulation, Nicola Parish

Paris-aligned disclosures to come into force from October 2022

The government is pushing ahead with requirements for pension scheme trustees to calculate and disclose a portfolio alignment metric on how their investments align with the Paris Agreement

The government is pushing ahead with requirements for pension trustees to calculate and disclose a portfolio alignment metric on the extent to which their investments are aligned with the Paris Agreement.

The plans, which will come into force from 1 October 2022, will require trustees to obtain and use data to calculate their selected portfolio alignment metric "as far as they are able", and aim to ensure that more than 80 per cent of UK members will be invested in schemes that are helping to limit climate risk.

Following its consultation, the Department for Work and Pensions (DWP) has confirmed that it does not intend to make any change on the scope and timing of the measures, despite some industry concerns, particularly around data.

Indeed, the DWP's consultation response emphasised the need for the industry to recognise the "now well-documented urgency of the threat climate change presents", explaining that by including schemes between the £1bn and £5bn bracket, it is capturing around an additional 30 per cent of assets under management "without delay".

In light of this timeline, the DWP also published its statutory guidance alongside the consultation response, acknowledging that clear, coherent and timely guidance will be a key resource for trustees.

However, it argued that it was not necessary to delay the introduction of the requirements, as all trustees in scope of the regulations should have the necessary governance capacity and expertise to calculate at least a binary portfolio alignment metric.

Furthermore, whilst DWP acknowledged that it is "not an entirely optimal outcome" for trustees to be required to report against alignment metrics before asset managers in scope of the Financial Conduct Authority's TCFD regime are required to report them, it does not believe this is a strong enough reason for delay.

In addition to this, although the DWP acknowledged that the accessibility, coverage, and quality of the data is a key challenge for trustees, it argued that the 'as far as they are able' principle helps address data availability concerns in relation to certain assets when calculating a portfolio alignment metric.

The DWP also suggested that there has already been "rapid advancement in data availability", predicting further improvements in transparency through the planned implementation of the UK Sustainability Disclosure Requirements.

Additionally, whilst the DWP acknowledged industry concerns around methodological challenges when calculating and reporting portfolio alignment metrics, it stated that these concerns were not strong enough to delay the implementation of portfolio alignment metrics or prescribe one portfolio alignment metric over others.

The DWP has also confirmed plans for over 160,000 scheme members to be encouraged to learn more about making greener pension choices in a new three-week 'green nudge' trial.

The trial, which was initially commissioned as part of the government's COP 26 agenda, will look to explore the impact of behavioural nudges on increasing saver engagement with the sustainability of pension investments and how this could translate into greener pension decision-making.

The DWP, in partnership with the Behavioural Insights Team, will be working with three providers, Aviva, Smart Pension and Hargreaves Lansdown, to deliver these 'green nudges' to encourage savers to invest in more sustainable pensions.

The results of the project will be published "later this year", with Pensions Minister, Guy Opperman, suggesting that the trial will provide "vital insight" into how interventions can boost saver engagement and encourage greener choices.

"Through the productive long-term investment power of pensions, we can help the UK get to net zero and deliver both investment returns and a sustainable planet," Opperman continued. "I look forward to seeing the results."

Written by Sophie Smith

TPR's new DB Funding Code to be operational from September 2023

The long-awaited DB Funding Code is expected to be operational from September 2023, with the regulator planning a second consultation for the autumn of 2022. It made the announcement within its new corporate plan, which builds on its previous three-year plan

The Pensions Regulator (TPR) will launch a second consultation on the defined benefit (DB) Funding Code in the autumn of this year, with the code to be operational from September 2023.

In its announcement of its new corporate plan, TPR noted that changes in the code will be forward-looking, and therefore only schemes with valuation effective dates on or after its commencement date will be affected.

The regulator's new two-year corporate plan builds on last year's three-year plan and aims to maintain the fight against pension scams, measure value for money for savers and help schemes become 'dashboard ready'.

It hopes to achieve these goals by continuing to call on schemes to take its pledge to combat pension scams, working with the Department for Work and Pensions and Financial Conduct Authority on a future consultation for a value for money framework, and assess how smaller defined contribution schemes offer value for money.

Furthermore, TPR will work with its partners on the Pensions Dashboards Programme, as well as launch a programme of education that will highlight the steps schemes need to take to meet their dashboard duties.

TPR also announced that it will develop its organisational capability through the creation of a 'Digital, Data and Technology directorate'.

It hopes that by being data-led and digitally enabled, TPR can enhance its ability to regulate effectively and efficiently.

In other news, TPR laid its new code of practice for the authorisation and supervision of collective defined contribution (CDC) schemes before parliament.

This should allow the code to complete its legislative passage through parliament in time for trustees to apply for authorisation to operate a CDC scheme from 1 August, as set out in the consultation launched in January.

The code is expected to be made after it has laid in parliament for 40 days.

It sets out how trustees can apply for authorisation and how TPR will assess schemes against the statutory authorisation criteria, and reflects governmental regulations for CDC schemes.

Written by Jack Gray

VIEW FROM THE PPI

Whether you're a saver or a pensioner, customer or professional, it's difficult to tell how the vast UK pension system fits together, where things are going well and why, and what is changing over time.

Last year, the PPI embarked upon a project to tackle these questions. In 2021, we designed the *UK Pensions Framework*, the first research instrument of its kind to look across the whole UK pension system to understand how policy changes in one area can affect aspects of another and how cumulative impacts add up.

This year, we're analysing over 40 different indicators that can help us develop a picture of how the system is working through the lenses of adequacy, sustainability and fairness. So far, we're seeing that improvements in the number of people contributing to private pensions are offset by the relatively low level of savings they are putting aside, and that where improvements are being made, they're often not made equally among different groups. We're seeing how changing patterns in employment and lifetime saving are leading to significant variation in the extent to which people might achieve adequate financial outcomes in retirement, and the extent to which these outcomes might be sustainable, or the differences fair.

In late November, we'll bring all these findings together in one report. We'll use it to compare changes year-on-year. Watch this space!

PPI research associate, Anna Brain

VIEW FROM THE PLSA

The PLSA's June Local Authority Conference saw the launch of *LGPS: Today's Challenges, Tomorrow's Opportunities.*

The report found that there should be a significant push to ensure the existing regulatory framework works in a more joined-up and coherent way. The next is that we are calling for additional work to explore and share best practice in both assessing and proactively communicating employer risk and employer responsibilities early on. This work could also help to manage employer exits where appropriate, building on what is already available. A third point is that we recommend obtaining a robust and granular understanding of the LGPS membership profiles, and for LGPS savers' voices to be represented at a more macro level on regulatory, policy and political discussions relating to pensions. Finally, amid ongoing cost constraints on local authorities, we are recommending a review of its *2018 Talent Management Guide* and sharing best practice in people management. With these recommendations in mind – and for the long-term sustainability of the LGPS – there urgently needs to be a significant push to ensure the existing regulatory framework operates in a more joined-up and coherent way, and the underlying operational challenges identified within our report must be effectively managed.

PLSA head of DB, LGPS and investment, Tiffany Tsang

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

Trio of recommendations outlined to help tackle small pots issue

Small Pots Co-ordination Group has published its recommended solutions to the increasing number of small, deferred pension pots, including using a 'pot follows member' model, multiple default consolidators and a member exchange model to merge deferred and active pots together

The Small Pots Co-ordination Group has published its spring 2022 report, outlining three potential solutions to address the increasing number of small, deferred pension pots in the auto-enrolment (AE) pension market.

The group, which includes experts from the Department for Work and Pensions (DWP), several pension providers, industry, regulatory and consumer bodies, and stakeholders, was set up to tackle the issue being caused by people working multiple jobs over the course of their careers and being auto-enrolled into multiple schemes.

It recommended that a 'pot follows member' model should be used when an employee moves jobs, whereby their deferred pension pot in their former employer's scheme automatically moves with them to their new employer's scheme, with the opportunity to opt out.

A multiple 'default consolidators' model was also recommended, which would see certain pots being automatically transferred to a small pot consolidator, with the saver given the option to opt out.

The group noted that this model comes with a variety of design choices, although it discounted the idea of a single default consolidator.

Thirdly, it proposed a member exchange model, which would identify a small, deferred pot in one master trust and an active pot in another, and merge the two into an active pot.

The group suggested that a combination of these three models may be the best approach, although it acknowledged that further legislation would be needed for the models to work.

It noted that the member exchange pilot had identified that creating a framework for transfers without savers' consent was not possible at this stage.

Therefore, the group has recommended that legislation be brought forward that compels relevant providers to take part in the solution, defines the pots in scope and defines the liability model.

Contract-based providers in the AE market should also be enabled to carry out non-consented transfers, the group recommended.

Further analysis on the three models by the industry and government is needed, the group noted, to help understand the best outcome for savers.

Written by Jack Gray

PLSA LA Conference: Govt to consult on LGPS pooling

The government has announced that it plans to consult on changes to the LGPS pooling framework in the autumn, describing the current framework as no longer fit for purpose and stating that it will seek evidence on how to strengthen it

The government is planning to launch a consultation on changes to Local Government Pension Scheme (LGPS) pooling regulations in autumn 2022, Department for Levelling Up, Housing and Communities head of local government pensions, Theresa Clay, has announced.

Addressing delegates at the PLSA Local Authority (LA) Conference, Clay stated that the existing framework is "no longer fit for purpose" and the government is therefore looking to consult on strengthening it.

Some of the proposals that are expected to be in the consultation include requiring investment pools to 'have a plan' to invest up to 5 per cent of assets to support the government's 'levelling up' plans, requirements on the management and reporting of climate risks, and accelerated progress on the transition to asset pools.

It is also expected to include proposals for strengthened requirements on training and expertise, greater transparency in annual reports, new scheme-level reporting, and setting a direction for greater scale and collaboration.

"We want to continue to see lower costs and better performance in this new context, and I do recognise what a big ask that is," Clay stated.

"That's a very big agenda, and you are facing substantial pressures, and for many funds that is going to be very challenging.

"Going beyond that, I think there is a wider ambition to keep up with private pension schemes and to ensure that the LGPS fully punches its weight.

"I think we'd agree that the LGPS does not have the real weight and influence that its scale should give it.

"To do that, it would need a much stronger presence and I think some of the proposals are intended to ensure that we have a much clearer public stance on what the LGPS is collectively achieving.

"We are planning to consult in autumn 2022. Final decisions have yet to be taken about whether we will consult on this all in one go."

In other news, McCloud remedy regulations that would extend the LGPS statutory underpin protection to younger members of the scheme are expected to come into force from October 2023.

Local Government Association senior pensions adviser, Lorraine Bennett, said that the Department for Levelling Up, Housing and Communities would likely respond to its consultation on the regulations in the autumn.

Written by Jack Gray

VIEW FROM AMNT

A bonfire of the vanities is a burning of objects condemned by religious authorities as occasions of sin. The phrase itself usually refers to the bonfire of 7 February 1497, when thousands of objects such as cosmetics, art and books, were burnt in the public square of Florence, Italy, on the occasion of Shrove Tuesday.

The phrase has since been used to denote any destruction of objects, regulations or prohibitions that are viewed as frivolous or impediments to progress.

The Finance Bill, implementing changes to the regulatory authority post-Brexit, has recently obtained royal assent. This maintains and even strengthens penalties for wrongdoing, but it also is designed to free up elements of the investment market.

Having worked in the finance industry for over 40 years I have witnessed at first hand a number of 'bonfires' instigated by governments based on the opinion that such regulations impeded innovation and speculation. Invariably they produce the expected stimulus but also open the door to riskier and less welcomed ingenuity. Thus, we had the crash of 2008.

The Pensions Regulator, working with other financial authorities, needs to ensure innovations do not come at a price. Otherwise, like the original bonfire of the vanities, the masterpieces of the renaissance get destroyed alongside the frivolities.

AMNT member, Stephen Fallowell

Association of Member Nominated Trustees

NEWS IN BRIEF

The Pensions Regulator (TPR) has urged small defined contribution (DC) schemes to show that they offer value or wind up, after research revealed that trustees of most small schemes are unaware of new value for member duties. TPR's annual survey of DC pension schemes found that two-thirds of schemes with less than £100m in assets under management were unaware of new requirements to carry out a more prescriptive value for members assessment.

Wealth Wizards has launched a new software solution, Turo Wellbeing, which aims to enable advice firms, life assurers, banks and building societies to help consumers improve their financial wellbeing and plan for a more prosperous retirement. Royal London is already using Turo Wellbeing to create a series of personalised journeys to help its customers.

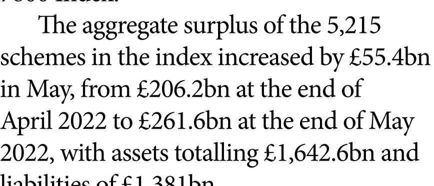
The number of people of pensionable age is projected to reach over 15.2 million by 2045, a 28 per cent increase on the level in 2020, due to rising life expectancy and an ageing population, the **Institute for Fiscal Studies** has projected.

The average time for FTSE 350 pension schemes to buyout their DB liabilities has fallen to a historic low, **Barnett Waddingham's** DB End Gauge Index has revealed. Over the month to 31 May 2022, the average time to buyout for the FTSE 350 DB pension schemes fell by one year and four months to 8.3 years, the lowest recorded figure since Barnett Waddingham launched its monthly End Gauge analysis in December 2020.

DB schemes' aggregate funding ratio reaches record high

Amid the continuing trend of improved scheme funding, the aggregate funding ratio of DB schemes in the UK reached a record high of 118.9 per cent at the end of May 2022, while the aggregate surplus of the schemes in the PPF 7800 Index rose to £261.6bn

The aggregate funding ratio of defined benefit (DB) pension schemes reached a record high of 118.9 per cent at the end of May, up from 114 per cent a month prior, according to the Pension Protection Fund (PPF) 7800 Index.



The aggregate surplus of the 5,215 schemes in the index increased by £55.4bn in May, from £206.2bn at the end of April 2022 to £261.6bn at the end of May 2022, with assets totalling £1,642.6bn and liabilities of £1,381bn.

It was also revealed that 1,450 schemes were in deficit and 3,765 schemes in surplus, with the aggregate deficit of the schemes in deficit at the end of May found to be £28.2bn, down from £47.8bn at the end of April.

In response to the update, Buck head of retirement consulting in the UK, Vishal Makkar, urged caution, suggesting that, for some scheme sponsors, the outlook "may not be so positive".

Makkar pointed to the announcement from the ONS of the GDP's fall for a second consecutive month in April and suggested that high inflation and the cost-of-living crisis could continue to negatively impact industries like hospitality.

He added that the delay to the new DB Funding Code, which is now not due until September 2023, and the subsequent lack of certainty could add to the challenges currently facing trustees.

PPF chief finance officer and chief actuary, Lisa McCrory, added: "Last month's 7800 Index set two new records – the highest aggregated funding ratio and the lowest number of schemes in deficit on record.

"This continues the trend of improving funding driven by rising gilt yields. Whilst it's positive to see these ongoing improvements in scheme funding, we are mindful that the impacts for individual schemes will be varied and that some schemes remain materially underfunded."

In other news, Smiths Group's TI Group Pension Scheme completed a £640m buy-in with Rothesay, insuring the benefits of more than 8,750 members.

The deal is the scheme's seventh bulk annuity transaction, and its third with Rothesay, and protects the benefits of all remaining uninsured members, consisting around 800 pensioners and approximately 7,950 deferred pensions.

The scheme has now completed its de-risking journey, following seven buy-ins over the past 14 years, and will progress to buyout and windup over "the coming years".

Written by Tom Dunstan and Jack Gray

Market commentary: The inflation situation

The cost-of-living crisis has been a dominating force over the past month, with strikes demanding pay rises dominating the headlines and affecting many people's lives. An example of this came from the Joseph Rowntree Foundation, which suggested that the uprating for 2022 had the "biggest fall in the real value of the basic rate of unemployment benefits in 50 years". Market forces have been no exception to its impact either, as its influence has been felt across the market.

One of the most obvious areas of influence for the crisis has been in the real value of people's pensions following the rise inflation. This is something that the PLSA points out in its written evidence. "With the state pension increased by just 3.1 per cent in April 2022 (in line with CPI at the time), this represents a 5.9 per cent loss in pensioners purchasing power," it said.

The consequences of this real value reduction of people's pension have been explored by other industry experts such as Scottish Widows head of policy, Pete Glancy. "Record-breaking inflation does not just threaten peoples' ability to save, it can also severely reduce the value of the savings they already have if they are not invested appropriately," he warned.

Glancy also described possible solutions and directions for the industry to focus on in the wake of the crisis. "The public policy aim should not simply be to help people accumulate the largest possible pension pot. *[It should be]* to explore creative and holistic solutions to help them enjoy the best possible standard of living in retirement," he stated.

The cost-of-living crisis has affected the ability for schemes to make investments. "Against a backdrop of rising prices and tightening real wages, it is a tough time for schemes looking to invest, with the World Bank predicting a worldwide economic contraction. At the same time, with rates significantly behind inflation levels, 'safe'

assets are also of limited appeal. We have historically seen long-term equity investors rewarded for riding out bear markets but would recommend that clients seek advice on how their investments can be structured to best manage their objectives," XPS Pensions Group senior investment consultant, Felix Currell, said.

The crisis has also been responsible for an increase in the amount of pension transfers in recent months.

"It is interesting to see a small uptick in members completing a transfer during May, despite the continued slide in transfer values," XPS Pensions Group head of member options, Mark Barlow, said.

"This could be a response to the cost-of-living crisis, highlighting the importance of providing support to members to ensure they don't make an uninformed decision or leave themselves susceptible to scammers," he continued.

There were some glimmers of optimism though, as it was discovered that participation in workplace pensions has increased; something that Pensions Minister, Guy Opperman, praised.

"It's encouraging to see that, despite the considerable challenges of the past few years, overall participation in workplace pensions among eligible employees has remained stable and total contributions have increased in real terms," he said.

"Thanks to the success of automatic enrolment (AE), a record number of Brits are now saving for retirement and our ambition for the future of AE will enable even more people to save more and to start saving earlier."

Written by Tom Dunstan

VIEW FROM THE PMI

With the planned launch of the pensions dashboards less than a year away, The Pensions Regulator is taking a robust approach to ensuring that trustees are familiar with their responsibilities and able to comply fully with the new regulations when required to do so. TPR has issued initial guidance for trustees to review their readiness and to address any existing compliance risks.

However, it is clear that too many schemes still have much to do if they are to be fully ready by their staging date. TPR's research shows half of DC schemes and a third of DB schemes still hold member data in non-digital form. Whilst this problem is less likely to affect larger schemes – who are to stage first – it does indicate that a smooth implementation of the dashboard project as a whole will require significant amounts of work to be completed within a very tight timescale.

As an educational body with a specific role in supporting pension scheme trustees, PMI will offer extensive educational opportunities during the whole of the roll-out period. The dashboard is the single largest innovation in the UK's pension system since the introduction of automatic enrolment just over a decade ago. It is vital that we work closely together to ensure that the success of automatic enrolment is repeated.

PMI director of policy and external affairs, Tim Middleton

Appointments, moves and mandates

The Pensions Management Institute (PMI) has appointed Capita Pension Solutions as data and dashboard insight partner.

As part of the partnership, Capita Pension Solutions will host webinars, interviews, and panel discussions for PMI members on key data topics, as well as contribute research and case studies to increase awareness amongst PMI members of the importance of good quality data in delivering better outcomes.

PMI members will also be able to access Capita Pension Solutions data insight and experience through multiple distribution channels, including email newsletters and its Insight Partners web area.

PMI CEO, Gareth Tancred, commented: "Data and dashboards continue to represent an interesting and challenging feature of pension scheme management. With an evolving regulatory landscape and the long-awaited pensions dashboard now in progress, it is essential that trustees and the industry are well versed in the details of this area. We look forward to working with the business as our partner and to champion thought leadership in the pensions sector."

Jon Walters

PAN Trustees has appointed Jon Walters as a new partner. Walters, who previously spent nearly 20 years with Eversheds Sutherland, is a qualified solicitor with over 18 years of pensions industry experience, which has seen him advise trustees, sponsors and providers in connection with a wide range of matters for both defined benefit and defined contribution pension schemes, including authorised master trusts.

Laura Gilbert

Cardano has named Laura Gilbert as its new group chief financial and risk officer.

In her new role, Gilbert will be responsible for overseeing the company's finance and risk departments, helping to develop the firm's strategic direction and engage with key stakeholders. She benefits from more than 20 years of experience in senior finance roles and joins the firm from Lowell Group, where she was a managing director.

Nigel Rodgers

B&CE, the provider of The People's Pension, has named Nigel Rodgers as chief information officer. Rodgers joins from Curtis Banks, where he was group chief information officer, having previously held senior roles at Legal & General, Cofunds and Suffolk Life. In his new role, Rodgers will be responsible for leading the IT function and driving the digital agenda as the organisation looks to enhance customer experience through digitisation.

Andrew Darfoor

Capita Pension Solutions has named Andrew Darfoor as non-executive director, following the departure of Babloo Ramamurthy. Darfoor brings with him more than three decades of experience in the insurance, pensions and employee benefits sector as a non-executive director. Based in the UK, his appointment is expected to further strengthen Capita Pension Solutions' commitment to executing its digital delivery and growth strategy.

Maria Johannessen

Aon has appointed Maria Johannessen as investment leader for the London region. Johannessen joins from Mercer, where she was a partner working with investment advisory and fiduciary clients. Prior to this, she spent six years as a corporate strategy adviser at PwC. She also previously held roles at BlackRock Asset Management and UBS Investment Bank, and has advised a wide range of clients in her career, including non-pension fund asset owners.

The Welsh Pensions Partnership (WPP) has appointed Russell Investments to develop its private credit investment programme.

The appointment was made following a competitive tender process, run by Bfinance and Carmarthenshire County Council, the host authority. Under the appointment, Russell Investments will construct and manage WPP's private credit portfolio, with a focus on diversification across investment strategies, sectors and geographies. It will look to utilise closed-ended primary investment funds, secondaries and direct investments to enhance WPP's strategic asset allocation, placing a particular focus on sustainability considerations in line with WPP's broader climate targets.

Commenting on the news, Carmarthenshire County Council S151 officer of the WPP, Chris Moore, stated: "As investment markets become more complex, we realise that private markets will continue to play a vital role in helping our constituent authorities meet their long-term goals. The combined expertise of Russell Investments and Hamilton Lane offers a compelling private credit solution that can both deliver on our sustainability goals and provide value for money."

Better endgame decisions

Martin Bird takes us through the findings of Aon's 2022 risk settlement survey

With the world now a somewhat different place compared to the time of Aon's previous risk settlement survey in 2020, we were keen to understand how attitudes to risk settlement opportunities may have changed for UK defined benefit (DB) pension schemes. Following an unprecedented worldwide focus on mortality rates in the past two years, and global and local economic market changes impacting on schemes' funding levels, we sought answers to the question of what is keeping schemes' stakeholders awake at night – and their proposed solution for dealing with these issues.

One of the key findings from our survey relates to longevity risk. When looking at schemes of all sizes in 2020, investment risk was considered the largest risk, followed closely by longevity risk. However, now in 2022, **longevity risk is seen as the biggest threat** for large pension schemes (those with assets over £1 billion). Many respondents indicated that longevity risk is now their only unhedged risk, suggesting these schemes have worked hard to eliminate key financial risks and will now turn their attention to managing demographic risks. Unlike hedging interest rates and inflation, hedging longevity risk can only be managed through the insurance market. As such, it is crucial that pension scheme stakeholders understand the options at their disposal. As the two most popular options in the risk settlement market are bulk annuities and longevity swaps, we asked stakeholders how easy they think it is to find an insurance provider for their scheme.

The results varied by scheme size. Overall, around a quarter of schemes either thought it may be difficult to find an interested bulk annuity provider, or did not know how difficult it would be. This rose to half for small schemes (those under £100 million). When asked the same question about longevity swap providers, this figure increased to just under three-quarters of schemes thinking it would be difficult, or not knowing how difficult it would be.

These statistics suggest that there are still **gaps in trustees' and sponsors' knowledge** about the de-risking options available to them.

Tackling longevity and other risks requires trustees and sponsors to be aligned on the scheme's endgame and the journey to get there. The results of our survey suggested that this is generally the case for most schemes, with **more than half the respondents indicating that both parties are supportive of de-risking actions such as buy-in or buyout.** This will stand those schemes in good stead as insurers often have this as a prerequisite before quoting.

Securing liabilities with insurers does not have to be an all-or-nothing affair, with many schemes choosing to do this through a series of buy-ins before an ultimate buyout. In fact, most of **our respondents suggested they expect to de-risk in stages** (56 per cent). We have seen an increasing pattern of insurers particularly prioritising repeat buyers when they have short-term pricing opportunities. They know these schemes can move quickly as a result of established governance frameworks.

For most schemes, the journey to settlement is a marathon, not a sprint. While most respondents still have a wide range of timescales to reach their endgame, the **percentage of schemes who expect to be managing their liabilities more than 10 years from now has almost halved** since our 2020 survey, moving from 41 to 23 per cent. As DB schemes mature, it is expected that more schemes will more actively consider their endgame. This, coupled with many schemes experiencing an improvement in funding levels since 2020, suggests that this could be another very busy year for the insurance market, with the best prepared schemes likely to achieve the most insurer engagement and therefore the best pricing.

To view our survey report in full, contact Aon at talktous@aon.com to request a copy and to allow us to guide you through any of the points discussed in this article.

Written by Martin Bird, senior partner and head of risk settlement at Aon

In association with AON

VIEW FROM THE ABI

The ABI calls for a government automatic enrolment (AE) action plan for the next decade to get more people saving enough for their retirement.

To mark 10 years since the dawn of AE, we published a report that sets out how pension contributions can be increased and the eligibility criteria widened.

Despite the huge increase in the number of pension savers brought about by AE, people still aren't saving enough for retirement. Therefore, we are recommending a minimum contribution rate increase from 8-12 per cent by 2023. We also think this should be split evenly between employers and employees. Our report suggests a timeline, with changes starting to be introduced after 2025.

Recent DWP figures show that fewer than 24 per cent of private sector employees contribute 6.5 per cent or more of their gross pay into their workplace pension. We know that for many people the 8 per cent of total minimum contributions is nowhere near enough to secure an adequate retirement, so there is a clear need for a government roadmap to get people saving more into pensions.

Giving businesses, workers and the pensions industry a long lead time is crucial to replicating the success we've seen in the first stage of AE, especially given the current economic realities we face.

ABI policy adviser, long-term savings policy, Ben Infield

In my opinion

On more boys under 15 having money paid into their pension than girls
"Part-time work, lower pay and time out of the workforce are key causes of the gender pension gap but this data shows the problem may start even earlier. The number of girls having their pension kickstarted by parents or grandparents remains consistently lower than for boys. Starting early can really help girls bridge the gender pension gap by mitigating some of the damage caused by time out of the workforce later and yet more boys are benefitting from this early boost than girls."
Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey

On the impact of divorce on pensions pay gap
"Failing to take into consideration the pension pot during divorce proceedings is an unwise move – especially for women. We encourage women who are going through a divorce to think about the long-term financial ramifications of not seeking a share of their spouse's pension. This is more important than ever, at a time when the cost of living is the highest it has been in 40 years. We must debunk the assumption that pensions are too complicated to be worth understanding."
Stowe Family Law partner, Matthew Taylor

On the average UK worker risking breaching Lifetime Allowance before retirement age
"While there are already sensible limits on how much an individual can pay into their pension each year, the current Lifetime Allowance limit punishes those who have saved diligently throughout their working life and contradicts the government's message that everyone should be saving for retirement. As life expectancies increase, many workers will continue to contribute into their pension far beyond their working lives, so I would encourage all savers to keep a close eye on their contributions to avoid being penalised, while ensuring that they are saving enough to be able to enjoy a comfortable retirement."
PensionBee CEO, Romi Savova

On DB schemes increasingly focusing on ESG factors in de-risking decisions
"The scale of investment within ESG presents a huge opportunity for the risk transfer market which can materially improve its position within this area and create real change. The willingness of insurers to move towards investing in a greener way must be recognised and this will benefit both pension scheme members and our wider society. The indications from our webinar poll, finding that nearly two-thirds of trustees are willing to pay for better ESG credentials, demonstrates that there is a clear need for insurers to improve what they offer within this area and differentiate themselves in the marketplace. The importance of ESG will only continue to gain momentum and increase in importance to trustees, and the risk transfer market."
Hymans Robertson head of ESG for risk transfer, Paul Hewitson

On TPR's campaign urging schemes to be prepared for dashboards deadline and its new guidance for the dashboards
"Schemes should be taking action now – their connection deadline is coming. Pensions dashboards are a hugely innovative tool that will enable savers to see their pensions in one place. It is a crucial step forward in helping savers to get to know their pensions, make good decisions and plan for the retirement they want. Pensions dashboards are coming. Trustees will have legal duties they must be ready for. We will take a dim view of trustees who carelessly fail to prioritise their dashboard responsibilities."
TPR director of regulatory policy, analysis and advice, David Fairs

Master trusts - increase AUM by improving member engagement

By offering increased opportunities for engagement, master trusts can help members get more from their pension whilst also growing their AUM

The education gap
Master trust members are often enrolled automatically into a pension scheme. The process leaves some unaware of how to manage and plan their pension. There needs to be better access to financial education. A better financial education empowers members to plan a better financial future. With this comes increased financial wellbeing.

Sleepwalking into retirement
Without the aid of a financial adviser, members are often 'sleepwalking into retirement'. That is, aside from their annual update, they're mostly disengaged from their pension. Try as they might, master trusts tell us that a key challenge for them is engaging members with their financial future. So, how can we awaken members to engage with their retirement savings?

Engagement through tech
At Wealth Wizards, we're on a mission to make financial education affordable for all. To achieve this, one of our approaches is to increase pension engagement through technology. Our Turo Master Trust application engages members with their retirement planning. It allows them to feel more in control and more knowledgeable. It creates a more personal journey for them.

This application gives them the information they need with the ability to 'play'. Members can see for themselves, the outcome of altering their pension payments. They can use it to query: 'How does adding another 1 per cent per annum affect my pension pot? What if I added 2 per cent or 3 per cent more? What does my final pension pot look like? How much could I draw down as an annual income? How much could I leave for my beneficiaries?'

It is an incredibly powerful tool. It invites members to better understand and control their financial future. This interaction improves financial wellbeing which in turn increases mental and physical wellbeing.

Member journey
From the point of enrolment, Turo is designed to increase engagement. We call it 'consumer-led' and 'human-assisted' guidance and advice.

To start, members go through a series of interactions, culminating in their 'financial health check'. This helps them understand their financial commitments and retirement goals. Their responses determine the recommendations.

Should members have more complex needs, they can access our level 4 qualified adviser. This is the 'human-assisted' element.

Consumer-led guidance and regulated, codified (automated) advice is currently available for contributions and later this year we will have it for consolidation.

Turo's consumer-led and codified advice is there for members to access '24/7, 365 days a year'.

If members take up a new employer, they can continue to manage their pension with Turo. It continues to be available to them to continue their financial wellbeing journey.

Master trust benefits
Turo can be implemented without the need for an additional headcount. Neither does it require significant maintenance as Turo is a low-maintenance platform.

Turo provides trustees and operations teams with a continual flow of MI. This information serves to improve the product and in turn, the member experience.

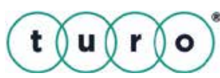
This new technology also gives master trusts something new to offer deferred and returning members. Previously some members may have had minimal engagement with their pension schemes.

Increased engagement and accessible education prompt members to reconsider their pension payments. This recalculation has significant potential to increase AUM across the membership.

For further information on Turo for Master Trusts please contact nick.hall@wealthwizards.com

Written by Wealth Wizards business development director, Nick Hall

In association with



VIEW FROM THE ACA

In our response to the FRC's consultation on the proposed revision to AS TM1: Statutory Money Purchase Illustrations (SMPIs) we have expressed concern about some of the proposals.

We support the general principle of amending AS TM1 to provide greater consistency for recipients of SMPIs where individuals have several different pension policies, particularly in the context of information to be provided on pensions dashboards.

However, the proposals on accumulation rates are radical, and we think that they can create problems of understanding for individuals and significant additional work for fund managers in many cases. The proposals can also create anomalies when, for example, bond funds prices are volatile. On balance, recognising that the SMPI will be indicative only, we would prefer an asset class-based approach, which is the approach most schemes adopt currently.

Given the government's proposal that all DC projections for the dashboard are covered by AS TM1, we believe AS TM1 should refer to and give guidance on any additional projections for the dashboard not currently referred to in AS TM1, such as projections based on the accrued fund referred to in the draft dashboard regulations. However, AS TM1 should reflect the final dashboard regulations.

ACA chair, Steven Taylor

Soapbox: Have your cake and eat it too

The government has continued to face pressure to take action on auto-enrolment (AE) reforms, such as removing the lower earnings limit or reducing the minimum age threshold, or at least outline a potential timetable for such changes. Calls for action were also further compounded by a report from the Association of British Insurers (ABI), which outlined a proposed timetable for such changes to AE.

But these calls have become more nuanced in recent months, as the cost-of-living crisis has began to be felt. PLSA chair, Emma Douglas, for instance, stressed that whilst the association remains supportive of the AE reforms, the pensions industry must try and avoid appearing 'tone-deaf' to the cost-of-living crisis in its attempts to pressure policymakers to push through reforms.

And the challenges facing members are very real, with research from Cushon revealing that nine in 10 people are struggling to make ends meet due to the cost-of-living crisis, while 25 per cent do not know how they will be able to pay their bills over the next six months, rising to 36 per cent amongst 18-34 year olds.

This has had a knock-on effect for pension savings, with 54 per cent of savers admitting they are no longer able to save as they want to and 13 per cent are planning to stop or reduce their pension contributions, increasing to 21 per cent amongst 18-34 years olds.

This has, unsurprisingly, heightened fears that many across the UK are heading towards poverty in retirement, with previous research from the Social Market Foundation revealing that those aged 50-64 have pension savings that are on average 58 per cent short of what they need, representing a combined annual savings gap of £132bn.

However, these challenges don't necessarily mean that improvements to pension saving need to be halted.

Indeed, the ABI's report suggested that changes should still be made, but that savers should have some form of flexibility, such as the option to 'opt down' if minimum pension contributions were increased to 12 per cent, or the option to 'opt up' if they were set at 10 per cent.

Trials are also underway for the development of sidecar savings tools, which are designed to help build up emergency savings and, once a savings target is reached, put more aside for retirement. Early findings seem encouraging, revealing that six in 10 employees think that the savings tool could help them, rising to eight in 10 of those struggling with bills and other financial commitments

There are other solutions when looking abroad too. Iceland, for instance, allows those with supplementary pension savings to use their additional pension savings towards a deposit for a house, or to make loan repayments when purchasing their first home.

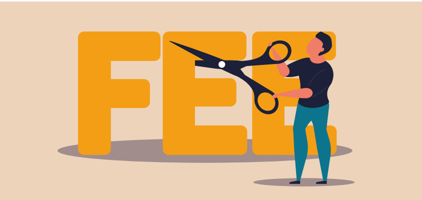
The pensions industry is a very passionate one, and this can mean that challenges outside of the pensions-sphere are left to fall to the wayside. But acknowledging that savers are facing other pressures is not an admission that pensions are unimportant. It can even be an opportunity.

Members do not live in an isolated bubble, and many are facing a perfect storm of challenges in the current environment. Finding out where pensions can fit in the bigger picture of financial wellbeing could help ensure savers not only have a well-funded retirement, but a happy and healthy one too.

Written by Sophie Smith

Why pension charges DO matter

Phil Brown explains why pension providers should focus on scheme costs, even if members don't



As the nation gets to grips with a cost-of-living crisis, households everywhere are reviewing the cost of their utilities and services. As belts tighten, it's surprising to learn that fewer than half of UK adults with a pension (48 per cent) say they care about the cost of their pension charges. The research conducted by YouGov[1] on our behalf shows that, in comparison, seven in 10 people with a mortgage (71 per cent) or a current bank account (70 per cent) pay close attention to what they're charged for these products.

The poll also found that, of those who say they don't care about what charges they pay on their pension savings, almost one in five (18 per cent) haven't got round to looking into or thinking about what they are paying, 16 per cent think they don't have enough currently saved for charges to make a difference, and 14 per cent say they don't believe charges will make a difference to their pension savings when they come to retire. Meanwhile, a further 14 per cent say that they trust their pension companies' charges are reasonable, so they don't need to take any further action. Just over one in 10 (11 per cent) say that pension charges are too complex to understand, and 10 per cent say it's too difficult to find out what charges they pay.

On reading the findings of this research, a layperson might ask the question, 'do charges on a pension really matter?' and every time the answer must be 'yes, they absolutely do'. On the face of it, pension charges don't appear to be that high, especially when presented in percentage points. For qualifying workplace pensions, there is a charge cap of 0.75 per cent (or a broadly equivalent charge under a combination charging structure) for all default funds, with many providers charging below this, but even then, there are genuine differences between how much particular schemes charge customers over the long term.

Paying less in pension charges can significantly affect an individual's retirement pot in later life. If you take our rebate on member charges as an example, it could help the average worker save thousands of pounds by the time they reach retirement.[2] The rebate on our already competitive 0.5 per cent management charge, ranges between 0.1 per cent for pots of £3,000 or more to 0.3 per cent for pots of £50,000 or above, and since it was introduced two years ago, we've given back a total of more than £20 million to our members.

Despite the evidence that charges matter, many pension savers may continue to pay higher charges for similar products, without giving it much thought, unless they start thinking about how much it is costing them in the long run.

While charges are important, they are, however, only one aspect of the value members get from workplace pensions. Over the past decade, a sharp focus on charges has helped to deliver better value for members. With the impending introduction of the new value-for-money metrics[3] – part of a joint FCA/TPR initiative – we expect a renewed focus on other aspects of value.

This is expected to include the new online pensions dashboards, so that people logging on to dashboards, who might be thinking about decumulating or consolidating their pots, have a clearer idea about the value of the product they are transferring from and to. Over time, we think that these metrics should be clearly visible at times when savers are likely to make decisions about their pensions.

Increasingly, we think the new value-for-money metrics will help to drive more informed consumer and institutional decisions when choices are made to select a pension provider.

In an era where both the cost and value for money of pretty much everything are, quite rightly, under the microscope, it's important that pension providers remember the responsibilities they have to their customers.

Written by Phil Brown, director of policy and external affairs, at B&CE, provider of The People's Pension

In association with

1. All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 1,618 adults with a pension. Fieldwork was undertaken between 7th - 10th January 2022. The survey was carried out online. The figures have been weighted and are representative of all GB adults (aged 18+).
2. For a full breakdown of our charging structure visit: https://thepeoplespension.co.uk/member-annual-management-charge/ Assuming a member aged 35 with a starting fund of £15,000, a salary of £30,000 per year, paying 8% gross contributions, investment returns of 5% per annum, inflation of 2.5% per annum, and a retirement age of 68.
3. The Pension Regulator (TPR) and the Financial Conduct Authority (FCA) – Driving Value for Money in defined contribution pensions - https://www.thepensionsregulator.gov.uk/en/document-library/consultations/value-for-money-discussion-paper/driving-value-for-money-in-defined-contribution-pensions

VIEW FROM THE SPP

The draft 'electronic marketing' code from the Information Commissioner's Office (ICO) remains in consultation limbo – since March 2020.

As drafted, many regular trustee communications could tip from 'service messages' (administrative or mandatory) into 'marketing' – risking ICO censure and fines of up to £500,000, as positive upfront consent is wholly impractical from most non-active members.

This is because the draft code suggests any calls to action mean 'marketing'. But TPR guides trustees to promote additional DC contributions. And what about promoting investment reviews, or pot consolidation? Even with careful attention to phrasing, to reduce the 'marketingness', risk remains.

The SPP argued pension plans really are 'different': Trustees administer employer benefit promises; trust law already protects beneficiaries; sender trustees do not benefit; and few would label trustee communications spam.

A return to paper communications is retrograde (and hardly green). Crucially, trustees (and TPR) want to educate and promote good member outcomes – and this does require individual action.

The SPP calls for an exemption for pension trustee activity. Failing that, clear perimeter guidance in the final code.

SPP council member, Arron Slocombe

Diary: July 2022 and beyond

Pensions Age Autumn Conference

15 September 2022
The Waldorf Hilton, London

This conference will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs. With the past 24 months having thrown up an unprecedented set of challenges, this event will be an opportunity to reflect on how well the industry has risen to the challenges and learn from those funds and providers that adapted successfully. Join us to hear from regulators, leading associations, providers, and peers.

For more information, visit:
pensionsage.com/autumnconference/

PLSA Annual Conference 2022

12-13 October 2022
Liverpool

Held across two days, this event will bring together more than 1,000 pension professionals for a programme of worldclass keynotes, roundtable discussions, educational sessions and key topic deepdives. Returning to Liverpool in-person for the first time since before the pandemic, delegates will also be able to once again take advantage of crucial face-to-face networking opportunities, such as the drinks reception and conference dinner.

For more information, visit:
plsa.co.uk/events/

Irish Pensions Awards 2022

3 November 2022
5* Shelbourne Hotel Dublin

Entering their 11th successful year, the Irish Pensions Awards continue to go from strength to strength, giving well-deserved recognition to those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence and professionalism in everything they do, despite the challenging economic and political landscape they find themselves operating in.

For more information, visit:
europeanpensions.net/irishawards

Pensions Age Scotland Conference

9 November 2022
Waldorf Astoria, Edinburgh

The Pensions Age Conference is coming to Edinburgh for the first time. This event offers those working in the pensions sector a chance to learn and network. With a series of presentations from leading pension professionals and policymakers, the event will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs, whether in the DB, DC or hybrid space and covers a wide range of pension provision.

For more information, visit:
www.pensionsage.com/scotlandconference/

Visit www.pensionsage.com for more diary listings

Month in numbers

15.2 million

The predicted pensionable population by 2045 projected by the Institute for Fiscal Studies (IFS), a 28 per cent increase on the level in 2020, due to rising life expectancy and an ageing population.

£27.7bn

The total value of buy-in and buyout deals in 2021 according to Hymans Robertsons' *Half Year Risk Transfer Report*, with £20.9bn worth of transactions taking place in the second half of the year.

22%

Estimated proportion of UK adults who have reported being approached by scammers offering free pension advice or a free pensions review, investment opportunities, or a tax refund in the past three months, according to research from Canada Life. This was found to be up from the 19 per cent of those surveyed who offered the same response when this was previously asked in October 2020. Crypto scams were also common with around one in six respondents saying that they or someone they know has received one in the past 12 months.

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Aon cost transparency team heads, Neil Smith and Chris Hawksworth

Podcast: Cost transparency

Pensions Age editor, Laura Blows, discusses cost transparency with Aon's cost transparency team heads, Neil Smith and Chris Hawksworth

"We're living in very uncertain times at the moment with everything that's happening around the world and with rising inflation. So, there's a lot of uncertainty in investment markets. But one of the things that we can be certain about is how much we're being charged for asset management services, and therefore, we think it's important that you have some focus and understand what you're paying, to whom you're paying, and what services you're receiving for that."

So says Aon cost transparency team co-head, Neil Smith, in our latest *Pensions Age* Podcast *Cost transparency.*

"As asset owners, we can influence how much we're paying for these asset management services. If we feel there is a lack of transparency, or we're paying too much, then we can decide to seek other services at a fairer cost. The challenge has always been actually getting access to that information, really understanding how much we're paying, and to whom," he adds.

However, that has changed over the past few years, Smith says. "Now, there's really no excuse to say, well, I don't really have that information to hand, I don't know how much I'm paying and how this is good value for money or not."

However, cost is arguably only one part of assessing value for money, with Smith citing manager performance and services provided as other considerations.

Also speaking on the podcast is Aon cost transparency team co-head, Chris Hawksworth, who notes trends that have occurred with cost transparency benchmarking in recent years.

One is the level of detail that clients can now gather on costs, to a granular level of detail, he says.

Another trend is a significant increase in trustee awareness and understanding on all types of costs, Hawksworth says.

"Going back three years, an average trustee board, I'd say, understated their investment costs by about 10 times relative to what the actual costs were. Where we sit today, is actually that trustee boards having a really good understanding of the costs they are incurring as part of their investment strategies.

"Neil *[Smith]* and I have been working with clients to benchmark data and compare costs, and we're starting to see some really significant outcomes for trustees and their members. In terms of benchmarking, we've almost got to a million pounds worth of savings per annum since this process started six months ago. So, we really are seeing some trends there in terms of cost coming down for asset owners," he states.

The increased demand from trustees to benchmark costs is another trend seen, Hawksworth adds.

Over the past few years, Smith and Hawksworth have helped over 100 schemes to collect and understand their cost data and to analyse it year-on-year, for trustees to monitor and potentially challenge their asset manager.

Aon also benchmarks these costs against the overall pension market – not just Aon clients.

This enables Aon to go to fund managers and request a fairer fee if considered necessary, Smith explains. "Over the past six months or so, we have managed to secure savings of well over £500,000 per annum for schemes," he adds.

Looking ahead, Hawksworth expects the collection of cost data to become the norm for trustee boards, along with an increased focus on more complex asset classes such as illiquids and the transparency around those asset classes.

Finally, he adds, benchmarking will become standard, as "there is a really strong desire from trustees and sponsors to tackle this problem of cost transparency and reduce costs where possible".

To listen to the podcast, please visit www.pensionsage.com

Savings and finance at retirement

Laura Blows is joined by Claire Felgate, Head of Global Consultant Relations, UK, at BlackRock, to discuss savings and finance at retirement

Ensuring people have an adequate income at retirement is a major global issue, and one in which the pensions industry has a vital part to play. What are you hearing within the industry; what steps are being taken to help people with this?

Within the UK retirement system, we have seen a shift of risk from corporates and government toward the individual, that said, that does not let us off the hook. It is now even more important for the industry to help individuals save for their retirement.

At BlackRock we run a survey called *DC (defined contribution) Pulse*. We interview over 1,000 members in the UK, and what we found in 2021, is that people felt even more under prepared for retirement compared to previous surveys. In the latest survey, one in two participants did not feel on track to live the lifestyle that they wanted in retirement, of that group, 72 per cent wish they had started contributing into a pension earlier than they did.

That partly gives us the answer in terms of how we help people on this journey. It seems relatively simple, but it is encouraging members to save into a pension and looking at the rate that they are saving. PLSA research shows that 74 per cent of people believe that having a retirement income target would make it easier to plan for retirement, and 70 per cent of people believe that these retirement income targets would encourage them to save more for their retirement.

As an industry, we really need to help members understand their retirement journey, from their desired pension pot size to how much they have to save regularly to reach that.

We also have some tools that I believe are a little bit underused in the industry, like auto-escalation. Eight per cent may not be enough for some people, we often say if you are expecting a two-thirds retirement pot, similar to defined benefit, you should be saving 15-20 per cent, so how do we help members reach that? Well auto-escalation is a very valuable tool here.

Finally, auto-enrolment has been fantastic and as we see those pots growing and people nearing retirement, I think the industry is going to come out with some even more innovative tools, technologies and products that are going to really help people with savings and income in retirement.

As you mentioned, people do feel quite uncertain and unsure about how to save for retirement, especially with the cost-of-living crisis, with the unprecedented inflation and volatility that we're seeing. How would you suggest people weather those twin storms?

It's time in the market, not timing the market, that will help you build that pensions pot. We should all be thinking about members that may be a bit nervous about getting into the market and making sure that they stay invested.

In times of uncertainty, some people may want to retreat into cash, or be saving their money for a rainy day, but particularly with inflation, that's really quite worrying. As long as people can afford it, we should be encouraging people to save, to stay invested and make sure that that money is working for them, because in 10 years' time, inflation really could erode those pension savings they kept in cash.

Also, to have a quality check of what you're investing into because you don't want to find out when the markets are really choppy that the product is not delivering what you thought it would.

Regulation goes hand in hand with retirement, for instance with regards to early access to savings, or sustainable investment. With regulation considerations in mind, how would you suggest schemes, and the savers, construct or improve the construction of their scheme design?

One of the questions that we often ask in *DC Pulse* is how important things like ESG and sustainability are to members, and unsurprisingly, particularly more recently, it's been top of the list. But another question that we ask is who should be helping you with your investments? Members often respond that they see the employer as the person who should be managing the investments for them. So, I think the onus is on all of us to help members have good quality investments that are moving them towards those sustainable goals and I know there's been a lot of regulation recently to help the pensions industry move toward those goals, particularly focused on net zero.

For this, the first step is measuring where we are. It's incumbent on us as an industry to make sure that the data

we have is the best quality, and also that there's a degree of consistency in reporting around sustainability.

Another major issue is the retirement gap between men and women with their finances. I believe The World Economic Forum has shown there to be about 30-40 per cent difference between men and women's retirement finances globally. What can the industry do really to help women improve their income at retirement? For future generations as well.

You and I sit here as women, and this affects us hugely, but it also affects men as well, because for many, both people in a household need to work. So, when women have insufficient pension savings, that also places a burden on their partners, as well as for society. The gender pay gap is roughly 20 per cent in the UK, but unfortunately for women when it comes to pensions, what most women are unaware of, is that this gets compounded, particularly by women taking career breaks.

Women are more likely to have part-time work or step out of the workforce to help look after children or elderly relatives etc. So it's about closing the gap, but also allowing men to participate more freely in things like career breaks.

I think that women are unaware of how their pension is affected by these breaks or work decisions. One of the things BlackRock really supports are employers offering a midlife pension MOT, or when you join the firm, sitting down with somebody who's actually going to give you advice.

We potentially could take that even further. If women are considering a part-time working arrangement, or taking a longer career gap, having somebody sit down with them and make sure that they're aware of the impact that has on their pension.

So, if you could go back in time, knowing what you know now, what one piece of advice would you give your younger self to help with your retirement saving?

I've always worked in finance. I did a degree in finance. I'm a self-professed pensions nerd. One would assume that I had my pension savings all lined up. It absolutely wasn't the case, and I think I personally would've benefited from a little bit more advice when I was younger. I did some things like I continued to work as a contractor, because I earned more money. I just didn't consider that I was missing out on an 8-10 per cent pension contribution. Also, I wanted to go out more with my friends so I reduced my pension contributions so that I could have more take home salary.

I understand that for the younger me if, for example, I couldn't afford to pay my rent, due to the cost of living, then absolutely paying less in your pension at that time is the right decision. But really, I think, the big thing for me is I wish I'd saved more when I was younger. There would've been more tax benefits, the compounding effects would've fantastic, and also it would've given me much better bragging rights sitting here if I'd been able to nail my pension from a much younger age.

In association with

BlackRock

To view the full video, please visit www.pensionsage.com

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Pensions Age Northern Conference 2022: Back with a bang

Catching up with the pensions world post-Covid-19, speakers considered the recent progress made and the work still needed

Back in Leeds for the first time in more than two years, the Pensions Age Northern Conference 2022 has returned with a splash, with a glamorous new venue, an excellent panel of speakers, and delegates from across the country.

The city made sure to put its best foot forward, with the sun shining down as chair, Roger Cobley, welcomed delegates, before handing over to the opening keynote speaker, The Pensions Regulator (TPR) lead investment consultant, Fred Berry.

Berry kicked off the day with a whistle-stop tour of the work currently underway by the regulator, focusing in on the recent progress on policy, prosecutions and consultations.

Berry also reflected on the broader market circumstances, stressing the need for the industry to ensure that the current cost-of-living crisis does not become "a cost-of-retirement crisis".

He stated: "As a pensions industry we all need to encourage and support savers, to help them appreciate the value of planning and saving for later life, and to help them understand the impact of immediate financial pressures."

In addition to this, Berry clarified that whilst the regulator will continue to show regulatory flexibility during the current period of economic pressure, duties remain, and trustees are expected to show continued diligence and oversight.

"We will not be relaxing our stance because circumstances are challenging," he emphasised. "We will continue to be tough on those that we need to be tough on, for example, scammers, fraudsters, criminal gangs, and they should all be mindful of our powers and availability and willingness to prosecute or use our regulatory powers."

The impact of the current challenging environment was further explored by Pictet Asset Management head of multi asset London, Andrew Cole, who suggested that the recent rising inflation could present a concern for both pension scheme investments and corporate sponsors.

In particular, Cole suggested that pension scheme trustees may need to be more acute in where their asset allocation is at any moment in time, as inflation, on average, is going to be higher than the market has experienced the past 20 years.

"It's a very different environment that we've experienced as investors over the past 12 months, compared to what we've seen on average for the previous 25," he explained, acknowledging that there are also "a lot of uncertainties" around the future levels, particularly in light of how wrong previous forecasts have been.

He continued: "When you look at what investors and central banks thought the inflation rate today was going to be a year ago, they have never been more wrong. That doesn't fill me with any confidence when I look at their expectations for the next 12 months."

However, rising inflation has not only impacted pension schemes and corporate sponsors, as the next speaker for the day, Isio senior DC consultant, Hannah Tebbutt, warned that members are being hit by a "perfect storm", with priorities shifting "quite significantly" as a result of the current cost-of-living crisis.

However, Tebbutt suggested there are some "relatively simple things" that the industry can do to ease pressure on members, such as potentially allowing members to exit their scheme for a short period of time to ease financial worries, or allowing those aged 55 and over to access their pension pot to meet immediate bills.

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isio.

More importantly though, Tebbutt stressed the need for the right framework and education to ensure that savers understand the impact of these decisions.

She stated: "Given the lack of education in schools and workplaces, employers and trustees have a real opportunity to make quite a big difference. There's always been a need for education but given the current crisis, if we can take some action now, we can make a real difference and start to help members feel more confident and empowered.

"I think our industry is really well placed to be able to do that and offer a more integrated approach to pensions and broader financial commitments working with both trustees and employers."

This was echoed by Association of Member Nominated Trustees (AMNT) committee member, Robin Bell, who argued that the decision made by savers in relation to their pension is "probably one of the most important decisions" in terms of the impact on their life.

Bell also stated that whilst outright scams pose a threat to some savers, other savers need "saving from themselves", as the rush to get out of their pension pot can result in unexpected consequences.

"There are no 'no brainers' and people need to be empowered, but they also need to want to be empowered," he stated. "A lot of the tools are there for them to take these decisions, but the reality is a lot of these tools aren't being utilised, so they need to be signposted and supported in the journey to get this information."

Opportunities are also arising amid the current market conditions, as M&G head of alternative investments, Michael Howard, argued that structural tailwinds are driving a "whole host of opportunities" for pension scheme investors in the real asset space.

"There is no shortage of opportunities" for investors, Howard stated, noting that while some areas are "quite keenly priced", there are "a huge amount of opportunities out there that offer very attractive value".

Howard also stressed that these investments can offer investors "resilient cashflow", as well as having "quite a lot of built-in inflation protection".

"From a structural perspective, we can all see why these opportunities are arising," he continued, explaining that there are "massive issues to deal with in climate change", as well as challenges around the infrastructure needed to support a growing population.

"There's a whole host of opportunities here and you can see the need to link private and public finance for some of these projects," he said, emphasising that there is a "very substantial gap" in the funding needed in many of these areas.

Switching to focus on the upcoming legal challenges, Arc partners, Kate Payne and Vikki Massarano, highlighted two key considerations for pension trustees: The Notifiable Events Regime and TPR's new Single Code of Practice.

Whilst both initiatives have faced delays, with industry experts expecting them to be in force by the time of the conference, Payne and Massarano said the direction of travel is clear, urging trustees and providers to be proactive.

Payne explained that whilst the Single Code of Practice will be "quite a sea change", many trustees could be surprised to find that quite a lot of their policies already address TPR's expectations, although they may need some "tweaking".

"It is nevertheless quite a burden," she clarified, "and being on the front foot is probably better than waiting until everything is locked down".

Despite regulatory delays, delegates were able to hear about the progress being made in other areas of the industry from the next speaker, Small Pots Co-ordination Group chair, Andy Cheseldine.

In his presentation, Cheseldine confirmed that the latest report from the co-ordination group was imminent, stressing that "small pots remain an important and growing DC issue".

He said: "Since 2021, the number of small deferred pots is likely to have grown by at least another million. By the end of 2022 we expect 11 million small deferred pots, possibly a lot more thanks to Covid's effect on the labour market, and over the next 10 years that figure will double again.

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"Small pots are an issue for everyone, savers pension providers and schemes."

Cheseldine also highlighted inefficiencies in the system that could be contributing to the issue, stressing the need for providers to improve data quality, as this can "enormously improve the likelihood of better outcomes for your members, especially those with small pots".

After another chance to network with the morning's speakers and sponsors, delegates headed back to the main conference to hear from Pension Protection Fund (PPF) interim director of legal, Miriam Kimber, on the important issue of diversity and inclusion.

Kimber argued that diversity alone is not enough to create an inclusive work environment, explaining that whilst diversity is generally seen as being a question of representation, having a diverse group of people in place is only "step one".

"To make that count, trustees need to think about how that diverse group of people are going to work together," she explained, emphasising that people from underrepresented groups in senior positions still "really need amplification support".

More broadly, Kimber also reflected on the steps that pension scheme trustees can take to ensure that they are providing members with accessible communications, such as ensuring fonts are readable by screen readers.

Focusing in further on the importance of member comms, BT Pension Scheme (BTPS) head of pensions services delivery, Dave Tomlins, and head of pensions administration strategy, Andy Whitelaw, discussed the work undertaken to transform the BTPS's level of member satisfaction, which rose 23 percentage points from 63 per cent in 2018 to 86 per cent in 2022.

Whitelaw stated: "Pensions administration has been under-invested

by a lot of schemes for a long time, and we saw the pitfalls of that first hand. It's a false economy, because one benefits rectification exercise in terms of overpaid benefits that you'll never get back could be two years of your admin costs.

"It is worth investing in your admin, it's worth investing in data, it's worth investing in systems and its worth investing in people, because it pays for itself in the end."

Closing the conference was Pensions Dashboards Programme (PDP) principal, Chris Curry, who provided updates on the recent progress on the programme's alpha stage of testing, which has now delivered "working prototype of a basic model".

In line with this, he confirmed that the DWP is expected to respond to the recent consultation "before summer recess", which will provide a "definitive statement" of what exactly the regulations will include and provide some certainty to the industry.

Curry also confirmed that the PDP will be running a further consultation on the specific standards for dashboards following this.

Many thanks to all our speakers, sponsors and delegates who joined us on the day. We look forward to hopefully seeing you at our next industry conference, the Autumn Conference in London!

Written by Sophie Smith

Word of the day

Pension scams were a recurring theme throughout the day, with TPR head investment consultant, Fred Berry, warning that they are "devastating for victims and frankly, a blight on the pensions industry".

In line with this, he confirmed that TPR has been working with the National Fraud Intelligence Bureau to produce a threat assessment on pension scams, which is expected to be published "in due course".

And this work may be more needed than ever, as Pictet Asset Management head of multi asset London, Andrew Cole, warned that rising inflation could leave savers more vulnerable to the temptations offered by pension scammers, particularly if their income isn't keeping up with their cost of living.

"The backdrop for scammers offering higher rates of return because pensioners are suffering amid the cost-of-living crisis is actually going to worsen," he stated, "and I think the regulator is going to have a problem there."

Concerns were also raised by Isio senior DC consultant, Hannah Tebbutt, who suggested that whilst industry has made "significant advances" to try and avoid scams, the cost-of-living crisis could throw this progress into jeopardy.

She stated: "Scammers are at their best when people have financial worries and are at their most vulnerable. So we need to make sure that we are considering the key things…to ensure that savers aren't exploited by that phone call that sounds really tantalising."

Empowering members to improve retirement outcomes

Jonathan Watts-Lay explores the concerns trustees have for their members

The financial decisions that members need to take at retirement are getting increasingly complex. Whilst pension freedoms firmly put the control in the hands of individuals, recent events such as the global pandemic and the cost of living crisis have only added to the risks and challenges they face.

With this in mind, we conducted a survey with the Pensions Management Institute to investigate the retirement concerns trustees have for their members.

It found that nearly all (92 per cent) trustees fear their members nearing retirement will face predatory attention from scammers. The strain on household finances caused by the cost-of-living crisis could mean that some members are more vulnerable than ever this year. With almost a quarter (22 per cent) of UK adults having reported being approached by scammers offering free pension advice or a free pension review, investment opportunities, or a tax refund between March and May this year, it's clear that these fears are well founded.

Eighty-eight per cent of trustees reported that they are concerned that members may not understand the tax implications of accessing their pension. After all, individuals can easily incur huge tax bills unknowingly when accessing their pension, all of which can have a material impact on income levels in retirement.

All of these risks also equally affect defined benefit members who are considering transferring their pension. Indeed, the majority (86 per cent) of trustees in our survey have concerns over this. It's unclear yet if the measures put in place to enable trustees and scheme managers to block or pause suspicious transfers have helped the situation, but people still need to have an understanding of whether the transfer is suitable and then how to manage this money.

When we consider all of these risks, it's unsurprising that 73 per cent of trustees are apprehensive that their members' money will run out too soon in retirement. This may be due to not saving enough throughout their life. The Pensions Policy Institute published a report warning that most of those currently over 50 do not have adequate funds to achieve a 'comfortable' retirement as defined by the PLSA. Additionally, the pension freedoms and the shift from defined benefit to defined contribution pensions, has put longevity and investment risk in the hands of members, and poor decision making can be far too easy.

Support levels are encouraging – but more can be done

The survey found that half of trustees provide financial education for their members at retirement, and almost half (48.5 per cent) of trustees provide or facilitate financial guidance for members at retirement.

Thirty-nine per cent of trustees are facilitating regulated financial advice for their members. Encouragingly, this has seen a 9 percentage point increase from 30 per cent since the survey was last carried out in 2021.

The survey also found that 70 per cent of trustees are concerned over a lack of engagement with their members, but financial education and guidance can overcome this.

The earlier support is provided in an individual's life, the more likely they are to make better decisions. Additionally, income needs are likely to vary throughout what may be 25 years or more in retirement and cognitive decline may hinder decision making, meaning that ongoing support is likely to be required.

Importantly, due diligence should be carried out on providers such as ensuring that they are workplace specialists. Furthermore, checks on regulated advice firms should cover areas such as the qualifications of advisers, the regulatory record of the firm and compliance processes.

Ultimately, empowering members by providing them with access to appropriate support at the right time, can improve financial capability and resilience, which should result in better retirement outcomes for all.

About the survey

The survey was conducted online from January to April 2022 by WEALTH at work and Pensions Management Institute and received 64 responses from trustees. If you would like to read the full report, please visit www.wealthatwork.co.uk

Written by WEALTH at work director, Jonathan Watts-Lay

In association with WEALTH at work
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Setting the agenda

Tom Dunstan talks with the ACA's new chair, Steven Taylor, about his plans for the role and the challenges actuaries should meet

What goals do you have for your time as the Association of Consulting Actuaries (ACA) chair?
At the ACA, we've certainly identified several really big challenges, not just for the profession but for society, that we think actuaries are well equipped to help build solutions to over the next few years. In particular, the ACA's overarching goal is to help deliver an intergenerationally coherent and fair savings environment.

That's going to have to balance the need to look after the accumulated pensions from the past and the need to make sure the next generation can build up enough pensions savings for themselves, particularly in the current environment of high inflation.

With wider challenges emerging from the pandemic and elsewhere, this is a really difficult time for people to save and so we think finding ways to help people save for themselves in order to have a sufficient amount in their own retirement is perhaps, as an industry, the most difficult and important challenge we have right now.

What are your views with auto-enrolment to help achieve these aims? How would you change it to benefit savers today and in the future?
In terms of coverage, auto-enrolment has undoubtedly been a great success. In terms of the number of people in DC schemes the number is significantly higher than it used to be. However, the median contribution to DC schemes is really stuck at that level of around 10 per cent of salaries. That means that there are huge numbers, perhaps several million, who are likely contributing at auto-enrolment minimum levels, and that's just not going to be enough to generate the kind of retirement incomes that I think people are genuinely expecting.

We think there's a real risk that the next generation are effectively sleepwalking into a retirement that will be less well off than the previous generation and less well off than they're expecting to be, as the combination of minimum auto-enrolment and state pension is likely to be insufficient for many people. We have suggested an incremental step up in auto-enrolment rates and have agreed with various suggestions elsewhere around stepping up to 10 per cent but, whilst those suggestions are favourable, the economic position around us has just become harder.

We are extremely mindful that expecting people to increase their savings levels at this time is quite a difficult thing for them to do. Especially for younger people, who already have huge numbers of competing objectives and have suggested that if we're expecting people to pay more in, then that needs to be accompanied by additional flexibilities such as early access.

Another major challenge pension funds are increasingly involved in is tackling climate change. How can actuaries help with these aims?
In terms of the largest DB schemes, those over £5 billion, over the past year or so they have really started to grapple with the impact of climate change. They are getting the governance structures in place to understand the risks around climate in relation to their schemes and investments, as well as putting in place structures to help meet their climate goals and regulatory requirements.

Over the next year that then moves down to the next rung of schemes, the £1 billion and over schemes. As an industry, that is going to require an increasing number of resources and an increasing amount of expertise. We think actuaries are well placed to feed into these important discussions.

Are there any other areas of industry change and innovation that the ACA is particularly interested in?
There are several areas where actuaries are at the forefront of innovation. A first one is around CDC schemes. In terms of the benefits offered by CDCs, they are a halfway house between DB and DC, in that they offer members the prospect of an income in retirement but without the risks to sponsors that come with DB schemes, where they can't create deficits.

CDC could go further, with the idea of decumulation-only schemes. People who have built up benefits in DC, when they come to retire, might have options around decumulation in

CDC schemes. These, we think, from an intergenerational perspective, have the potential to be beneficial to the next generation and so we're really supporting CDCs development.

A second area is going to be around dashboards. Increasingly people have pensions in more than one place. It is not uncommon for people to have five or six different pensions from different periods of employment. Dashboards, when they are available, are potentially going to provide people with a valuable source of information to make sure they can understand what their accumulated pots are and also to help them make good decisions. Over the next year or so, schemes are going to be required to finalise their data to get them ready to go onto dashboards and actuaries are going to have to work closely with the wider industry to make sure that schemes are ready.

You've commented on the importance of engaging younger savers with their pension. How do you think that could be done?

At present we've observed that people, as they approach retirement, will regularly take an interest in their pensions but for younger people, there is lower degree of engagement.

However, we have also observed that larger employers in particular are currently far more open to engage with employees around wider financial and wellbeing concerns. For example, we see large numbers of actuaries working closely with employers to provide financial workshops and services that employees are clearly demanding, and we want to move that forward because employees, who are engaged with their pension, are more likely to make good decisions with their retirement savings.

Why is improving intergenerational fairness with pension saving so important to you?

I have seen evidence for the challenges of other savings needs crowding out pensions savings for many people. Whether it be house deposits, student loans, wider day-to-day costs or resilience needs, I think there is a risk that the next generation over the next 10-15 years will have a sleepwalking into retirement moment where they realise they have not saved enough. That will, for a lot of people, simply delay retirement and force people to work for far longer than they are potentially expecting.

That might actually be a general trend that we are already seeing as there are a lot of people who, as they approach retirement, see retirement as less of an event and more of a process and, for example, potentially work part time for several years in the run-up to retirement. However, we also think there's a real risk that the next generation is not going to experience retirement in the same way as previous generations have and that will be because they haven't been building up enough savings.

Do you have any other priorities for your time as chair?

If there's an overriding theme it's that for these huge challenges we have as a society, actuaries are well placed to find solutions. This might involve stepping out from more traditional roles. Yet even in traditional areas such as pensions, there are some hugely novel questions about, for example, what is the real impact of the pandemic on life expectancy that are incredibly complicated. This latter area is a really core actuarial question and in general I think actuaries need to be getting out there and really trying to solve some of these issues.

We know that the demand is there from pension scheme members to understand their pensions and we know that the demand is there for employers to find ways to offer benefits that their employees will want and will value. This challenge is to find ways to help all the pension stakeholders in these difficult times and that will be crucial for actuaries in the next couple of years.

Written by Tom Dunstan

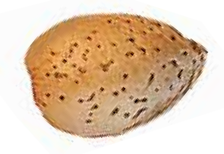
Summary
- There are growing pressures on domestic economies as cost-of-living crisis escalates, but it is too soon for real data on pension impact.
- Different life stages create different challenges for savers, and therefore different solutions are needed from the pension sector.
- Communicating the importance of continued contributions is necessary but must be sensitive to economic pressures.

Cost-of-living crisis: The pensions view

Consumers are having to make tough decisions as rising inflation and economic hardship bite. Andy Knaggs finds out how the pensions sector will be impacted and how it can respond

The true impact of the current cost-of-living crisis on retirement savings is still to become apparent. Government and industry statistics reflect only a recent picture, not a current one, and with the continuing inflationary pressures still spiralling upwards, the depth and breadth of the current crisis is yet to be revealed.

In January this year, the PLSA carried out research referencing the cost-of-living crisis, which found that almost



half of those surveyed who were not retired said they could not afford to save at that point because of the rising costs of everyday life. Meanwhile, 32 per cent said that they could afford to contribute more to their pensions to boost retirement income.

That was in January though. Six months further on, the crisis has dug deeper, exacerbated by events such as the Russian invasion of Ukraine. Slightly more recent research from March 2022 was conducted by Cushon. It indicated that people were more focused on cutting down everyday expenses, but that one in five would consider stopping saving altogether to help them cope with the cost-of-living crisis.

Even without fresh data, however, it is entirely reasonable to expect that the tightening of domestic budgets will have some impact on how people view saving for the long term. Interactive Investor head of pensions and savings, Rebecca O'Connor, sums it up thus: "In this current climate, the last thing that most people will be thinking is: 'I've got some spare cash, time to up my pension contributions.' If people do have any spare money, they are more likely to be thinking: 'I'm going to hold on to that because I might need it very soon, like in winter, when energy bills go up again significantly'. This focus on the here and now and on short term, emergency saving, if any saving can be done at all, presents the industry with a monumental challenge."

At the sharp end of this, wealth management company Netwealth reports that it has seen a 160 per cent increase in the number of people approaching it for longer-term or 'annual' advice this year. "Short term needs may have to be prioritised but if so, their consequences need to be well understood," says Netwealth CEO, Charlotte Ransom.

Cutting discretionary costs

So, the full impact of the current crisis cannot yet be known, and much will depend on its duration and severity. Consumers have likely been going through a process of assessing where savings can and need to be made within discretionary spending – switching supermarkets, reducing spending on things like entertainment and social life, putting off home improvements. Pension savings are only one outgoing amongst many that might be reduced or stopped.

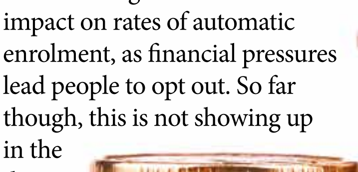
It must be understood of course that pension savers are not a homogenous mass. They are at different life stages, and they have different priorities and different financial means. In considering the impact of the cost-of-living crisis on people's ability to save and how the pensions industry can respond, it might therefore be useful to view the issue from those different life stages: Those who are far away from retirement; those approaching or at retirement age; and those who are already retired.

Difficult period for AE

A particular concern has been that the cost-of-living crisis will have an adverse impact on rates of automatic enrolment, as financial pressures lead people to opt out. So far though, this is not showing up in the data, according to PLSA director of policy and advocacy, Nigel Peaple. The caveat here is that the data itself is a few months old, perhaps before the crisis really gripped. "My feeling is that it's bound to have an impact at the margins, in terms of extra opt-outs," he adds.

Others expect a difficult period for AE. Quilter pension expert, Ian Browne, says: "The cost-of-living crisis may seriously test automatic-enrolment. Recent figures show that it has largely stayed flat for some time. However, AE relies on people's inertia and significant financial pressures on someone's finances today may make people take action and reduce or stop pension funding altogether. We won't see how badly AE has suffered until the next set of government data comes out."

Aegon head of pensions, Kate Smith, agrees that while pension saving and AE held up well during the Covid-19 pandemic, "sustained high inflation could be the biggest challenge yet,



and put the brake on progress in this area".

Peaple is additionally concerned that the financial woes being experienced will affect the government's policy commitments in respect of pension contributions, saying: "The government has said it is committed to removing low earning thresholds on AE, but I could see it being pushed back further into the decade because of this, which will have an indirect impact on savings levels."

Other solutions

Cushon CEO and founder, Ben Pollard, highlights other ways that the problem could be approached, citing pension redirect and salary sacrifice. He said: "Pension redirect allows employees to redirect some of their pension contributions, over and above auto-enrolment minimums, into accessible savings so that they start building up a financial buffer as well as a pension pot. It's the perfect balancing tool that speaks to the financial issues that employees are facing today. We really need to start thinking about workplace savings and not just pensions – it's about a holistic savings approach."

He continues: "Salary sacrifice is an old tool in the bag but still very few employers offer this, despite the fact it can make a difference of £200 a year for an employee earning £30,000 a year – and when people are struggling, this can be significant. We've calculated that collectively UK pension members are losing out on £1.9 billion worth of savings a year by not doing salary sacrifice. It's low-hanging fruit."

Another potential response comes from Pensions Policy Institute head of policy research, Daniela Silcock, who says that employers paying a full 8 per cent contribution to pensions for employees with earnings below £12,000 would help. "We look at how different policies might impact, and the benefits of this one are fairly self-evident, but people are politically quite scared to push it. It is being talked about, but at the moment we are struggling to get the recommendations from the 2017 auto-enrolment review put through."

Meanwhile, Ransom suggests that savers should scrutinise investment and wealth management fees to improve finances, saying that the firm regularly sees prospective clients who are paying a percentage or two more in fees than they should be: "Every 1 per cent that can be saved in annual fees is worth 14 per cent of your starting capital over 10 years."

Decision time

For those approaching or at retirement age, the high rate of inflation requires them to make, or perhaps re-make, some big decisions, according to Smith.

"People in this situation may be asking themselves whether rising prices mean their expected retirement income will still be enough to do what they planned or even to just 'get by'. This may lead to them revisiting their decision, and deciding to work longer, perhaps on a transitional basis, so they receive an income for longer."

Smith continues that those who are over 55 might consider it wiser to hold off from starting to access their pension savings, while those at retirement age who delay the big day could gain a significant boost to their retirement income by doing so, due to the triple boost from continued investment returns on their pension pot, further pension contributions from themselves and their employer, and fewer years to spread the fund over once retired.

Fit for purpose

Those who have already retired and are drawing their pensions will have welcomed the government announcement that state pensions will once again benefit from the 'triple lock' rise mechanism first introduced in 2010. This could mean a double-digit pension increase, depending on the September inflation figure. However, Silcock argues

that the annual uprating of the state pension is "not fit for purpose in a time of cost-of-living crisis", adding: "You would need to increase pensions on a quarterly basis, because the gap is getting bigger and bigger, and pensioners cannot easily go out and get more work to fill that gap."

Retirees are facing the predicament of watching the value of their pension pots draining away as inflation continues its remorseless march upwards, although some will be protected by inflation-linked DB schemes.

"It's a horrible time to be suddenly reliant for income on a pot of money that is dwindling in value all the time, not only because of the effect of inflation, but also because of stock market downs," says O'Connor.

"I think the stress of managing money in drawdown will also have increased for people. Retirees who were managing drawdown okay when the markets were averaging a steady 5-7 per cent may now be finding it far more difficult to know where to invest and how to take their income to preserve their pot. The burden of drawdown management right now is immense."

There is a danger that investment decisions made because of the cost-of-living crisis could impact far into the future. Ransom comments: "As pots are drawn down, the knock-on consequence is that there may be less room for manoeuvre in the future. This could also potentially dramatically change people's financial futures if a large additional and unexpected percentage is taken during these more difficult times."

Clear communication

There is perhaps a delicate balancing act for the pensions sector to achieve as this cost-of-living crisis develops. On the one hand, it needs to communicate clearly what the benefits of retirement savings are and why the public should keep saving through a difficult period. On the other hand, given the inertia factor that so often characterises people's relationship to their pension provision, would too overt an emphasis on maintaining pension contributions have the opposite effect?

O'Connor sees there is a danger that reminding people of their pension payments could "potentially accidentally encourage people to cut that part of their cloth". She observes that continuing contributions into workplace pensions with matched employer contributions and tax relief might "logically and sensibly be the best chance to get inflation-beating returns". Nevertheless, some will arrive at the nuclear option of cancelling pension payments.

"The key for the industry will be getting those people who make this choice back on track once their immediate challenges have passed," she says.

Multi-channel campaign

There will be a communication campaign coming from the PLSA in the autumn, according to Peaple, and it will publish its latest inflation update in October, providing new data on the prices of goods and services that feed into its Retirement Living Standards initiative, used extensively in tools such as pensions calculators.

The autumn campaign pre-dates the cost-of-living crisis in its conception, Peaple explains, and will deal more broadly with engaging the public on the basics of pension saving. Communication experts have been enlisted to help simplify the subject matter, and the campaign will be rolled out across multiple channels.

"We are hoping that through pushing out our messages to improve the understanding of pensions saving, we will reinforce the feeling that people have that it's important for them to do it; that people understand that something like auto-enrolment is a good thing for them to do," he says.

In the current financial climate, he believes it is necessary for the industry to "ensure that people think not just about the short term, but the long term too"; that they don't give up pension contributions unless they really need to, and also, as O'Connor says, to emphasise the benefits of employer contribution and tax relief.

Ultimately, individuals will make their own decisions about the short- and long-term management of their finances. The pensions sector must recognise the pressures of the moment and respond with subtlety and agility, for no-one knows how long the current crisis will continue.

Written by Andy Knaggs, a freelance journalist

Short-term cashflow crisis, ongoing pressures

TPR allowed sponsors to defer deficit recovery contributions (DRCs) as a short-term measure to ease the financial pressures created by the Covid-19 crisis. Two years on and new challenges mean deferrals may still be required, finds Gill Wadsworth

Summary
- The Pensions Regulator has kept the door open to deficit recovery contribution deferrals for short-term cashflow difficulties.
- Current economic conditions continue to place pressure on scheme funding post-pandemic raising possibility of an increase in requests to defer contributions.
- Deferrals will be assessed on a case-by-case basis and should not be granted where the sponsor's long-term financial stability is in doubt.

The risks facing UK defined benefit (DB) pension scheme funding levels listed in The Pensions Regulator's (TPR) 2022 Annual Funding Statement makes for alarming reading.

"Trustees will be approaching Tranche 17 valuations against an economic background of high inflation, high energy prices, higher interest rates and slower economic growth – all of which may impact on their pension scheme funding and employer covenant," the statement reads.

How all this will play out is "unclear" and any unpleasant outcomes may be compounded by "the lingering effects of Covid-19 and Brexit".

Given that employers are in the middle of a perfect storm, TPR has continued to allow them to defer deficit recovery contributions (DRCs).

"Where employers are experiencing short-term affordability constraints, trustees should carefully consider any requests to accept a temporary reduction in contributions," TPR states.

"We expect any such request to be short term, with higher contributions in subsequent years limiting any extension to recovery plan end dates. We will continue to view shareholder distributions as being inconsistent with the scheme receiving lower contributions, and we expect any deferred DRCs to be repaid – ideally before any shareholder distributions recommence."

Short-term cashflow

TPR introduced deferrals to DRCs at the height of the pandemic when the UK first went into lockdown in 2020 in cases where employers had "an immediate or demonstrable cashflow need for the foregone contributions".

Breaks in DRCs did not come without stipulations on trustees, such as ensuring the sponsor's long-term financial stability was not impacted and that they demand suitable protection and mitigations, including suspension of dividend payments and the scheme be treated equivalently to other creditors.

It was only a matter of months before TPR updated the guidance in June 2020 asking trustees to carry out greater due diligence into Covid-19's impact on employers' short-term cash flow before agreeing to DRC deferral.

As such, relatively few schemes took advantage of DRC referrals.

TPR reported just 10 per cent of schemes had asked for a support in the four months to June 2020, and in the *2021 Annual Funding Update* the regulator stated: "Our experience following the publication of last year's Covid-19 guidance shows that only a small proportion of employers have asked to suspend or reduce DRCs".

Grant Thornton head of pensions advisory, Paul Brice, says: "Our experience has been that employers took a responsible approach to requests for deferral, seeking concessions where there was a genuine case for needing support for the employer through turbulent and risky economic circumstances."

Careful consideration

For many trustees the Covid-19 pandemic was the first time trustees were put in a position where they had to assess short-term impacts and make a decision that allowed employers to reduce or halt contributions.

Legal & General Investment

Management head of fiduciary management, Tim Dougall, says: "If trustees were being asked to defer deficit contributions, they were having to make a decision based on not a lot of information. A lot of trustees will have gone through that stress test of whether their sponsor was going to run out of cash, and they will have learnt a lot."

Dougall adds that while some schemes may have been granted deferrals, plenty of schemes turned down applications.

"We saw schemes where trustees didn't accept requests to defer DRCs because they did not see the financial difficulty as a short-term issue and recognised there could be a long-term impact from the pandemic on their sponsor's business."

Brice agrees that trustees considered delays to DRCs "very carefully – and did not just 'roll over'".

He adds: "Requests needed to make strong commercial sense for the longevity of the sponsor and benefit of the scheme; involve appropriate contingent asset support for the amounts deferred; and be mindful of equitable treatment with other stakeholders."

Both Brice and LGIM say that, in their experience, sponsors have honoured DRCs agreements and that many employers have already paid back contributions in full.

Black swan event

The question now is whether TPR's willingness to keep the door open to DRC deferral means there is a chance more employers will attempt to use the flexibility for non-Covid related financial difficulty.

Eversheds Sutherland partner, Emma King, says: "The regulator guidance on DRC suspensions were all pandemic led, but actually we're coming up with yet another black swan event in terms of the energy supply situation and the crisis with Ukraine. Are there going to be new reasons for employers who weren't affected by the pandemic, to have to look to suspension of deficit repair contributions if they are affected by these issues?"

By way of example, this April, Mothercare, which went into administration in 2019, informed the pension trustees it would not pay the first instalment of the deficit recovery due to reduced cash generation following the suspension of its Russian business. Trustees have not agreed a new DRC schedule and discussions with the sponsor are ongoing.

As of 28 February 2022, the Mothercare scheme's deficit stood at £66 million, with total assets of £412 million and liabilities of £478 million. This represents an improvement on the scheme's last full actuarial valuation, as of 31 March 2020, when the deficit was £124.6 million, and February 2022's figure is £25 million less than the £91 million deficit recorded as of 30 October 2021.

Mothercare's deficit recovery reflects an overall picture of improved scheme funding post-pandemic. Figures from LGIM show the health of the UK's DB pension schemes has been gradually improving since March 2020, reaching a new high in the fourth quarter of 2021, with the average scheme expected to be able to fund 98.4 per cent of accrued pension benefits as of 31 December 2021.

WTW head of defined benefit funding, Graham McLean, says since most schemes are ahead of schedule when it comes to clearing deficits, there is no reason to open deferrals up further and a return to 'business as usual' by TPR makes sense.

"Where shortfalls remain, the regulator does not want employers to take their foot off the gas, except where they face specific challenges. Accordingly, it has returned to its pre-pandemic hymn sheet in warning that dividends should only exceed deficit contributions when funding targets are strong and recovery periods relatively short."

Yet the fact remains that the next 12 months will remain crucial for both pension schemes and other investor groups, as we move into an era of tighter monetary policy.

And Brice says sponsors' willingness and ability to pay DRCs will differ based on their sector and company type.

"The position is very company and sectoral specific. Some sponsors were broadly unaffected by the pandemic; others have needed to address financing and liquidity issues arising as their businesses were significantly curtailed. The situation for a number of employers has more recently been exacerbated by inflation, supply chain disruption or skills shortages."

However, he adds that Grant Thornton has observed "no systemic shift to requesting DRC deferrals; the circumstances of Covid were highly specific."

A TPR spokesperson told *Pensions Age* that DRC deferrals may be considered in any event that creates short-term financial challenges.

"Where schemes are in deficit against their technical provisions, trustees should focus on recovering the deficit. Where employers are experiencing short-term affordability constraints, trustees should carefully consider any requests to accept a temporary reduction in deficit repair contributions. TPR expects any such request to be short term, with higher contributions in subsequent years limiting any extension to recovery plan end dates, and will continue to view shareholder distributions as being inconsistent with the scheme receiving lower contributions," it states.

Whatever the driver for a deferral request, King says it critical that trustees carefully assess any delay proposals from their sponsor.

"Employer covenant advice from specialists is so much more important these days than it ever was," she says.

Written by Gill Wadsworth, a freelance journalist

Making pension engagement enjoyable through technology

Laura Blows speaks to Nick Hall, business development director and Chartered Financial Planner at UK-based Wealth Wizards, about the opportunities technology provides for increasing people's engagement with pensions and increasing their retirement wealth

Nick, why are we talking about technology and member engagement today? How can it help improve member engagement?
We see technology as just a way for members to physically look at their pension in a way that they look at the bank account, they look at their savings, as part of their everyday life.

What we're trying to do at Wealth Wizards is effectively give them a digital engagement tool, because we believe it's all about engagement. Pensions is not something years away that can be ignored, it's something that you can really engage with now.

Technology can personalise that experience. So, what we do with customers is we let them put their details in, so they can personalise it and see their pension as part of their savings.

The technology gives them playful tools. They can play and see what happens to their projected pension pot value in 10 years for example, or in 15 years. That can give them the incentive to think 'what happens if I put another 1 per cent in'?

Because of these playful tools from Wealth Wizards in the technology market, we're finding engagement levels are increasing so much more.

One aim of the member engagement may be pension pot consolidation for potentially better member outcomes. How can we use technology to help improve that consolidation process?
What we're finding as a barrier to consolidation is that it is all paper based,

complete this form, complete this form, return this form. So, what we're doing with technology, with consolidation, is effectively saying that it's about engagement again. So, engage with your pension. For example, 'what have you got in your current pension with your new employer'? Then, what we'll do is we'll ask them, 'what other pensions have you actually got in the past'? 'How much is in there, roughly'? So, we don't ask for policy numbers and information; we make it as frictionless as possible so technology can say, 'well, if you've got three other pensions, what's the value'?

Then, what technology can do is say, 'okay, do you want to move these pensions'? One question. So, not forms everywhere.

Wealth Wizards are designing algorithms that effectively simply look at the charges. So, if you've got three pensions elsewhere, it will look at the charges where they are and the charges where your new pension is, and just compare them, and in comparing them, if it's cheaper to move it, press the button and move it. So, technology is there to make it so much easier to remove the paper trail, to just press a button and move your pensions into one area.

Let's look behind the scenes at the benefits technology itself can provide. For instance, the management information (MI) that it offers. How can that help improve the member experience, their engagement, and ultimately improve their member journeys and outcomes?
We see MI as the real way to drive customer behaviour forward. We use different analytic tools to actually track what customers are doing. So, we'll look at their age, what they've got in their pension pot, where they've got it, when the retirement age is, and collect all that information as one set of MI.

So, if a product provider or an employer wants to see that MI, we can say, what we're seeing is 2,000 people have been through this initial pension journey, and your average age is 35, the average pension pot is X amount, for example. Employers are actually seeing MI now as a real powerful tool to better engage with pensions as this information can then be used to create tailored nudges to members, rather than just a mass marketing campaign.

When members reach retirement, how can digital technology really help inform and empower them to make those best decisions?
We've designed a pensions options tool. Customers can type in their pension pot amounts and it combines them all together and tells them what the total may be worth in future years, so people can start to visualise their retirement.

The feedback we've had from those using the technology is that it has given people choices, such as whether they can move from full-time work to part time, or that they can start paying more into their pension in plenty of time before retirement.

Technology is making a pension like your bank account. It's making it something that you can interact with, and what we're seeing from feedback is people are going in now on a daily basis, looking at the current account, looking at the savings account and, dare I say it, looking at the pension.

A key group we've not really discussed yet are their employers. How can technology help employers ensure real value for their employees, while still reducing risks and costs for them?
Employers now have to provide a pension product to employees through auto-enrolment. But what employers haven't got time to do is really push members to engage with their pension. So at Wealth Wizards, we've got a product called MyEva for employers to provide to their staff to for their financial wellbeing – for employees to gain a holistic view of their finances.

We're using technology as an education piece, so employers are now saying 'technology is actually doing our job, because not only are members engaging with their pension now, we get MI'.

Technology is there for employers to really get closer to the employees, without having to actually sit down individually with them all. The employer feedback we're getting is the MI is superb and the engagement levels are far, far better than they've ever been, just by giving someone a portal.

In association with

To view the full video, please visit www.pensionsage.com

On thin ice

With woefully inadequate private sector DC contributions and increasingly unaffordable unfunded public sector provision, is the UK's pension system teetering on the brink of disaster?

Summary
• The low bar set by soft compulsion and rock-bottom minimum contribution levels has left millions with inadequate pension savings.
• Raising contributions is vital, but barriers remain to reform, not least in the Treasury.
• Unfunded public sector pensions are draining government finances.
• The LGPS continues to be a success story, proving that funded public sector DB schemes are sustainable in the long term.

Optimism is a scarcely-found commodity in UK pensions circles these days. It has been replaced by a stoicism born from a knowledge of what is required to improve retirement provision and an acceptance that it will all be implemented far too slowly – if at all.

Ten years on from the heady days that followed the introduction of auto-enrolment into the UK's retirement savings system, it is now clear, as defined benefit (DB) schemes slowly fade out of the picture, that the low bar set by soft compulsion and rock-bottom minimum contribution levels has left millions with inadequate pension savings. At the same time, the sustainability of current public sector pension funds continues to be questioned, as politicians struggle to balance the books in a post-Covid, highly indebted, fiscal environment.

Former pensions minister and current LCP partner, Steve Webb, summed up the situation in June when speaking at a Work and Pensions Committee hearing, calling the UK

pensions system a "slow-motion car crash".

Webb warned that there was a generation of people in the "middle" who are in their forties, who missed out on DB in large measures, and who have been auto-enrolled into schemes with minimum contribution rates.

"We are roughly at peak DB at the moment," he told the committee. "For people retiring this year, it is about as good as it is going to get in the private sector. Every year thereafter we think that the real value of people at retirement from DB is dropping and dropping. In 20 years, it will be vanishingly small. The DB tide is going out; the DC cavalry is nowhere to be seen."

It is hard to accuse Webb of hyperbolic language. In a survey, B&CE recently found that 54 per cent of households and 57 per cent of individuals are not saving enough to meet the replacement rates set by the Pension Commission in the mid-2000s. While the Association of Consulting Actuaries (ACA) has discovered that over 2021, the number of employers seeing a material increase in auto-enrolment cessation rates doubled from one in 10, to one in five because of the pandemic.

PLSA director of policy and advocacy, Nigel Peaple, says that the association has long argued that current contribution levels are not likely to give people the level of retirement income they expect or need. "In the PLSA's 2016 report on retirement income adequacy, we showed that if the level of automatic-enrolment contributions is not raised, only about half of people eligible for workplace pensions will achieve the 2005 Pension Commission's target retirement income replacement rates — and only 3 per cent if, as typical today, people have defined contribution, rather than defined benefit, pension savings."

Arriving at the wrong time

As Aegon head of pensions, Kate Smith, points out, this impending crisis has come around at precisely the wrong time. With high inflation tightening many family budgets, the challenge of improving pensions contributions into DC schemes has become even harder.

"Pre-auto-enrolment, the number of employees saving in a workplace pension was in severe decline," she says. "The stakeholder pension rules, introduced in 2001, did very little to address the pension savings gap, as employers (with five or more employees) only had to make available a workplace pension, but unlike auto-enrolment they didn't have to pay into it.

"This 'lost generation' of pension savers could now find themselves with inadequate retirement savings and now face the huge challenge of catching up on years' worth of contributions to plug the gap. The cost-of-living squeeze has made this increasingly challenging."

What can be done?

In order to tackle the problem, Smith says that implementing the recommendations of the 2017 Auto-Enrolment Review would be a start.

"Reducing the minimum age from 22 to 18 will at least give employees potentially four more years to save and benefit from an employer contribution, albeit probably based on a low salary," she says. "Removing the salary offset, so contributions are calculated from the first pound will also mean pension contributions are based on a greater proportion of salary, so both employers and employees are paying higher contributions. But these are tweaks and more radical thinking is needed. Total auto-enrolment contributions need to be gradually phased in to 12 per cent of salary equally shared between employers and employees. This is likely to take a number of years to implement."

In the short term, therefore, Smith suggests improving member engagement via innovative nudge techniques and support. "Engaging people with their pension will mean they can find out how much they need to save for retirement and adjust contributions accordingly."

The PLSA has similar proposals. "Now is the right time for the government to commit to levelling up pensions, gradually, over the next decade, in three affordable steps," says Peaple.

"First, the government should implement its plans of extending pension savings to the over-18s, and commence pension saving on each pound of savings, from the mid-2020s. Then around the end of the decade, pensions should be 'levelled up' so that employers match employee contributions. This would mean 10 per cent of pay goes into pensions but would not require extra contributions by workers. Finally, when affordable, in the early 2030s, contributions should be increased to 12 per cent."

The Investing and Saving Alliance head of retirement, Renny Biggins, says that quickly increasing minimum wage contributions on what he calls 'The Sandwich Generation' cited by Webb, could mitigate a crisis to some extent, but its effect is not likely to have a significant impact on the older group within that cohort.

"We need to increase awareness of

what retirement outcomes people are expecting based on their existing trajectory and what impact any changes will have on that outcome, so people can plan accordingly. The pensions dashboards will help to raise awareness to a degree and MoneyHelper provides good support to those who use the service. In addition, we have government working on consumers being given a mid-life financial and wellbeing MOT.

"But unless changes happen at a far quicker pace, with greater consumer engagement, then many of these initiatives will be too little too late for this group."

The small problem of the Treasury

Moving matters at speed, is not, however, an easy task at the best of times in pensions. Today, with a cash-strapped government, the undertaking becomes even more daunting.

As Webb told the committee in June, the Treasury is a stumbling block to further pensions reform. "If you want to crack pensions in this country, you don't have another commission of people of good will who are not politicians; you hold the Treasury's feet to the fire," he said.

Webb went on to say that if he had only one recommendation for the committee, then it would be to join forces with the Treasury Committee and put maximum pressure on the Treasury to accept the need for pension tax relief. "The reason they are blocking the auto-enrolment review is tax relief," he said. "You might think that the Treasury wants people to save more for their retirement, but it doesn't, because every extra £1 in pension is £1 less in tax.

"We need to tackle the Treasury. The politicians will not hand over decisions to a commission. The politicians have got to take the decision themselves."

In the public eye

At the same time as being accused of displaying reluctance to encourage further pension saving, the Treasury is also suspected to be unsympathetic to the cost of unfunded public sector schemes.

According to the Office for Budget Responsibility, the Treasury is expected to spend £2.5 billion on unfunded public sector pensions in 2022-2023 (reflecting £49.7 billion of total payments less £47.2 billion of contributions), with the figure rising to £4.8 billion the following year. And the Treasury's *Whole of Government Accounts* now show that the value of all unfunded public service pension promises – made up to 2067 – was £2.19 trillion in 2019-20.

Figures such as these, no doubt, prompted Pensions Minister, Guy Opperman, to go on record recently with his view that public sector DB pensions are unsustainable and need to be overhauled.

Barnett Waddingham partner, Barry McKay, says that some tweaks to unfunded schemes may be enough to alleviate fears of runaway public sector pensions.

"The unfunded public sector schemes do have a cost control mechanism in place, which should help control with stability of cost and hence sustainability," he says. "However, only certain factors are included in the mechanism and so costs are still subject to other factors that can cause material changes."

One alteration that could help is to the SCAPE discount rate. The current consultation on the SCAPE rate has come in response to an increase in costs. It is hoped that a change to the rate could prevent large future increases, providing greater stability and consistency of cost and some much-needed respite for unfunded schemes.

"The other thing is, given the 40-year high on inflation, is changing how the funds are linked to inflation," suggests McKay. "At present, they remain linked to inflation and are not capped in any way. So if inflation is 10 per cent, then that's what we have to increase benefits at. Contrast that with the private sector schemes we're dealing with recently who increase pensions in line with inflation, but up to a maximum of 5 per cent, let's say as quite a common example.

"That would be a possible change that could be considered to make it more sustainable."

LGPS: Success story?

On the funded side of public sector pensions however, there is some good news.

The Local Government Pension Scheme (LGPS) has enjoyed a successful recent period following reforms that saw the UK's 86 LGPS funds pool their assets into eight fund management organisations that run all LGPS investments.

As McKay, who works on the scheme says, the section 13 valuation carried out by the Government Actuary's Department (GAD) in 2019 showed the entire scheme was 109 per cent funded. And for the LGPS as a whole, contributions actually reduced in 2019. He says it is likely that employer contributions will stay at similar levels on average, with an

DB schemes on target for endgames

The general malaise hanging over the UK's pension system may be a heavy one, but DB trustees and members do have something to cheer about. Many DB schemes are in robust health and are on target to meet their endgame plans, thanks to rising gilt yields, which are improving funding levels.

According to *The Pension Protection Fund (PPF) 7800 Index*'s June update, the aggregate funding ratio of DB pension schemes in the UK reached a record high of 118.9 per cent at the end of May, up from 114 per cent a month before. The aggregate surplus of the 5,215 schemes in the index was estimated to have increased by £55.4 billion in May, from £206.2 billion at the end of April 2022 to £261.6 billion at the end of May 2022, with assets totalling £1,642.6 billion and liabilities coming in at £1,381 billion.

It was also revealed that 1,450 schemes were in deficit – the lowest number on record – and that 3,765 schemes in surplus. The aggregate deficit of the schemes in deficit at the end of May found to be £28.2 billion, down from £47.8 billion at the end of April.

Further encouraging news has come from XPS Pensions Group's *DB:UK Funding Tracker*, which found that DB schemes' deficits against long-term funding targets decreased by £45 billion in May to £152 billion.

Based on assets of £1,689 billion and liabilities of £1,841 billion, the average funding level of UK pension schemes on a long-term target basis was 91.8 per cent as of 30 May 2022, and XPS estimated that the average pension scheme would need an additional £15,000 per member to ensure it can pay their pensions into the long term.

In addition, LCP has suggested that FTSE 100 DB pension funds could be sitting on additional £10 billion of 'hidden' pension surplus due to the long-term impact of the Covid-19 crisis on life expectancy, which it estimated could result in up to a 2 per cent fall in liabilities.

increase in future cost (the primary rate) but lower deficit contributions (the secondary rate) with lots of variability by fund and employer.

"I would expect that *[the funding position]* is even stronger now," says McKay. "Because all the funds have had good performance. So, if anything, it's going to be even better when we come to the 2022 evaluations, which we'll be working on soon. Some funds may recognise the improvement in funding level and take some risk off the table with a more defensive investment strategy, which will reduce volatility of results and further help to improve the sustainability and stability of the LGPS."

This favourable situation, partnered with the LGPS's cost cap mechanism, should provide some reassurance as to the overall sustainability of the LGPS. "If it does get into place where people are living much longer, then there is a mechanism for pulling costs back," says Hymans Robertson head of LGPS consulting, Catherine McFayden.

Not only is the LGPS in a healthy state, but it is also an example, to a certain extent, of how DB schemes can still be run effectively.

"It's obvious why people would ask questions about the huge gap that now exists between DB public sector schemes and the provision that is typically provided in the private sector. But one of the questions we might ask ourselves is, what is the right level of provision? Essentially, are people saving enough in the private sector? So, it's very tempting to look at the costs and contrast them and say, well, the public sector ones are the ones that got it wrong, the private sector ones are right.

"But if you're looking for people to have a sort of sustainable lifestyle in retirement, then the public service pensions might be closer to the marker as to what's actually needed to do that."

Written by Marek Handzel, a freelance journalist

Get to grips with the gap

Maggie Williams explores the difference between men and women's pension pot size at retirement and the efforts the pensions industry can take to shrink the gap

Summary
• Gender pensions gaps are the product of many different factors, including childcare and pay gaps.
• Schemes need to review their design and ask if it is fit for purpose for women.
• Decumulation needs a more gender-related focus.

Gender pay gap reporting is now business as usual for UK companies with more than 250 employees. It has created greater transparency about pay practices, raised awareness of differences in men's and women's earnings and forced employers to address disparities, even if it hasn't yet eliminated them.

As pension contributions are typically a percentage of pay, it follows that if there are gender pay gaps, there will also be gender pensions gaps. But while the average size of the gender pay gap is 7.9 per cent, the average pensions gap is far bigger.

According to recent research from Now Pensions and the Pensions Policy Institute, by the age of 65, women will have accumulated £69,000 in private pension wealth, compared to £205,800 for men. That's a 33.5 per cent difference. And recent research from L&G suggests that the gap at retirement could be wider still, at 55 per cent.

Comparing an average yearly gender pay gap with a disparity in pension pots accumulated over 40-plus years is not exactly like-for-like. However, the chasm between men's and women's retirement savings suggests that the difference is more than a simple by-product of gender pay gaps.

"The pay gap does contribute to the gender pension gap but women face many other hurdles during their working lives when it comes to retirement planning," says Hargreaves Lansdown Senior pensions and retirement analyst, Helen Morrissey.

One of the most significant is working patterns. Government figures show that around 64 per cent of women who work do so full-time, but only 27 per cent of women will maintain full-time roles throughout their working life. Caring roles – predominantly childcare, but also adult family members – mean that women are more likely to have career breaks and/or return to the workforce on a part-time basis. "Our research has shown that the biggest cause of the gender pension savings gap is the career breaks that women have compared to men," says Now Pensions head of PR and campaigns, Samantha Gould.

"Women typically spend 10 years away from the workforce to start families and care for children and relatives," adds Gould. "That means fewer opportunities for career progression and increasing salaries."

Women also often typically work in lower-paid sectors, with health and social work, wholesale and retail, and education collectively accounting for almost half (46 per cent) of all female employment, according to the Office for National Statistics. Low base pay combined with part-time working patterns means that many women fall below the current £10,000 threshold for auto-enrolment contributions. It is estimated that scrapping the threshold would bring an additional three million women into pension savings.

Another reason for the gender pension gap is contribution rates. Scottish Widows managing director of retirement and longstanding, Emma Watkins, says that women tend to contribute at a lower rate than men: "On average men who save are putting 16 per cent of pay aside for retirement, while women save just 13.5 per cent of their salary." She adds that the combination of lower contributions and care-related working patterns means "the pension

pot of a woman in her twenties today will total £100,000 less at retirement than that of a man of the same age".

The reasons behind that gap in contributions are not as simple as poor engagement with pensions. Present day priorities, such as surging childcare costs, may disproportionately affect women and prevent them from saving more for retirement. Research from the Institute for Fiscal Studies showed that families earning between £20,000 and £30,000 spend as much as 17 per cent of their pre-tax income on childcare every week – and in single-parent households that may be met by mothers on their own.

If one of the solutions to the gender pensions gap is to enable women to work longer hours in better paid employment, then the current rise in flexible working could offer some solutions. "Flexible working (including flexible hours as well as working from home) is vital in keeping women in the workforce by enabling them to juggle their caring responsibilities with work," says Morrissey. "It also helps families manage caring responsibilities more evenly."

However, many employers are still wavering over how, or if, they will offer permanent flexible working. Concerns about career progression prospects for remote workers and the practicality of flexible working in sectors where women's roles dominate also need further research if they really are going to have influence on long-term pensions savings.

While the majority of gender pensions gap damage is done in women's mid-careers, the menopause can add a further blow in later life. "Employers are increasingly recognising the impact of menopause and putting policies in place to support those affected, but more needs to be done," says Morrissey. Its effect on women's pensions isn't easy to quantify, but research from Bupa and the CIPD in 2019 found that over 900,000 women had left the workforce early due to menopausal symptoms.

Is the pensions gap a pensions problem?

It would be tempting for providers and trustees to say that none of this is a pension scheme problem. If, over the course of a working lifetime, women work less hours, earn less and contribute less to their pensions than men, they will inevitably have a smaller pension at retirement.

But nearly three-quarters (72 per cent) of women over 16 in the UK are now in either full or part-time work – the highest figure in history. Perhaps it's time to ask broader questions around whether current pension scheme design, including contributions, financial wellbeing and decumulation support, are fit for purpose for women.

"Women need to fund a longer retirement. A 25-year-old woman today can expect to live to the age of 89, three years longer than a man of the same age," says Watkins. She adds that women can also expect to spend £35,000 more on care costs than men. "Closing the gender pensions gap in terms of pension contributions isn't enough – women actually need to save more than men to fund the same standard of living in retirement."

Reviewing scheme design to make sure that it works for women's needs during both accumulation as and decumulation is important, says Barnett Waddingham associate and policy and strategy lead, Amanda Latham. "Historically, pension schemes may have been designed by or for people who are in well-paid, full-time roles. People who are in a different environment from that need different thinking, and to be asked different questions about their aspirations and retirement journey."

Latham says that collaboration with employers can help to reduce the impact of caring breaks, for example by continuing to pay women's pension contributions during maternity leave. "That would help to reduce the gender gap and would also show an increased value for carers in the workplace, leading to better outcomes more generally." Other workplace practices, such as encouraging greater take-up of shared parental leave and helping families with onerous childcare costs could also help women to increase their pension savings.

Legal & General commercial director of workplace savings, Katherine Photiou, adds that women's confidence in making financial decisions is an area where employers and pension schemes as well as industry and government can help. "For example, too few know about the flexibility that couples have in being able to contribute to their partner's pension while they are on parental leave. This can significantly reduce a women's pension shortfall."

Approaches to at-retirement and decumulation are other areas where schemes can think differently about ways to help women. Latham points out that schemes often default all members towards the same decumulation option which may not be appropriate for all women. "I think looking at decumulation through a gender lens can be a way to get a better designed retirement process – this has been neglected," she says.

"You have to explore the most appropriate ways for members to use their savings, and that will ultimately depend on the size of their pot," she adds. "The focus on drawdown might not be appropriate for women who have accumulated smaller pots. Looking at ways to help people use smaller or multiple pots together could be more helpful."

"It's time women stopped being penalised for things outside of their control, like the high cost of childcare, or being paid less than their male counterparts," concludes Photiou.

While many of the drivers of the gender pensions gap are beyond schemes' direct control, willingness to analyse gaps, understand their causes and provide appropriate support to mitigate them should be on every scheme agenda.

Written by Maggie Williams, a freelance journalist

Growing globally

Laura Blows looks at the size of the pension market worldwide and how its asset allocations are changing

Summary
- Pension funds now account for approximately $60.6 trillion in assets globally.
- There is a high level of concentration, with the top three pension markets (US, UK, Japan) accounting for 75 per cent of all pension assets.
- The total pension assets to GDP ratio for the top 22 pension markets was 76.3 per cent at the end of 2021.
- DC assets have grown by 8.2 per cent per annum over the past 20 years, compared to DB assets growing by just 5.1 per cent.
- The top seven pension markets were 45 per cent invested in equities in 2021, 34 per cent in bonds, 19 per cent in other, and 2 per cent in cash.
- The asset allocation to real estate, private equity and infrastructure grew from about 7 per cent to above 26 per cent over 20 years.
- Greater clarity on sustainability-related investment actions is expected in the future.

Accounting for $60.6 trillion in assets, out of the $175 trillion assets owned globally, pension funds certainly are a powerful collective force on the global investment stage.

Only mutual funds (including ETFs) have a bigger piece of the pie, at 63.1 trillion, the Thinking Ahead Institute's *Global Pension Assets Study 2022* (GPAS) finds. At $40.3 trillion, insurance funds came a respectable third.

Countries' pensions assets size

As just 22 pension markets (P22) in the world make up $56.58 trillion of pension assets, the study has homed in on these markets, and within this, the seven markets (Australia, Canada, Japan, Netherlands, Switzerland, UK and US) that make up 92 per cent of this total, at $52.2 trillion.

Delving further, the top three pension markets represent 75 per cent of all pension assets. The top market alone, the US, holds a staggering 62 per cent of the total P22 assets. The UK recently overtook Japan to become the second largest pension market, holding 6.8 per cent and 6.5 per cent respectively.

Over the past decade the US has increased its weighting, up from 52.2 per cent, while the UK's and Japan's decreased from 8.5 per cent and 12.7 per cent respectively. In contrast, the weights of Australia, China, Hong Kong, Netherlands, South Korea and US have increased relative to other markets in the P22 over the past decade.

Speaking at the study's launch in February, Thinking Ahead Institute

researcher, Samar Khanna, stated that there was "not just concentration between markets but also within markets".

He gave the examples of Japan, with its GPIF, the largest pension fund in the world, owning 46 per cent of Japan's pension assets. While in the UK, the top 10 pension funds accounts for 60 per cent of total UK pension assets.

The *GPAS* finds Australia to be the most successful pension market over the past 20 years, seeing pension asset growth versus market returns of 11.3 per cent per annum, in USD terms, compared to the P22 countries generally seeing 6.8 per cent asset growth in that time. Australia's asset size was $2.8 trillion in 2021. In 2011 it was $1.4 trillion and in 2001 it was $270 billion.

The size of the US' pensions assets grew from $9.7 trillion in 2001 to $15.3 trillion in 2011 and $35 trillion in 2021. Meanwhile, the UK's asset size increased from $1.1 trillion in 2001, to $2.5 trillion in 2011 and $3.8 trillion today, and Japan's changed from $2.1 trillion in 2001, to $3.7 trillion in 2011 and $3.6 trillion today. The Netherlands saw growth of $2.2 trillion in 2021, from $1.1 trillion in 2011 and $433 billion in 2001.

Reasons for growth

The *OECD Pension Funds in Figures* June 2021 report tells a similar tale, finding that despite the shock of Covid-19, pension fund assets rose in 2020 by nearly 9 per cent in the OECD area – although less than the double-digit growth rate in 2019 – to reach $34.2 trillion at end 2020.

Pension fund assets continued to rise in 2020 in almost all countries, the OECD finds, "supported by capital gains in financial markets and government measures that helped members to continue participating in their pension plans".

It highlights that some of the strongest asset rises in nominal terms occurred in Georgia (over 100 per cent) where participation in a second pillar pension scheme has become mandatory since 1 January 2019, and in France (84 per cent), where insurance companies have started creating and transferring pension business to FRPS (a newly authorised vehicle that is a pension fund).

"Since the global financial crisis, the global economy has been buoyant, with corporates performing strongly and asset markets providing strong returns for investors. In this environment pension fund investments have steadily increased, but more relevantly, employer schemes have seen large contributions pumped into pension pots," Kempen Capital Management co-head investment strategy UK, Arif Saad, says.

"This has been a function of solid balance sheets, but also a function of government mandates forcing employers to do so. Regulation, enforced funding provision and greater protection for pension members has pushed up the size of global pensions as governments want less reliance on state pensions going forward. This trend is not likely to end soon with policies such as auto-enrolment in the UK and the growing superannuations in Australia showing the direction of travel," he explains.

Pension assets relative to GDP

As the amount of pension assets grows, so does the size of the pension assets relative to GDP. In fact, total pension assets to GDP ratio reached 76.3 per cent for the P22 markets at the end of 2021, the *GPAS* finds.

According to the report, the Netherlands has the highest ratio of pension assets to GDP at 213 per cent, followed by Australia (172 per cent), Canada (170 per cent), Switzerland (157 per cent), the US (153 per cent) and the UK (124 per cent).

During the past 10 years, the pension assets to GDP ratio increased the most in the Netherlands, Australia, Switzerland and the US (94, 79, 64 and 54 percentage points respectively). It declined only in Ireland (and that by 1 percentage point).

The OECD's report also notes significant differences across countries between the level of assets in pension funds relative to the size of the domestic economy.

It finds that, in 2020, assets exceeded GDP in five countries – the Netherlands (210.3 per cent), Iceland (194.3 per cent), Switzerland (149.1 per cent), Australia (128.7 per cent) and the United Kingdom (118.5 per cent). In contrast, pension fund assets remained much smaller in countries such as Albania, Greece and France, accounting for 0.2 per cent, 1 per cent and 2.6 per cent of GDP respectively.

However, it notes, in some countries, retirement savings are accumulated in vehicles other than pension funds, such as provisions in employers' books (eg in Austria, Germany, Sweden) or pension insurance contracts (eg in Belgium, Denmark, France, Sweden).

"For example, more assets were accumulated in Belgium, Denmark, France and Latvia in these other vehicles than in pension funds in 2020. Denmark has the largest amount of pension assets relative to GDP when considering the whole funded private pension system (238.9 per cent of GDP)," it states.

According to Columbia Threadneedle Investments head of pensions and investment education, Chris Wagstaff, expressing the size of a nation's accumulated pension assets to its GDP provides a "simple, high-level comparator by which nations of various sizes and varying pension structures can compare the relative size and perceived strength of their occupational (second pillar) pension systems against a common benchmark".

However, he states that while the pension assets to GDP ratio's greatest strength is its simplicity, "this is also its greatest weakness".

"For instance, despite active DC membership in the UK now far outstripping active DB, the sheer size of

legacy DB benefits means UK pension assets are split 80/20 in favour of DB," Wagstaff says.

"However, the UK's, DB asset-heavy, 100 per-cent-plus ratio tells us nothing about the gaping pensions gender gap, or the resultant intergenerational inequality that arises from the rapid transitioning from the generosity of DB to the relative parsimony of DC.

"Equally, the pension assets as a percentage of GDP ratio doesn't capture the UK's immense unfunded (off-balance sheet) liabilities of the gargantuan NHS and uniformed services occupational pension schemes or tell us anything about the quantum or sustainability of the UK's (first pillar) pay-as-you-go state pension system, or the rising pension poverty rate associated with increases in the state pension age."

He notes that for those countries whose occupational pensions are predominantly funded DB (eg Netherlands) or DC with high mandatory contribution rates (eg Australia), ratios far in excess of 100 per cent have long been commonplace.

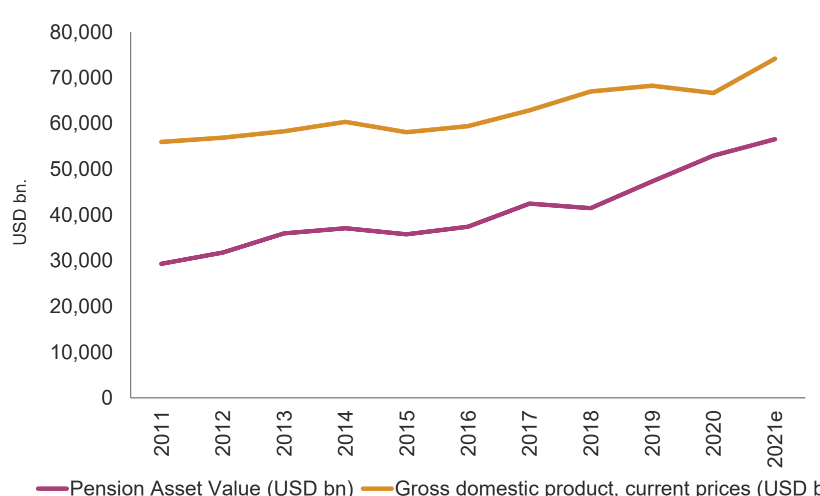
"However, for those that are largely DC, where contributions levels are not mandated (eg Italy) or where unfunded DB is commonplace (eg Germany) or where occupational pensions are not mandatory (eg Ireland), a ratio of less, often far less, than 100 per cent is more common."

DC growth

Thinking Ahead Institute co-founder, Roger Urwin, also shares concerns. He noted at its study launch in February that while it is "very good" that pension assets growing to record levels, "it is not that big overall … with fiscal tightness going forward there is really going to be more growth in wealth management than pensions going forward. So, this growth is there but it could be bigger... That is not a great pensions outcome for the world because the average DC pot as a result of that is surprisingly small. We need to have multiples of GDP really in the pensions system if it is going to work".

The *GPAS* finds that over the past 20 years, the number one pension scheme design is DC, DC assets having grown by 8.2 per cent per annum, while DB assets have grown at 5.1 per cent per annum.

For some examples, Australia has seen its DB/DC asset split change from 20/80 10 years ago to 87 per cent DC in 2020. In the US, the portion of DC scheme assets over the past 10 years has increased from 57 per cent to 65 per cent. In contrast DC scheme assets account for only 5 per cent in both Japan and the Netherlands.



Source: Thinking Ahead Institute and secondary sources

Asset allocations

According to Wagstaff, the pension assets/GDP ratio's upward trajectory is "principally attributable to the strong investment returns from both equity and fixed income markets over the past decade relative to GDP growth".

"Indeed, whereas GDP in most developed nations has grown, in real terms, on average, by around 2 per cent per annum, real returns from risk assets, such as equities, have until very recently, far exceeded their long-run average of 4-4.5 per cent per annum. Likewise, fixed income returns. This, in turn, has flattered the apparent health and implied outcomes of many pension systems, not least in the UK, disguising both the sub-par level of DC contributions and the often sub-optimal decision making and resulting outcomes when accessing accumulated DC benefits," he states.

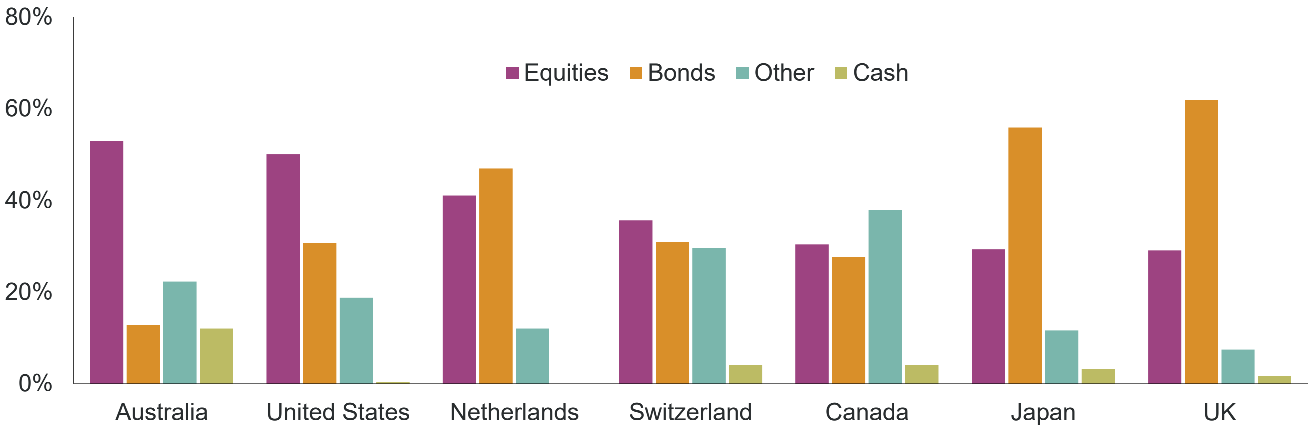
The OECD report finds that, in 2020, equities and bonds accounted for 74 per cent of pension fund investments on average in its 68 reporting jurisdictions, with bonds representing 50 per cent of pension fund investments.

The *GPAS* finds similar among its P7 countries. In 2021 they were 45 per cent invested in equities (a decline of 16 per cent since 2001), 34 per cent in bonds (a 2 per cent rise), 19 per cent in other, and 2 per cent in cash.

Asset allocations to real estate, private equity and infrastructure in the 20-year period saw the biggest growth, from about 7 per cent to above 26 per cent, the study finds.

However, as Khanna says, these figures hide some big dispersions, giving the examples of the US having above-average investments in equities, at 50 per cent, and Australia 53 per cent, while others like the UK, the Netherlands and Japan having above-average bond

Pension scheme asset allocation in 2021



Source: Thinking Ahead Institute and secondary sources

allocations, at 62 per cent, 47 per cent and 56 per cent respectively.

The OECD also highlights this discrepancy, noting that equities accounted for more than 50 per cent of pension investments in Hong Kong (China), Lithuania, Malawi, Namibia and Poland in 2020, while pension funds invested almost none of their assets in equities in Armenia, the Czech Republic or Georgia.

Saad also notes that "the unique and unintended consequence of government behaviour is that pension schemes have now become one of the largest holders of government bond assets globally".

"These asset owners are indifferent on price and have only bought these bonds because they are the 'risk-free asset' for their pension scheme. In part, this has resulted is the negative yield investors receive from buying real government bonds in the UK and Europe," he explains.

"This inefficiency due to mispriced markets can only lead to a misallocation of assets. The winners from this are the government – they have a large and stable owner of current bonds, and if they need to issue more debt, they have a ready and willing buyer. This has resulted in lower funding costs due to lower bond yields. The loser in this equation are the corporates – they continue to use profits to pump up pension schemes who buy assets at negative yields. Counterintuitively this can only result in a negative outcome for the economic environment, and therefore GDP, as profits are not spent on further growth, research and development or dividends to shareholders," Saad warns.

A sustainable future

However, on a more positive note, Saad states that "as pension schemes have become larger holders of investment assets globally, the benefit has been greater engagement as many schemes are no longer happy being passive owners. Active ownership by investors has resulted in increased voting on company management actions, and in many instances a greater focus on environment, social and governance factors. This means that not only is there a link between pensions and GDP, but also on a more holistic measurement of growth in the global economy".

WTW global head of research, Luba Nikulina, speaking at the *GPAS* launch, noted that more work needs to be done for pension investors to feel more comfortable investing sustainably, without risking clashing with their fiduciary obligations.

"Generally there is broad agreement on what sustainability looks like, and its relation to ESG factors and social development goals, but there isn't complete consensus on how to implement investment portfolios to achieve these aims," Quantum Advisory principal investment consultant, Paul Francis, says.

"For example, is it better to divest from fossil fuel companies now or to continue to invest in them to help support their transition to carbon neutrality, which is necessary if carbon reduction is to be successful."

These concerns may be resolved in the future, as the *GPAS* predicts a growing demand from regulation, stakeholders and society calling for greater clarity on sustainability-related actions as a theme for 2022.

"It is time for the investments industry to translate net-zero announcements into concrete strategies. Greater accountability from asset owners will drive change in the rest of the investment value chain. The rise in benchmarking and standardisation will place a limit on greenwashing and overclaiming. Growing legal and regulatory pressures produce further reinforcement for accountability," it states.

As Urwin said at the *GPAS* launch, the global pensions market is currently at a "fork in the road"; with pension funds increasingly walking down the sustainable investing path.

Written by Laura Blows

The key players

A round-up of the latest happenings in key pensions markets across the world

The Netherlands

This country's pension system is rated as one of the best in the world but it's about to undergo a radical change. At the end of March, the country's first dedicated Pensions Minister, Carola Schouten, sent the Future Pensions Act to the Dutch House of Representatives for approval. After this it will then go to the Senate, where it is also expected to pass.

The reform, which will come into effect on 1 January 2023, will see existing defined benefit-like schemes transition to defined contribution-style schemes that will still have an element of risk sharing through collective investment. The deadline to transition is 1 January 2027 but a survey by the Dutch central bank undertaken at the end of 2021 revealed that 85 per cent of schemes were already preparing for the change.

Not only will the reform have a profound effect for members, but it is also expected to see a huge shift in the assets pension schemes in the country invest in. The Dutch pension fund market is worth approximately €1.7 trillion in assets, according to AXA IM Netherlands, with roughly €500 billion allocated to government bonds currently in the DB system. However, AXA IM Netherlands predicts that the allocation to government bonds will decrease, whilst credit bond allocations will increase.

Germany

Germany could be about to see the launch of its first Social Partner Pension (SPP), despite legislation to allow such schemes being introduced before the pandemic. At the beginning of April, the collective bargaining partners in the chemical-pharmaceutical industry, the Federal Chemical Employers' Association (BAVC) and the Mining, Chemical and Energy Industrial Union (IGBCE), agreed to create an SPP.

If everything works out, the chemical pension fund operated by BAVC and IGBCE, together with R+V Versicherung, will be the first pension institution to offer pure contribution commitments. The defined contribution-like scheme sees the employer's liability limited to the payment of the pension contribution to a delegated pension provider, with the latter then being liable to pay benefits in the future.

In a blog post written last year, DLA Piper counsel, Georg Haberkorn, noted that the advantage of SPPs is that they provide cost certainty for employers and the contributions can be invested more freely on the capital market than under the pension models that have been standard up to now, and therefore, a higher return on investments can be achieved.

As far back as 2019, insurance company Talanx AG and trade union Vereinte Dienstleistungsgewerkschaft (Ver.Di) reached an agreement to establish the first SPP in the country but the Federal Financial Supervisory Authority (BaFin) has not yet given its approval for the scheme to go ahead.

Nordics

There are a series of developments going on across the Nordics, some not all positive for pensions systems. For example, the Danish government, along

with the political majority, has agreed to introduce a new special tax on the financial sector, in what has been described as a "political own goal" by Insurance and Pension Denmark (I&P Denmark).

I&P Denmark argues that the tax will make it more expensive for Danes to insure themselves and save for retirement. It has called on the responsible parties to limit the special tax as much as possible, especially as savers are already feeling the burden with inflation at its highest level in 40 years.

In Norway, like in many other countries, an ageing demographic has recently been identified as a key concern by the International Monetary Fund (IMF) following a visit to the country. In a *Staff Concluding Statement of the 2022 Article IV Mission*, the IMF noted that challenges ahead relate to "adverse demographic trends" and the transition away from oil, which may put "serious strain" on public finances.

"Over the past decade, growth in transfers from the Government Pension Fund Global (GPFG) and tax revenues has exceeded growth in pension and ageing-related spending, creating policy space to finance additional initiatives to promote long-term growth. However, with GPFG transfers projected to decline over the coming decades, the ability to finance the current high level of spending will be challenged," the IMF reported.

In Sweden, a key reform to the country's premium pension system has just taken place. The new Fund Selection Agency (Fondtorgsnämnden) began operations on 20 June. It will be responsible for the new fund market that is part of the reform of the premium pension. The role of the agency will be to ensure that funds on offer to premium pension savers in the fund market are cost-effective, sustainable, high quality and diverse.

Ireland

Ireland is about to see a huge shift in pensions policy with the introduction of auto-enrolment (AE) for employees. The policy was officially set out in the country's *Roadmap for Pensions in 2018* but it has suffered a series of delays. However, in March, Minister for Social Protection, Heather Humphreys, set out the government's plan for AE with employees expected to be enrolled in the schemes from 2024.

Under the policy 750,000 workers are to be automatically enrolled into a new workplace pensions scheme, with the choice to opt out if they do not want to be a member. For every €3 contributed by the employer a further €3 will be contributed by their employer and €1 will be contributed by the government. When fully established, the Irish government predicts that a worker earning €35,000 per annum will accumulate a fund (excluding investment returns) of €293,000 over their working life. In addition, the new system will account for around €21 billion in funds after 10 years.

North America

Much like Ireland, the USA is also on the brink of introducing auto-enrolment for pension saving. At the end of March, a new bill that will make a series of reforms to American pensions passed the House of Representatives. The Strong Retirement Act of 2022 (Secure 2.0) is expected to be signed into law by the end of the year.

The bill will require employers to automatically enrol all eligible workers into their 401 (k) plans with a contribution rate of 3 per cent of their salary – workers would be able to opt out, however. Currently, many employees must opt into the scheme and choose their contribution level. Enrolled workers' contribution rates would be automatically increased each year by 1 per cent until their contribution reaches 10 per cent annually.

Another planned reform would see older workers, between the ages of 62 and 64, able to increase their catch-up contributions from $6,000 to $10,000 a year. Beginning in 2023, these catch-up contributions would be taxed as Roth contributions, meaning they'd be taxed before being invested for retirement, though earnings would be indexed to inflation.

Secure 2.0 will also increase the minimum age at which savers can begin withdrawing money from their 401 (k) accounts. It is planned that the age will rise by one year each year until it reaches 75, up from the current 72.

In Canada, the Public Sector Pension Investment Board (PSP Investments) has announced plans to cut its exposure in

greenhouse gas emitting assets by 20-25 per cent over the next four years as part of its new climate strategy. Although many other key pension markets put a big focus on responsible investment, many Canadian funds remain firm on staying invested in carbon-intensive assets.

For example, Canada Pension Plan, the country's largest pension fund by assets under management, said in May that it will continue to stay invested in fossil fuels and support companies in transitioning toward their net-zero goals.

Japan

News recently emerged from Japan that the government plans to use funds from the $1.5 trillion pension fund to finance domestic start-up culture. Unveiling Prime Minister Fumio Kishida's 'new capitalism' agenda, the cabinet announced a push for the Government Pension Investment Fund (GPIF) to increase funding for start-ups. The country plans to use the GPIF to increase the number of start-ups 10-fold over five years.

"Fostering start-ups is the key to promoting the dynamism and growth of the Japanese economy and solving social problems," the agenda said. No details were given as to how the funds from the GPIF would be made available for start-ups, however, the fund is allowed to invest 5 per cent of its total assets in alternatives, including private equity and real estate. As of March 2021, it had allocated only 0.7 per cent to alternatives — and of that, a minority went to private equity, which includes venture capital investments.

Australia

May saw the election of a new Labour government in Australia with the departure of the Scott Morrison-led Liberal and National coalition government and Anthony Albanese taking over as Prime Minister.

While it is not yet clear what plans Albanese has for pensions in the country, the Association of Superannuation Funds of Australia (ASFA) welcomed his comments on the importance of universal superannuation. It was also pleased that the country's new Minister for Financial Services, Stephen Jones, has highlighted the importance of facilitating superannuation investment in local innovation and infrastructure to grow the national economy and deliver reliable long-term returns to super fund members.

In another boost, the new government is committed to the already legislated superannuation guarantee, introduced last year. It sees the rate contributed by the employer into employees' superannuation funds increase by 0.5 per cent each year, until it reaches 12 per cent in 2025. On the 1 July 2022, it went up from 10 per cent to 10.5 per cent.

New Zealand

New Zealanders have the option to join KiwiSaver – a work-based retirement savings scheme with eligible employees automatically enrolled. At the end of 2021 changes were made to the default fund providers of KiwiSaver for those employees who do not choose their own fund to invest in. The newly appointed funds were Bank of New Zealand (BNZ), Booster, BT Funds Management (Westpac), Kiwi Wealth, Simplicity and Smartshares (NZX).

Prior to this, regulations were finalised to ensure all KiwiSaver default members of outgoing providers (AMP, ANZ, ASB, Fisher Funds, or Mercer) were transferred safely and securely to the new default funds. The government said that this will ensure that all default members get the benefits of moving to one of the new funds, such as low fees, potentially higher returns, and engagement from their providers at key points in their KiwiSaver journey.

In other KiwiSavers news, a recent survey by ANZ found that more than two-thirds of 65-year-olds are leaving their money in their KiwiSaver accounts, even though they have become eligible to withdraw it. Of the members of ANZ's KiwiSaver schemes who became eligible to make a withdrawal in the 12 months to April 2022, 71 per cent made no withdrawal, 17 per cent made a partial withdrawal and 12 per cent withdrew all their savings.

Written by Natalie Tuck

To be an actor or actuary?

Isio head of research and development, Iain McLellan, chats to Sophie Smith about his secret juggling skills, Rangers fandom, and childhood dreams of acting

What's your employment history (including jobs outside of pensions)?
While I was at university my weekend job was working at William Hill. I also had summer jobs at Scottish Widows and Mercer. I graduated in 2000 and started work as an actuarial student at Mercer in Edinburgh, before transferring to the Glasgow office in 2003. I joined KPMG in 2010 and worked there until the pensions team spun out to form Isio in 2020.

What's your favourite memory of working in the pensions sector?
I've got lots of great memories of the people and places I've worked with over the years, including having great fun at many charity and social events. On a professional level, there is nothing better than winning a new client, but a project which really stands out for me was carrying out the first Medically Underwritten Mortality Study.

If you did not work in pensions, what sector do you think you would be in instead?
Probably something science or engineering related.

What was your dream job as a child?
My dream job was to be an actor (although, as most actuaries will understand, most people I meet for the first time think that's what I say I do).

What do you like to do in your spare time?
As I have two kids, a lot of my spare time is spent running around after them. But, when I'm not doing that, I like running, cycling, going to the football, reading, riding my motorbike and going to the theatre or watching concerts.

Do you have any hidden skills or talents?
I can juggle (something that I learnt on my graduate induction at Mercer) and water-ski, but not at the same time.

Is there a particular sport/team that you follow?
I follow Rangers (I have a season ticket for Ibrox) and Scotland (football and rugby).

If you had to choose one favourite book, which would you recommend people read?
Any *Calvin & Hobbes* collection by Bill Watterson.

And what film/boxset should people see?
L.A. Confidential.

Is there any particular music/band that you enjoy?
There are lots, but if I had to go for one band then it would be Ben Folds Five.

Who would be your dream dinner party guests?
John Napier, Bertrand Russell, Jimi Hendrix and Billy Connolly.

Is there an inspirational quote/saying you particularly like?
"Never trust a man who, when left alone with a tea cosy, doesn't try it on." – Billy Connolly

Written by Sophie Smith

A win-win

The Aviva Staff Pension Scheme recently embarked on a new journey aimed at meeting both the investment needs of its members and helping achieve the trustee's ambitious ESG goals. Pensions investment director, Steven Catchpole, tells Francesca Fabrizi about the steps it took to get to where it is today

Please give an introduction to the Aviva Staff Pension Scheme.

The £15 billion Aviva Staff Pension Scheme is one of the largest in the country and provides pensions savings for the majority of UK employees of Aviva plc. The scheme's DC section has assets of around £2 billion invested on behalf of over 45,000 members.

The trustee of the scheme recently implemented a new default lifestyle investment strategy. Can you tell us why you did this and what the new strategy entails?

The trustee has recently approved its latest responsible investment policy and set the goal of achieving net-zero carbon emissions by 2040.

To help achieve this goal, the trustee wanted to develop a new default lifestyle investment strategy which integrates ESG and climate risk management throughout, including a significant allocation to real assets focussed on the climate transition.

The new default investment strategy was also designed to deliver a 'comfortable' level of retirement income, based on the PLSA's Retirement Living Standards, for members that take full advantage of the matched contributions from Aviva throughout their career.

The key features of the new investment strategy are:

- The strategy fully integrates ESG and climate risk management throughout by investing in ESG-optimised passive equity funds and climate transition active funds across multiple asset classes, including real assets.
- The 10 per cent commitment to Aviva Investors' Climate Transition Real Assets Fund will provide an exposure to real estate, infrastructure and forestry assets that have previously been hard to access for DC schemes and are expected to enhance the risk-adjusted returns for the portfolio.
- The overall scheme design and asset allocation life-styling has been constructed with reference to the PLSA's Retirement Living Standards.
- Aviva Investors was selected as a single fund manager for the strategy, which provides the trustee with several advantages, including:
  - Clear accountability for delivery of the strategy's investment and ESG objectives
  - Speed of decision making and implementation
  - A consistent approach to ESG, climate risk and stewardship across the whole strategy, including combined reporting.

What are the aims of the strategy and how does it hope to achieve those aims?

The starting point for the trustee was to determine the return objectives required to achieve a 'comfortable' level of retirement income using the PLSA's Retirement Living Standards, based on a member taking advantage of the matched contributions from Aviva during a full career with the company. Working with their investment adviser, the trustee developed a lifestyle investment strategy that switches between three multi-asset funds targeting different levels of risk and return to be used at different points in the member's working lifetime.

Based on analysis of the scheme's membership and the choices they are making at retirement, the default strategy has been designed on the basis that members will move to a drawdown investment strategy at retirement. As a result, it was agreed that the strategy should deliver a portfolio targeting CPI+2 per cent at retirement i.e. recognising that a typical member will still be a long-term investor at the point of retirement so retaining some market exposure can help to deliver better outcomes in retirement.

The output from this exercise was a set of return targets and risk tolerances for three multi-asset funds that Aviva Investors could use to construct portfolios to deliver these objectives based on their long-term asset return and risk assumptions.

The trustee's other primary objective when developing the strategy was to fully integrate ESG and climate risk management. The trustee was keen to implement a strategy that could meet its goal of net-zero emissions by 2040, an ambitious target that is 10 years earlier than the UK government's target.

The trustee also wanted to ensure that ESG risks were being considered as part of all investment decision-making and that its stewardship and engagement policies were being implemented. Furthermore, the trustee wanted to include an allocation to illiquid real assets that have been a core part of the defined benefit section's investment strategy for many years, delivering excellent risk-adjusted return for the benefit of members.

The outcome from all this work was three new multi-asset portfolios: Growth, Diversified and Consolidated, which target returns of 4 per cent, 2.5 per cent and 1 per cent above inflation respectively over the long term. The ESG objectives are achieved by investing in funds that have ESG and climate objectives at their core including ESG enhanced passive indices and active strategies focused on the climate transition in equities, credit and real assets.

Why did you opt for a single manager approach as opposed to multiple managers?

Before appointing Aviva Investors as a single manager for the strategy, the trustee considered the alternative approach of appointing multiple managers to run the various components of the trustee's desired asset allocation.

The trustee concluded that single-manager approach:

- Improved governance by making a single entity accountable for the delivery of the performance objectives, with the trustee focused on getting the objectives right.
- Enabled quicker and easier implementation of strategic and tactical asset allocation decisions.
- Reduced costs for members.
- Ensured a consistent approach to ESG decision-making, engagement and stewardship across the portfolio.
- Simplified reporting, including consistent reporting of climate metrics to help the trustee meet its obligations under TCFD.

What, if any, were your challenges and how were these overcome?

This was a significant project involving multiple stakeholders in an unusual situation where the sponsoring employer of the pension scheme is a large financial services firm that provides workplace pensions and asset management services for its clients. This created a good alignment of interests and everyone worked together towards creating an investment strategy that we could all feel proud of.

One of the main challenges was creating the legal structure and operational framework to enable the trustee to make a commitment to the Climate Transition Real Assets fund and manage the operational risk of meeting capital drawdown notifications from the fund and rebalancing the asset allocations as capital is drawn down. With all parties working together and the support of the trustee's legal advisers, we were able to develop a structure and framework that dealt with these issues to everyone's satisfaction.

What have been the results to date?

The strategy has been in place for less than nine months and, in that time, we've seen some material moves in investment markets. In fact, 2022 has seen one of the worst starts to a year across most asset classes globally in decades. Everyone will appreciate that's not a great period over which to judge overall investment performance. However, we have been pleased that the Diversified and Consolidated portfolio has offered some protection to the downside risk in markets as a result of their allocation to absolute return strategies.

As ever, it's important for us all to remember that pensions are long term investments and we remain excited about the difference the new default lifestyle strategy will be able to make by delivering its return objectives and meeting the trustee's ESG and climate objectives.

Written by Francesca Fabrizi

Keeping it local: How the LGPS is preparing to support the UK

The government wants local authority pension funds to support local social and infrastructure investments through a significant uptick in allocations. Across much of the LGPS, this is far from a new concept

Summary
- As ESG strategies mature within the LGPS, funds are turning their attention to social factors.
- The government wants the LGPS to commit 5 per cent of total assets to UK infrastructure, supporting social causes.
- Many local authority funds have already allocated to regional and national projects.
- Diversification and inflation protection are two significant benefits of this asset class.

As environmental, social and governance (ESG) themed investing has grown in popularity, opportunities have proliferated and become more nuanced.

For the Local Government Pension Scheme (LGPS), a key area of interest is the 'S' of ESG – social investment. Some have backed social housing projects, while others have allocated to UK-based infrastructure with a view to having a positive social impact on top of a potential financial return.

This year, the LGPS's tentative exploration of this sector may get a significant boost through legislation.

In February's government white paper, *Levelling Up the United Kingdom,* officials set out a clear statement of intent for the £342 billion public sector system. Funds within the LGPS should, in collaboration with the government, increase local investment and set "an ambition of up to 5 per cent of assets invested in projects which support local areas".

Based on the system's total assets as of 31 March 2021, this would amount to more than £17 billion – and more than £20 billion if LGPS funds in Scotland and Northern Ireland are included.

At the Pension and Lifetime Savings Association's annual Local Authority Conference in June, the Department for Levelling Up, Housing and Communities (DLUHC) indicated that this 5 per cent ambition would form part of its forthcoming consultation on the LGPS.

DLUHC's head of local government pensions, Teresa Clay, told delegates that the LGPS's existing framework was "no longer fit for purpose". A revised framework, to be delivered by this year's consultation, would "aim to deliver much more substantial investment in levelling up", she stated.

LGPS Scheme Advisory Board chair, Roger Phillips, explained that funds were not "grant givers" and required a potential financial return in order to commit money to infrastructure and social investments. He also called for more accurate and detailed reporting by LGPS funds to illustrate clearly the kinds of UK investments funds are already supporting.

"We need to make very clear the definition of *[infrastructure]* and whether we are properly capturing it, and, indeed, how much UK infrastructure we are already delivering," he said. "That would be a very powerful piece of information."

A growing appetite

A survey of LGPS staff conducted by Alpha Real Capital earlier this year finds that 89 per cent of respondents were planning to increase their allocation to local social investments over the next few years.

'Place-based investing' – allocating to local projects to achieve non-financial impacts on top a financial return – is growing in popularity, Alpha Real Capital finds, regardless of whether 'local' was seen to refer to within an authority's jurisdiction or anywhere in the UK.

Pensions for Purpose founder, Karen Shackleton, an adviser to several LGPS funds, says there has been a "noticeable uptick in interest" among LGPS funds over the past 12-18 months in social housing and regeneration, whether within their regions or across the wider UK.

"We're still at the point of it being

MY TOWN

fact-finding at the moment," she explains. "I'm seeing pensions committees taking briefing papers about impact investing in housing and residential for example, just so that they can learn and understand. For local authority funds, many councillors *[on pension committees]* are well aware of the social need underpinning some of these investments."

Shackleton notes significant interest in strategies such as secure income, which tend to be lower risk investments with an income stream linked to local housing allowances, while others have turned to higher-risk regeneration opportunities.

"Regeneration is quite a high-risk opportunity, but the returns can be very attractive indeed," Shackleton says. Coupled with secure income investments, these kinds of allocations can "offer quite genuine diversification against traditional asset classes", she adds. "They can contribute positively at the total fund level, but they can only do that if the pension fund is going to put at least 5 per cent into these types of investments. It's got to move the needle."

As well as diversification benefits, GLIL chief operating officer, Ted Frith, says the current inflationary environment will cause many more investors to look closely at the benefits of investing in UK infrastructure.

"For the first time in a long time, we're investing in an inflationary period," he says. "I think people will be queuing up to buy infrastructure assets when they see the returns recently as a result of higher power prices or inflation more generally.

"When inflation has been zero or close to zero everywhere, it hasn't really mattered whether you're invested in a global fund or a UK-focused fund. With inflation starting to pick up globally, you are more likely to see different levels of inflation in different parts of the world."

Frith continues: "If your infrastructure assets are invested in a region that's not got the benefit of *[UK]* inflation, then you've not got the protection you hoped to have. I would argue that you want to have an overweight position to UK infrastructure as a UK pension fund."

Long-term investments

Investing in local projects such as infrastructure and social housing is not a new concept to many LGPS funds. As set out in the *Levelling Up* white paper, global infrastructure investment by LGPS funds has risen from approximately £1 billion in 2016 to £21 billion in 2021.

GLIL – set up in 2015 by the Greater Manchester Pension Fund and the London Pensions Fund Authority (LPFA) – has invested in assets such as Anglian Water, Forth Ports, and Clyde Windfarm in Scotland, and was specifically mentioned in the Levelling Up paper as an example of the kind of collaboration on UK infrastructure that the government wants to see more of. Since its launch, GLIL has expanded its reach and now caters for the LGPS funds for Lancashire, Merseyside, and West Yorkshire as well as Nest, the private sector defined contribution master trust.

Elsewhere, The London Fund is an investment partnership between three LGPS organisations to create a dedicated vehicle "to help solve some of the housing and infrastructure problems facing the capital".

The LPFA, the Local Pensions Partnership (LPP), and the London CIV pool set up the partnership in 2020 and have already raised half of its initial £300 million target from their 35 underlying LGPS funds. In April last year, it made its debut investment, an unspecified allocation to DOOR SLP, a build-to-rent housing platform that LPP said would "facilitate The London Fund's investment in housing developments in areas such as East Village, Stratford, and Elephant and Castle".

The government's 5 per cent target for UK social and infrastructure investments is designed to build on this and other examples of the LGPS's "established capacity and expertise", the white paper states.

In a briefing note published shortly after the government's *Levelling Up* report, Hymans Robertson head of LGPS investments, Philip Pearson, says local authority funds were "well placed to play a key role" in social investment due to their "long-term investment horizons and strong local knowledge and networks".

"It helps that many of the anticipated investment opportunities are in areas that have been of considerable interest to LGPS funds for many years and which fit well within their overall investment strategies," Pearson says.

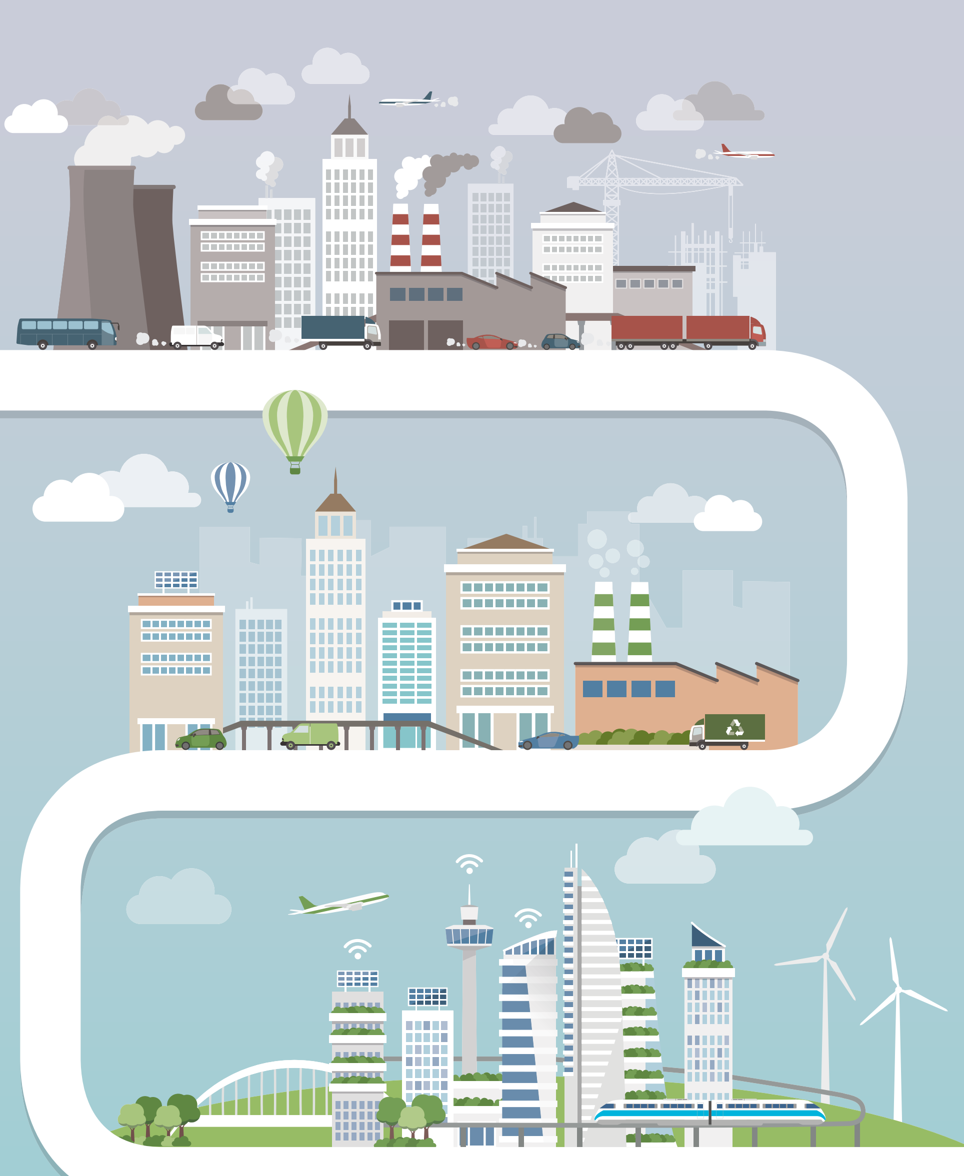
The government's role

The impetus for social investment should not be wholly on LGPS funds, according to Pearson. The government has an important role to play in "increasing the pipeline of attractive, new investment opportunities" – a key challenge for the social and infrastructure investment sectors.

Potential actions that could help meet the government's 5 per cent target include streamlining the planning processes for infrastructure and housing and 'de-risking' large or complex projects, Pearson explains. Improving skills and research in the various regions of the UK is also important, as is support for asset managers that are seeking seed funding for local investments.

"Although there is a clear imperative, Levelling Up will be no quick fix," Pearson concludes. "Many of the investments needed will take time to develop and implement, and even longer to reap the benefits. Significant volumes of capital will be required, but the initiative will also require a high degree of patience and persistence from all those involved."

Written by Nick Reeve, a freelance journalist



A green evolution

Sandra Haurant explores the changing nature of sustainable investing

Summary

- Aon's recent survey shows a significant shift towards ESG/ sustainable approaches.
- Within sustainable investment, there is a movement towards engagement rather than exclusion.
- Investor engagement is having a real impact on companies, changing cultures and working practices through shareholder pressure.
- Questions remain around what is sustainable or responsible – and always will.
- The Russian invasion of Ukraine and other pressures have seen fossil fuels perform well while also raising questions around the role of defence – and ultimately, around what is ethical, responsible or sustainable.
- Overall, investors are satisfied with returns on ESG investments, suggesting a win-win situation for all.

The recently published *Global Perspectives on Responsible Investing* survey from Aon lays out what the industry has known for some time; today, the industry leans decidedly towards sustainable and responsible investment strategies.

Aon's 2022 survey suggests pension schemes now recognise the influence their investment choices can have, from battling the climate crisis to improving working conditions. The survey questioned 155 investment professionals worldwide and showed that 84 per cent of respondents claim to engage with responsible investment through environmental, social and governance (ESG) integration. Almost half (48 per cent) have a responsible investment or ESG policy in place and are making changes to investments in line with this policy.

Climate change is the most pressing investment concern for 68 per cent of respondents, with socio-economic inequality, cyber risks and biodiversity

loss all featuring high on the list of priorities. These core values are transforming into concrete action; one in five UK asset owners have already committed to aligning with the Paris agreement's net-zero target by 2050, and more than half (53 per cent) pledge to do so "soon".

A changing landscape

Some in the industry have seen first-hand the very visible signs of this growing momentum. Before joining Cardano as group head of sustainability, Will Martindale was director of policy and research at the UN-backed Principles for Responsible Investment (PRI), the world's leading proponent of responsible investment. "When I joined PRI, there were 30 staff members, and PRI had around a £2 million a year turnover," says Martindale. "I was there for seven years, and when I left there were 200 staff members and well over £20 million in turnover, which is indicative of the changes that we've seen, and the increased attention that we've seen being paid to responsible investment during that time."

Martindale adds: "We've gone from some sort of quaint, somewhat niche concepts, often with origins in the NGO community, run by individuals who are hugely passionate and inspirational, but with perhaps not huge amounts of experience in the finance sector, to this being a core part of how most investors will understand value in their portfolios, and this has changed within a very short space of time."

Defining terms

To understand the background to this increasing interest in ESG, its useful to consider the terms used in responsible investment. JTC head of ESG services, Victoria Gillespie, says: "Sustainable investment is essentially investment that will continue for the foreseeable future. It's a really broad term, and ESG is a component or a subset of that. ESG is one of the factors, but not the only factor, to allow and enable companies to be sustainable and remain in business for the foreseeable future."

And just what does the integration of ESG into an investment strategy entail? Aon associate partner, responsible investment, Jennifer O'Neill, says: "ESG integration is agnostic as to the values that you're perhaps espousing. So it's not the same thing as ethical investment, which is where you're applying more of a moral lens to the investments that you are making." Instead, she says: "ESG integration is really about understanding the risk profile of that investment, and the opportunity profile, from an environmental, social and governance perspective."

Evolution in action

"Underlying investors now want to know what they're exposed to. And what we've seen is a movement away from 'I don't want to be exposed to ...' towards a more meaningful, 'this is how I want my investment to work for me as an individual, because this is what means the most to me'," says Gillespie. "So it's not the case anymore that the underlying investor pays their pension premium, the pension company invests it and the fund manager goes and does what they'd like with it to get the maximum financial return."

Just as interest in ESG, and strategies of sustainable, responsible investment more widely, have grown, so the approaches used within the space have evolved. Gillespie says: "Over the past decade, we've definitely moved away from exclusionary investments and towards more meaningful investment."

Instead of identifying areas that are problematic and avoiding all related companies that don't align with investors' values, the approach is frequently very different. Today, responsible investment increasingly involves engaging with companies to effect positive changes to products, practice and policy. Investing, but insisting on – and often assisting with – important and fundamental changes to the ways in which a company runs. Gillespie explains: "That could be a reduction in emissions, that could be a movement away from, for example, the use of plastics; we've seen some very meaningful changes in direction and in sentiment."

Change from within

There are, of course, plenty of 'real world' cases of investor engagement having an impact; one recent example is that of Britain's second-largest supermarket chain Sainsbury's. The company did not comply with the requirements of the real Living Wage – an hourly rate evaluated by the Living Wage Foundation, which uses a basket of goods in order to calculate how much a person needs to earn to be able to meet day-to-day expenses. "Obviously, in the high inflation environment that we find ourselves in that's particularly important," says Martindale.

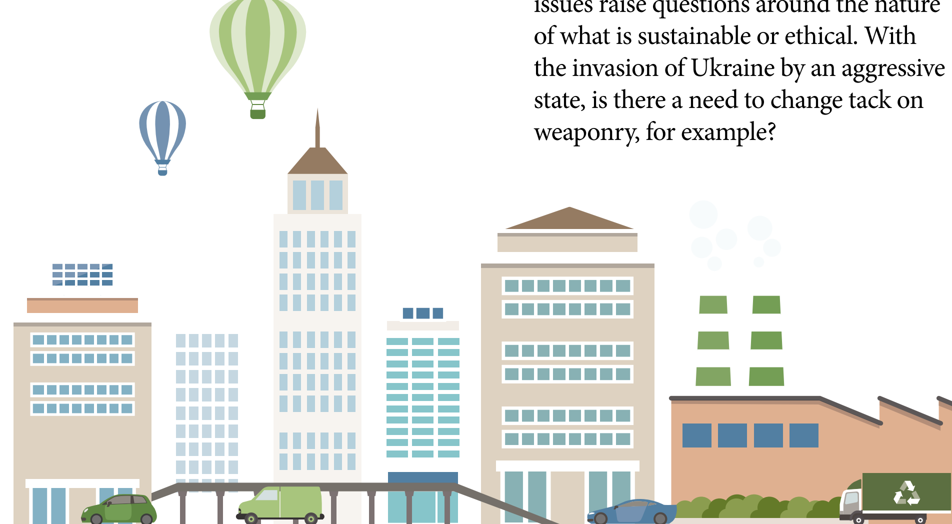
"Sainsbury's has been responsive to engagement undertaken by investors calling for increased wages, particularly for its own directly employed staff; but it hasn't at this stage, committed to roll that out for its contracted staff," he says. Sainsbury's AGM takes place on 7 July, and, says Martindale, investors will be: "Using shareholder resolution, engagement and investment as tools to try and drive behaviour change within Sainsbury's."

Divest or engage?

But while some areas are shifting, the argument for an exclusionary approach continues to be particularly vehement in the fossil fuel industry. In a paper entitled *The Divestment Dilemma*, published by Aon, authors O'Neill and Aon head of climate change insight, Mark Jeavons, said: "There are arguments that denying capital to fossil fuel companies may force a reassessment of their priorities

surrounding ESG factors (such as the development of additional fossil fuel reserves), and so their strategic decision making. In some instances, these organisations will then seek to reduce or eliminate their exposure to fossil fuel producers as a way of improving their resilience to climate change risks."

On the other hand, the opposing argument claims that engaging with companies is essential in order to push for behaviour changes. As the authors of the paper put it: "Retaining investment holdings provides the ability to exert influence on companies through engagement to improve behaviours. This is an approach followed by many investors, with an option to divest should this engagement not yield meaningful results."



A question of values

At a time when fossil fuels have performed well, it's a necessary debate to have. "The high inflation environment, and then the Russian invasion of Ukraine, has led to the strong performance of fossil fuels over the last six months. That has added some pressure on sustainability strategies," says Martindale.

The divest or engage in fossil fuels debate demonstrates the ways in which the wider world necessarily influences investment decisions. And, indeed, these issues raise questions around the nature of what is sustainable or ethical. With the invasion of Ukraine by an aggressive state, is there a need to change tack on weaponry, for example?

Martindale says: "Conventional weaponry, when used for national defence, has never been an excluded activity *[for us]*." However, any company involved in cluster munitions or landmines, where there is "clear international community condemnation of that type of weaponry", would be excluded. "We will continue to assess companies on the types of activity that they undertake and whether those activities come with different ESG risks," he says.

This is a field that must question itself constantly, but it's also one that is achieving results. According to Aon's survey, 69 per cent of respondents with exposure to responsible investments said they were either satisfied or very satisfied with their returns to date, while 28 per cent were 'neutral'.

Investments that produce returns while making positive changes in the world. A win-win situation for all? Increasingly, pension schemes seem to think so. As O'Neill says: "We see a number of pension schemes having a desire to positively influence the society in the community that they're operating in, and recognising that as institutional owners of capital, they have a real opportunity to do so."

Written by Sandra Haurant, a freelance journalist

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Not all pension savers use technology...

Summary
- Pension schemes have been increasingly embracing digital communications in recent years.
- But not all customers, particularly older ones, are comfortable with using these methods.
- There is no clear guidance on making sure digital means of communicating are inclusive.
- It is important for funds and providers to maintain alternative forms of speaking with customers to prevent digital exclusion.

The pensions industry has moved increasingly to digitalised communications in recent years. But does this shift risk leaving behind the less digitally savvy?

A recent LinkedIn post from a prominent industry voice illustrated the situation their elderly relative faced.

"My 94-year-old mother has been denied a teachers pension," wrote the Pension SuperFund's partner and co-founder, Edmund Truell, "in part because she simply cannot go online and navigate 'portals' and the Teachers Agency refuses to reply to her letters. Complaint in with The Pensions Ombudsman but, nine months on, they say 'she's out of time to complain.'"

Pensions Age reached out to Truell for comment, but he did not respond at time of writing. But his post is reflective of an issue within the industry: Do moves towards digitalisation risk leaving behind those less adept with computers and websites, and more at ease with traditional pens and paper?

Direction of travel

A digital-centred future has been in the works for some time. In 2017, the OECD released a report, *Technology and Pensions*, that acknowledged the direction of travel.

Authors Emmy Labovitch and Jessica Mosher wrote: "Technology is rapidly transforming the way that the financial sector is operating, and the management and delivery of pensions is no exception. Innovative applications of technology for financial services, or FinTech, are already being used to improve communication with consumers and their engagement with their pension plans."

They wrote elsewhere: "Individuals are increasingly required to make complex choices about their pension finances, and consumer engagement with financial services in general is becoming more digital."

Risk of FinTech

That shift towards digital brings with it issues.

"Aging populations," wrote Paragon Customer Communications in its *What's Next?: A Closer Look at Pension Technology and its Impact on Communication Innovation*, "are far more engaged in their pensions, but less likely to fully utilise online services compared to younger generations."

Labovitch and Mosher use much-stronger terms: "FinTech could aggravate financial exclusion for those who do not engage with digital communications; conversely, there is some concern that consumers will place too much trust in technological solutions and so the fall-out from any problems with FinTech will be particularly damaging."

Pensioners are, by definition, older. And the gap between those comfortable with digital products and those who are not is stark with age, shows Ofcom's *Digital Exclusion* report, released earlier this year.

That found that while 8 per cent of 65-74-year-olds have no internet at home, this figure increased to 30 per cent in the 75+ demographic. And a 2020 publication called the *Use of Communications Survey: Digital Exclusion Analysis* found that 32 per cent of those over 70 had no access at home to

any internet-connected device.

It is a universal problem, too – AGE says that 46 per cent of Dutch online seniors reported being tired of being forced to do everything online, with almost all of them believing they should always be offered alternatives to doing things over the internet.

Elsewhere in its report, Ofcom wrote: "Among those living alone who were also aged 70 and over, more than half said they didn't use the internet or have access to the internet at home (53 per cent). This proportion rose to 60 per cent for people who lived alone, were aged 70+ and had an impacting or limiting condition."

The regulator used an example to put a face to the problem. An anonymous 84-year-old woman, first-time internet user, clinically vulnerable and shielding, who lived in the South of England told it: "I haven't got enough knowledge, it's not easy for old people. Downloading – I've got no idea what that means. I don't want to make mistakes, I'm frightened to because of the outcome. Banking online, I don't trust, as you hear all these stories about people being swindled."

Fears around cybercrime are not unfounded. Paragon executive director, David Taylor, says: "There is this paranoia with people constantly talking about not getting scammed that's led to a lack of trust in digital products. The older generations also find it harder to get things done this way, when they would prefer to do it with a letter or going into a branch. If you cut those interactions out, you prevent them from getting things done."

Aon senior communications consultant, Andy Partridge, echoes this sentiment. "There are two different things going on," he says. "Not all people have access in the first instance. And even when they do, you cannot assume that an older person is going to be comfortable online after they've done it once."

Access to communications

And, yet, there is scant industry guidance on ensuring the less digitally-savvy are not left behind.

Pensions Age reached out to The Pensions Regulator (TPR), The Pensions and Lifetime Savings Association (PLSA), and the Money and Pensions Service (Maps) for what guidance, if any, they produced on this subject. Maps did not comment, while TPR and the PLSA sent over background material or pointed to already published items. We also found material from the Financial Conduct Authority (FCA) that seemed to relate to the issue.

None of the material spoke about digital exclusion or making sure that digital-centric products consider the varying abilities of their target audiences.

In the TPR's *2016 Governance and administration of occupational trust-based schemes providing money purchase benefits*, three passages stand out. Taken together, they state that good member communications are vital and need to be accessible, trustees need to ensure accuracy and relevancy, and boards should regularly review the messages they expend, taking technological innovation into account.

Elsewhere, the PLSA in its *2019 PQM Standards* says that the board or committee should take "appropriate account of the needs of any vulnerable members of the scheme". A later section in the same publication says that a scheme should demonstrate that its board or committee understands the membership through regular review. Yet there is no mention in eight categories of consideration of any words relating to 'digital' or 'technological'.

The FCA has more to say on the matter. Its *FG21/1 Guidance for firms on the Fair Treatment of Vulnerable Customers* says: "It is important for all firms to understand the needs of vulnerable customers in their target market or customer base. This includes firms that offer self-service digital channels or are part of a distribution chain, and so do not directly interact with customers. If firms do not do this, they may not be able to ensure their staff have the right skills and capability or take appropriate practical action. This may result in gaps in the provision of suitable services and products and lead to poor outcomes for vulnerable consumers."

Elsewhere, the FCA writes: "Firms who do operate via a single channel should consider how they might recognise and respond to the needs of their consumers if they were to develop characteristics of vulnerability. For example, providing a call back service for consumers who might struggle with phone menus or the option to notify the firm of a change in circumstance via an app or live web chats. This may also include a face-to-face option for consumers who may be digitally excluded or have lost access to telephone services."

Saq Hussain is the founder of People-Tech, a firm specialising in digital communication through chatbots. Before starting his own business, he worked in several pensions roles at Aon, KPMG, WTW, and PwC. He says that the industry has accelerated its use of digital communications in recent years after an earlier laggard pace.

He said: "People are engaging with these new methods, but there is still something to making sure that customers are using a number of routes available and making sure they are comfortable with their choice."

It comes to something more fundamental for Taylor. Reducing the options for engagement does not increase engagement, but lowers it.

He says: "You need to take it out of the narrow view of everything being digital and look at all customer communications. Your customers are not all going to be digital natives. That will be more prevalent in the younger generation as they come through over time. But they're not there now."

Written by Pete Carvill, a freelance journalist

Shape-shifting scams

Recent research shows that while pension liberation scams are now declining, investment scams are on the rise. *Pensions Age* asks how the industry can best keep pace and adapt to the changing nature of scams to help their members not fall victim?

The 2019 ban on cold calling and the 2021 measures to combat pension transfer scams were welcome efforts to disrupt criminals. But the pensions industry has for too long relied on just-in-time prevention measures.

The sit-back-and-do-nothing nature of automatic enrolment makes people increasingly vulnerable to investment scams. Lessons can be learnt from other sectors, like health and education, that have valuable experience in protecting vulnerable people. In these sectors, there's a focus on safeguarding from harm rather than last-minute prevention.

For pensions, safeguarding means equipping people with resilience and investment know-how from a young age so they can never fall victim to a scam.

To do this, two areas need prompt attention:

1. **Build a feeling of pensions ownership.** Too often, people withdraw their pension and leave the money in their bank account (where it's vulnerable to scams) because they don't trust pensions and the money doesn't feel like theirs. Making pensions more tangible with user-friendly online accounts, easy-to-read communications and quick access to pension experts will help.

2. **Don't be afraid of engagement.** Engagement campaigns don't have to result in people moving away from a well-designed default investment. Communications that help people understand where their pension is invested, how markets work and what kind of investment returns they can expect will build resilience and knowledge. This will help people spot a too-good-to-be-true investment opportunity.

Redington senior vice president, Russell Wright

Pension liberation is merely one of many ways scammers steal pension savings and it reached its zenith several years ago. It had a huge impact on a number of victims, who are still suffering the consequences and the significant harm caused. We should not forget this. Liberation has declined because of awareness-raising for the past 10 years and work done by PSIG and others to spot and stop it and also because of the reintroduction of HMRC scheme set up checks. It has also reduced significantly because there are much easier ways for scammers to get at pension monies. The PSIG Scams Code, TPR Guidance and DWP Transfer Regulations have together reduced the number of direct pension scams, but scammers evolve and the easiest route of all is for scammers to encourage someone to cash in their DC pot from age 55, permitted under pension freedoms. It is then no longer a pension, but cash in the member's hands, which can then be passed straight to a scammer. Schemes cannot stop someone taking all or some of their cash and blowing it on a scam, but the PSIG Code and the TPR Scams Pledge asks scheme administrators to ensure that members accessing pension cash are warned about the dangers.

PSIG chair, Margaret Snowdon

The (Conditions for Transfers) Regulations 2021, put more onus on the poor administrators to become investment experts and spot investment risks and as this exposes the administrator.

Obviously no third-party administrator (TPA) wants to be caught out by a dodgy investment – so more cases/members are being referred to the Money and Pensions Service (Maps) – however the quantity of these requests are becoming a blockage in the whole transfer out process

TPAs are creating their own 'white lists' of schemes that they know are legitimate, however these lists have to be consistently reviewed and I have seen that what might be on one TPA's white list has been classed as a risk by another TPA.

The industry needs to be providing a one and only 'white' list, which I believe PSIG have said they will do – but when?

In summary the industry needs to support the industry with more experienced staff at Maps and for a one and only 'white list' and not rely on less experienced staff to become investment specialists and make decisions that could out members totally pension funds at risk.

However, the major changes to transfer out communications and procedures may actually put off any member from actually proceeding with a transfer!

Cartwright director of pensions administration, Julie Yates

Pensions history

Property investment conference

"My view is that property today possibly provides the best long-term investment for a pension fund. I freely admit that possibly had I taken the same view 20 years ago my pension fund might have been in an even more satisfactory position than it is today, but at that time I was so convinced that Stock Exchange equities were cheap compared with fixed interest securities that I concentrated most of my energies on this feature. It was a much easier new philosophy to put over to my trustees than suggesting that they went 100 per cent into property. In mitigation, may I say that it is the reduction in the term of rent renewals that has also tended to make property more attractive, in spite of the fact that the laws of supply and demand have themselves tended to put property prices up."

So said George Ross Goobey in his concluding remarks when speaking at the Property Investment Conference of the College of Estate Management on 1 July 1971.

During his presentation Ross Goobey covered the reasons why he had considered property to be a suitable investment for pension funds. Property was a very long-term investment and when dealing with freeholds, which was normally the case, the investment was undated and therefore fitted in well with the long-term liabilities of a pension fund.

Most trustees were convinced that inflation would continue and consequently rent of properties would also continue to rise. Even the unlikely event of no further inflation should lead to real growth in the economy which would permit a marked rise in the overall standards of living. This should also allow margins for increased rents on shop and office premises when existing leases fell in.

The full text of his speech can be found in the George Ross Goobey collection at: www.pensionsarchive.org.uk/our-collections

The Pensions Archive Trust chairman, Alan Herbert

Fun and games

Wordsearch

C	R	G	F	O	S	O	S	M	O	S	R	P
D	C	T	N	A	T	T	A	U	K	N	S	L
U	A	O	V	E	R	S	E	A	S	O	R	G
O	U	E	Y	L	R	X	S	R	Y	I	H	L
V	D	Z	G	P	A	O	N	G	O	S	S	O
I	T	T	G	E	A	S	T	Y	U	N	I	B
Y	G	O	L	O	N	H	C	E	T	E	S	A
V	G	N	E	D	S	D	Y	O	Z	P	I	L
G	R	P	U	H	R	A	E	A	R	K	R	L
S	R	P	G	E	J	C	E	R	Z	U	C	Y
G	P	S	A	S	L	A	S	U	G	X	V	T
D	P	G	D	O	E	S	R	Q	Z	A	A	B
P	P	Y	L	R	I	K	V	S	O	N	P	I

CRISIS
DRCS
ESG
GDP
GENDER GAP
GLOBAL
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Answer at bottom of page

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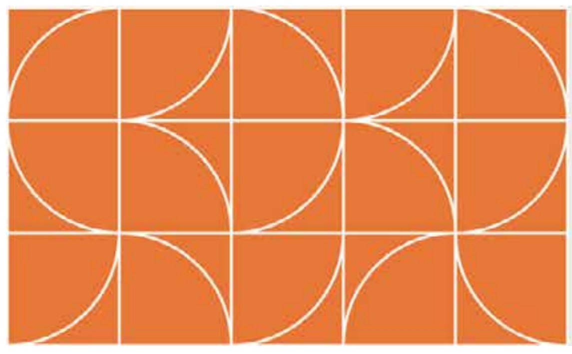

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