Conflicting rules
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DB risk transfers and ESG
How schemes looking to de-risk are considering insurers' ESG factors

Pooling resources
The benefits and challenges of internationally pooling resources

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November 2022

PENSIONS Age

The leading pensions magazine

DC illiquid investments: *The potential uptick in demand from DC schemes for private market investment*

Campaigns: *The opportunities for the industry to engage with savers following recent volatility*

Reflect and adapt

SPECIAL REPORT: The impact of the LDI liquidity crisis and the lessons learnt

Case study: SC Johnson's DC scheme's impressive engagement and contribution rates


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Editorial Comment

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

Well that was a crazy month wasn't it?

Hopefully you didn't get whiplash from watching gilt prices suddenly plummet (and then bounce following the Bank of England (BofE) intervention), followed by the head-spinning rapid calls for cash to shore up liability-driven management (LDI) buffers.

As the dust starts to settle, LDI managers have been, unsurprisingly, somewhat tightlipped lately. However, in its online statement commenting on the recent LDI liquidity crisis, BlackRock highlighted how "the pension and asset management industries have been able to work together to protect the value of pension investments, and to restructure funds to the ultimate benefit of the savers who rely on those funds for their retirement".

> **"Dismissing the past month or so's panic as simply the fallout of a frankly insanely cavalier government budget isn't good enough"**

Various sectors working well together for the benefit of pensions and savers is nothing new, to the extent that the theme for this issue of *Pensions Age* is 'working together'. Some of the evidence we give for this in the magazine include international companies' pooling of resources *[p70]*, de-risking DB schemes and their insurers' ESG considerations *[p72]*, and the efforts to blend trust-based and contract-based scheme regulation more effectively *[p67]*.

In a less positive light, more 'working together' will now occur to establish who is to 'blame' for the recent LDI crisis – how the bonfire was set up before the then-government's mini – budget struck the match. Last month, the Work and Pensions Committee (WPC) launched an inquiry into the effect of the rise in gilt yields on DB schemes, the impact on pension savers, and whether LDI is still 'fit for purpose' for use by DB schemes. Our special report from page 38 also delves into these questions.

Despite pension schemes' cries of how quickly portfolios were rebalanced and that gilt yield rises of this speed and scale were a one in 1,000 event, dismissing the past month or so's panic as simply the fallout of a frankly insanely cavalier government budget isn't good enough.

Gilt yields had been gradually rising throughout the year before they became turbo-charged. Is the sector guilty of complacency, trusting that a system that has worked so well for them for so long was in effect unsinkable no matter the market conditions? The Titanic was 'unsinkable' too, and we all know how that went.

The regulator has highlighted that it warned schemes of the impact of interest rate rises on liquidity back in May; consultants have told me they advised schemes throughout the year to keep an eye on their portfolios amongst changing macroeconomic conditions.

I doubt that will be enough to absolve either from the part they played – I'm sure the WPC inquiry will find plenty 'shoulda, woulda, couldas' to go around for all parties. But instead of simply finger pointing and deflecting, we need to truly contemplate how close the sector came to chaos if the BofE hadn't stepped in to buy schemes time to liquidise assets (and that's not to dismiss any portion of blame the bank may face about the build up to the crisis).

However, attributing accountability to past actions/inactions is pointless if lessons are not learnt from this looking back; it should be used to instigate future plans that minimise the risk of similar catastrophes occurring.

So while it is true that LDI has served schemes well over the past decade or two of low interest rates, we are now entering a rising interest rate and inflation environment. Long, hard looks need to be made into the suitability of the current structure of LDI portfolios and what remodelling may need to occur if it is to continue being fit for purpose.

Hopefully the crisis was a one-off event. But these 'black swans' have become more of a flock in recent times. Just because a scenario is rare, we cannot feel comfortable conflating 'very unlikely to happen' with 'will never happen'. Like good boy and girl scouts, we need to be prepared.

We know that there is more change to come. For instance, official confirmation that Laura Trott is to be the new Pensions Minister (instead of the much-anticipated Opperman return) has just been announced at the time of writing, bringing a new prespective to the role, and there is yet another government budget to come later this month. The way this year is going, there's the potential for plenty more fireworks yet.

Laura Blows, Editor

COVER FEATURE

Theme: Working together

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Reflect and adapt

In the aftermath of the recent LDI liquidity crisis, Laura Blows considers the reasons for this turmoil, the long-term changes it may instigate, and the lessons to be learnt

Features and columns

News, views & regulars

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Features & columns

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PENSIONSAge

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Dateline - October 2022

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

5 October The **Work and Pensions Committee** (WPC) wrote to The Pensions Regulator (TPR) to seek answers following gilt market volatility, querying whether TPR should have taken stronger action earlier.

6 October The **Department for Work and Pensions** (DWP) launched a consultation on draft regulations requiring DC trustees to disclose and explain their policies on illiquid investment. The DWP also published draft regulations to exclude performance-based fees from the charge cap.

7 October The **Financial Reporting Council** (FRC) confirmed changes to the Actuarial Standard Technical Memorandum 1 (AS TM1) to support consistent and reliable pension illustrations for DC scheme members.

6 October The **Bank of England** (BofE) provided further details on recent market interventions, stating that they were introduced to prevent a "self-reinforcing spiral" following gilt market volatility.

10 October The **BofE** increased the daily buying limit of its market interventions from £5bn to £10bn.

11 October The **BofE** announced plans to widen the scope of its daily gilt purchase operations further to include purchases of index-linked gilts.

12 October BofE governor, Andrew Bailey, ruled out extending recent market interventions while speaking at an Institute of International Finance in Washington DC.

12 October **TPR** published guidance on managing investment and liquidity risks amid the current market conditions. The regulator also defended itself against accusations of having not taken "stronger action", arguing that the watchdog has "consistently alerted trustees to liquidity risk".

17 October The **BofE's** market interventions officially ended, with the bank confirming that LDI funds have built up enough capital to withstand "much larger increases in yields than before".

17 October Pensions dashboards regulations were laid in parliament, with the **DWP** confirming plans to extend the notice period for the pensions dashboards availability point from 90 days, as initially proposed, to at least six months.

17 October The **DWP** consultation on the draft DB funding regulations closed, prompting various industry organisations to raise concerns that the new rules may be overly prescriptive and not fit for purpose.

18 October Comments made by Chancellor, **Jeremy Hunt**, in the House of Commons prompted uncertainty over the future of the state pension triple lock.

19 October Despite speculation the day prior, then-Prime Minister, **Liz Truss**, reiterated the government's commitment to maintain the state pension triple lock, stating that she was "completely committed to it, and so is the Chancellor". Inflation figures published on the same day revealed that the state pension would be set for a record-breaking increase as a result of the triple lock, as rising food prices pushed inflation back into the double digits at 10.1 per cent in September 2022.

19 October Two former pension scheme trustees appeared at Preston Magistrates' Court, accused of making five prohibited loans from the scheme and one prohibited investment, as part of a prosecution brought by **TPR**.

19 October DB transfer values fell to an "unprecedented low" amid recent market volatility, falling to £181,000 at the end of September, according to **XPS Pension Group's** Transfer Value Index. The number of transfer cases raising at least one scam warning flag also rose to 97 per cent.

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

20 October Several European pension funds filed a legal case against **Volkswagen** (VW) after the car manufacturer vetoed the tabling of an AGM agenda item following its alleged repeated refusal to reveal information on its corporate climate lobbying.

24 October The **WPC** launched an inquiry into DB pensions with LDI , following recent volatility in the gilt markets. The inquiry will be looking to explore the lessons to be learned, focusing on the impact on DB schemes with LDI strategies and their regulation and governance.

24 October TPR published an updated enforcement strategy, alongside its consolidated enforcement policy, and updated prosecution policy, in an effort to provide further clarification around enforcement action for pension scheme trustees.

24 October The **FCA** launched a consultation on new proposals designed to crack down on greenwashing, with plans for a further consultation to extend these proposals to pension products expected "in due course".

27 October Research from the **Pensions Policy Institute** (PPI) revealed that the total value of lost pension pots had risen 37 per cent to £26.6bn between 2018 and 2022. The research found that there had also been a 73 per cent increase in the number of lost pension pots during this time, from an estimated 1.6 million to over 2.8 million.

27 October The **Pensions Dashboards Programme** (PDP) confirmed that early participants are expected to transition into the live pensions dashboards environment, using real data, in early 2023. The PDP's latest *Progress Update Report* revealed that the technology for the dashboards ecosystem was successfully completed during the second half of October, and is now ready for testing with real data.

25 October MP for Central Devon, **Mel Stride**, was appointed Secretary of State for Work and Pensions as part of the new Prime Minister, Rishi Sunak's, reshuffle. Stride was previously Lord President of the Council and Leader of the House of Commons, and Financial Secretary to the Treasury and Paymaster General. His appointment follows the departure of MP for Norwich North, Chloe Smith, who announced that she had left her role as Work and Pensions Secretary and would return to the backbenches, following the confirmation of Rishi Sunak as the new Prime Minister.

27 October Former Pensions Minister **Guy Opperman** confirmed his return to the DWP under Sunak's government. Writing on Twitter, Opperman stated: "Lots of work to do and I look forward to working with the new Secretary of State, Mel Stride".

28 October Alex Burghart confirmed he was no longer Minister for Pensions and Growth and had been moved to the Cabinet Office, as a Parliamentary Secretary. Writing on Twitter, Burghart said he was sad to be leaving the pensions team but was glad to be "handing back" to Opperman.

News focus

WPC launches inquiry into LDI following market volatility

The Work and Pensions Committee has launched an inquiry into DB pension schemes with liability-driven investments, after recent volatility in the gilt markets and subsequent interventions from the Bank of England sparked concerns

The Work and Pensions Committee (WPC) has launched an inquiry into DB pensions with liability-driven investments (LDI), following recent volatility in the gilt markets.

The inquiry will be looking to explore the lessons learned from recent experiences, focusing on the impact of the recent volatility in gilt yields on DB schemes with LDI strategies and their regulation and governance *[see p38 cover story for more information]*.

In particular, WPC is looking for evidence of the impact of the rise in gilt yields in late September and early October on DB schemes, the impact on pension savers, whether in DB or DC arrangements, and whether LDI is still "fit for purpose" for use by DB schemes.

It is also seeking views on whether The Pensions Regulator (TPR) has taken the right approach to regulating the use of LDI and had the right monitoring arrangements, and whether DB schemes had adequate governance arrangements in place, for instance, whether trustees sufficiently understood the risks.

The issues around LDI investments made national headlines after increases in long-dated gilt yields meant DB schemes using LDI strategies needed to deal with a rapid increase in collateral to support LDI trades, triggering market interventions from the Bank of England (BofE).

According to a letter to HM Treasury, from BofE deputy governor, financial stability, Jon Cunliffe, the interventions aimed to prevent a "self-reinforcing spiral", with Cunliffe confirming that some DB scheme LDI investments could have been worth "zero" without the interventions.

The BofE later extended these measures mid-way through the operations to increase the size of its daily auctions and widen the scope of the interventions to include purchases of index-linked gilts, as a "further backstop to restore orderly market conditions".

Despite speculation to the contrary, the BofE ruled out plans to extend the operations, and the temporary purchases ended as schedule on 17 October.

The BofE has since confirmed that the temporary purchases successfully increased liquidity in the market, revealing that the majority of the gilt purchases were from LDI managers.

In a further letter to the Treasury Committee, Cunliffe explained that LDI funds had also taken steps to put their positions on a more sustainable footing to ensure that they are better prepared for future stresses.

"In aggregate, market intelligence suggests that LDI funds have raised 10s of billion pounds in capital and made many billion pounds of gilt sales, both of which will reduce their leverage," he said.

"Taken as a whole, LDI funds are now significantly better prepared to manage shocks of this nature in the future. As such, the risk of LDI fund behaviour triggering 'fire sale' dynamics in the gilt market and self-reinforcing falls in gilt prices has been significantly reduced."

Although Cunliffe acknowledged that the financial markets may remain volatile in the coming weeks, he clarified that "financial stability is not the same as market stability or the avoidance of any disruption to financial markets".

TPR has also since provided further detail on the conversations had amid the initial market volatility, in a letter to the WPC from TPR chief executive, Charles Counsell.

In the letter, Counsell appeared to claim that TPR did not pressure the BofE to step in, stating: "As the gilt market instability developed, we established regular contact with the BofE and other regulators about what action could be taken to mitigate risks from rapid changes in the gilt market. Fundamentally, it was the bank's decision to intervene in the way it did."

Counsell also defended the regulator against accusations of having not taken "stronger action" to prevent the recent turmoil in response, arguing that the regulator has "consistently alerted trustees to liquidity risk".

Speaking at the PLSA Annual Conference 2022, TPR also reassured members that DB pension schemes "were not and are not at risk of collapse".

Indeed, industry experts more broadly have hit back at the 'hyperbolic' reaction to the recent market volatility, with the Pension Protection Fund (PPF) reassuring DB members that their pension benefits remain protected.

PPF chief executive, Oliver Morley, said: "Recent market stresses will understandably have caused concern amongst pension savers.

"I want to reassure members that we remain confident in our funding position – and their benefits remain fully secure. We are carefully managing our investments and closely monitoring the impact of market movements on the schemes we protect."

Indeed, despite the volatility, industry trackers have shown widespread improvements in DB funding levels.

The latest analysis from XPS Pensions Group revealed that the vast majority (95 per cent) of pension schemes have seen their buyout position improve following recent market volatility, with 23 per cent seeing an improvement of more than 20 per cent in their position.

The survey asked representatives of over 300 pension schemes about their schemes' buyout position, revealing that a further 79 per cent expect to begin carrying out buyout-related work within the next two years.

However, there are concerns that the increased demand could prompt a potential insurer capacity crunch.

Analysis from LCP suggested that the market for UK DB pension schemes to transfer their liabilities is set to "skyrocket", predicting that there could be over £200bn of liabilities transferred to insurers over the next three years.

"The risk of LDI fund behaviour triggering 'fire sale' dynamics in the gilt market and self-reinforcing falls in gilt prices has been significantly reduced"

LCP highlighted data from insurers that indicates a current annual capacity of £45bn. With projected demand of up to £60bn next year, it therefore warned that a potential "capacity gap" could open up in 2023.

The consultancy also warned DB scheme sponsors to be 'wary' about the potential for surplus money to end up trapped or unproductive, encouraging sponsoring employers to work with trustees to agree on endgame objectives.

DC schemes have also been impacted by the recent issues.

In particular, industry experts have raised concerns over the continued use of lifestyling approaches, with analysis from AJ Bell revealing that the average annuity-hedging fund has fallen by 38 per cent so far in 2022.

Commenting on this, AJ Bell head of investment analysis, Laith Khalaf, said that the situation had "really exposed the folly of relying on defaults which put in place an automatic investment strategy many years, or even decades, before that strategy starts to be executed".

Broader changes may also be needed in the DB space, as the market volatility has prompted TPR to reconsider the use of duration as a measure of maturity in the DB funding code.

However, industry experts have suggested that the issues will not mean the end of LDI more broadly.

Speaking to *Pensions Age*, XPS head of investment, Ben Gold, stated: "There isn't an alternative that can take the place of LDI and do the same job as effectively, so it's I don't think it will be the death knell that some people think.

"I think schemes and managers will learn and there will be some evolution of the offering to help avoid this type of situation happening again."

Indeed, Gold suggested that, once the dust is properly settled, there may be a broader review, suggesting that pension schemes and advisers will want to look at LDI managers and consider which have coped effectively, and which haven't.

"That could definitely have an impact on the LDI market, because it's definitely the case that different LDI managers have coped with this situation differently," he continued.

"If some are deemed to have handled it much less effectively, then there is definitely a risk that they could be less attractive in the future."

Written by Sophie Smith

DWP ministerial portfolios confirmed; dashboards' regulations laid in parliament

The past month has seen a number of changes at the Department for Work and Pensions (DWP), including the appointment of Laura Trott as Minister for Pensions. Despite this political unrest, dashboards' progression continued, with the laying of dashboards regulations in parliament

The past month has brought a number of changes at the Department for Work and Pensions (DWP) amid the cabinet reshuffle of both former Prime Minister, Liz Truss, and new Prime Minister, Rishi Sunak.

Most recently, the DWP named MP for Sevenoaks, Laura Trott, the new Minister for Pensions.

This is Trott's first government post, although she is also a member of the Health and Social Care Committee, the Neonatal Care (Leave and Pay) Bill Committee, and the Taxi and Private Hire Vehicles (Safeguarding and Road Safety) Bill Committee.

In her new role, she will be responsible for pensioner benefits including the state pension, private and occupational pensions, and oversight of arms-length bodies such as The Pensions Regulator. Trott was first elected as the Conservative MP for Sevenoaks in December 2019.

Her appointment follows the departure of MP for Brentwood and Ongar, Alex Burghart, who had been confirmed as Parliamentary Under Secretary of State for Pensions and Growth, a new role in the DWP, at the Pensions and Lifetime Savings Association (PLSA) Annual Conference 2022 on 12 October 2022.

However, Burghart confirmed on 28 October that he had left the DWP and moved to the Cabinet Office, where he will be a Parliamentary Secretary.

Writing on Twitter, Burghart said he was sad to be leaving the pensions team at the DWP but was glad to be "handing back" to previous Pensions Minister, Guy Opperman, whose return to the DWP as part of Rishi Sunak's government was confirmed on 27 October.

Previously the UK's longest-serving Pensions Minister, Opperman left the role on 8 September, following Truss's ministerial reshuffle.

Opperman has since been confirmed as the new Minister of State for Employment, with responsibility for work on the labour market, addressing economic inactivity, and for DWP benefits, including Universal Credit.

This is not the only change for the department, however, as although Chloe Smith was named Secretary of State for Work and Pensions by Truss in October, she has since been replaced by Mel Stride, as part of Sunak's reshuffle.

MP for Central Devon, Stride was previously Lord President of the Council and Leader of the House of Commons from May 2019 to July 2019, and Financial Secretary to the Treasury and Paymaster General from June 2017 to May 2019.

On Twitter, Smith said that it had been a "privilege" to serve as Work and Pensions Secretary and thanked the staff at the DWP for their work during her time there.

Baroness Stedman-Scott will continue as the spokesperson for DWP business in the House of Lords.

MP for Corby, Tom Pursglove, meanwhile, has been named Minister of State for Disabled People, Health and Work, while MP for Mid Sussex, Mims Davies, has been named Minister for Social Mobility, Youth and Progression.

Despite his short time in the role, Burghart made a mark in a number of areas, including overseeing the laying of dashboards regulations in parliament on 17 October.

The laying of the regulations was

highlighted as an important milestone towards dashboards, outlining how pension schemes will connect to the dashboard ecosystem and what providers must do to become a qualified pensions dashboard service.

The regulations also included a disclosure of information provision, designed to enable The Pensions Regulator (TPR) and the Money and Pensions Service (Maps) to support each other in their roles relating to the secure delivery of the pensions dashboards digital architecture.

When laying the regulations, the government also confirmed that the dashboard availability point (DAP) would be announced six months in advance, rather than 90-days as initially proposed, to give time for the industry to make final preparations.

Industry experts had previously raised concerns that the proposed 90-day window was too short, with some suggesting that a phased approach may be better considering scheme resources.

In its response to the consultation, the DWP acknowledged that the 90-day formal notice period could create challenges for the organisations that need to prepare for this, with the extended six-month notice period therefore expected to provide greater certainty.

In addition to this, the DWP said that the government remains committed to working transparently with industry about when the formal notice of the DAP will be issued, confirming that it expects to publish any progress towards the DAP to ensure the industry is aware of when the likely date will be.

Updates on pensions dashboards have also ramped up more broadly over the past month, as the Financial Reporting Council (FRC) confirmed changes to the Actuarial Standard Technical Memorandum 1 (AS TM1) to support consistent and reliable pension illustrations for DC scheme members.

The changes include standardising the accumulation rate assumptions and the form of annuitisation at retirement, with the FRC previously undertaking a consultation on the proposed amendments.

The new standard was highlighted by the FRC as "a major step change" to increase consistency between pension projections once they start to be provided to pensions dashboards from October 2023.

Following industry feedback, FRC confirmed that it has taken a number of steps to amend the proposed method to address implementation challenges and provide clarity on how the proposed volatility approach is intended to be implemented.

"As well as allowing users to view all their pensions together, pensions dashboards will also connect people to pension pots that they may have 'lost'"

In particular, it amended the approach to allow, in limited circumstances, funds to be classified as volatility group 3 where volatility cannot be reasonably or meaningfully determined. The FRC also removed the requirement to consider market-based annuity rates for illustrations produced within two years of retirement, in light of the fact that only a small proportion of individuals will take an annuity.

In addition to this, the Pensions Dashboards Programme (PDP) has shared updates on the broader progress of pensions dashboards, revealing that the technology for the ecosystem was successfully completed during the second half of October, and is now ready for testing with real data.

The first data to be used will be state pension data provided by the DWP, according to the update, while the first dashboard will be the MoneyHelper dashboard being built by the Money and Pensions Service.

Early participants are then expected to transition into the live environment, using real data, in early 2023.

PDP principal, Chris Curry, commented: "As well as allowing users to view all their pensions together in a single, secure place, pensions dashboards will also connect people to pension pots that they may have 'lost'.

"At the same time, dashboards will also open new opportunities for pension providers and schemes to engage their customers and members in a dialogue about their retirement savings. Crucially, this will supplement existing ways of communicating – ensuring that those without digital access are not excluded."

The Financial Conduct Authority (FCA) has also published the final rules on pensions dashboards for pension providers.

The final rules are largely unchanged from the draft consulted on, although the FCA has extended the implementation deadline from 30 June 2023 to 31 August 2023, in line with the government's extension to the staging deadline for the first cohort.

In light of feedback that some providers do not currently have online information about costs and charges for certain plans, the FCA has also qualified the additional data signpost requirements.

The final rules therefore now state that, where costs and charges information for a particular pension is not currently available online, the signposted website need not detail the actual costs and charges but must, as a minimum, explain clearly to the consumer how they can obtain details about the costs and charges that apply specifically to their plan.

Written by Sophie Smith

DWP sets sights on illiquid investments in new consultation

The Department for Work and Pensions (DWP) has launched a consultation on new draft regulations designed to encourage greater illiquid investment. However, industry experts have warned that these efforts could be thrown into jeopardy following recent market volatility

The Department for Work and Pensions (DWP) has launched a consultation on new rules requiring DC trustees to disclose and explain their policies on illiquid investment in their Statements of Investment Principles (SIP) *[see p48 for more details]*.

The consultation also includes requirements for schemes to disclose and explain the percentage of assets in the default funds allocated to different asset classes in their annual Chair's Statement.

Relevant pension schemes will be required to action the new asset allocation disclosure requirements in their Chair's Statement for the first year ending after 1 October 2023, while the new illiquid investment policy disclosures will need to be added to the first default SIP published after 1 October 2023, and at the latest by 1 October 2024.

The consultation defined illiquid assets as: "Assets that cannot easily or quickly be sold or exchanged for cash and, where assets are invested in a collective investment scheme, includes any such assets held by the collective investment scheme." The definition was based on stakeholder feedback and aimed to ensure greater transparency, while remaining as high-level as possible.

There is some prescription, however, as trustees will be required to look through multi-asset investments to underlying investments, so that all illiquid exposures are clearly covered in disclosures and all schemes calculate their asset allocations at asset-level rather than fund-level.

Alongside this, the government has published draft regulations to exclude performance-based fees from the regulatory charge cap, in an effort to drive greater DC illiquid investment.

The requirements were initially consulted on in November 2021, with the government since confirming plans to "accelerate" charge cap reforms as part of its economic growth plan.

Schemes in scope will be able to apply the exemption to exclude 'specified performance-based fees' from as soon as the regulations come into force, which is expected to be 6 April 2023.

"The government may need to work much harder to persuade pension funds that investing in illiquids should be a priority at the moment"

However, transitional arrangements will be put in place for trustees or managers of schemes that are making use of the current option to smooth the incurrence of performance fees over a five-year moving average when assessing compliance with the charge cap.

Under the draft regulations, the former description of 'performance fee' would be replaced with a "tight conditions-based" definition of what can be considered a well-designed "specified performance-based fee".

This would relate to a fee paid when returns from investment exceed a specific rate/benchmark or a specific amount, which may be variable or fixed, but "crucially" must be agreed upon between the trustees or managers of the scheme and the fund manager prior to investing.

Although the DWP acknowledged that performance fees are not the sole barrier to greater DC illiquid investment, it explained that they can discourage many trustees from considering investments that would require them to allocate otherwise unused charge cap 'headroom' to such payments.

It therefore suggested that the changes could be an "important enabler now, and in the future".

However, industry experts have warned that recent liquidity issues faced by DB pension schemes could deal a potentially fatal blow to the government's hopes for greater pension scheme investment in long-term illiquid projects, as many schemes now attach much more weight to access to liquid assets.

"Where schemes are now targeting higher levels of liquidity they are likely to review the long-term assets they already hold and be more wary about taking on new commitments," LCP partner, Steve Webb, stated.

"The government may need to work much harder to persuade pension funds that investing in illiquids should be a priority at the moment".

Written by Sophie Smith

Pension industry reflects on 10-years of auto-enrolment

As auto-enrolment reaches its 10-year anniversary, pensions industry organisations have reflected on the achievements of the initiative, and what future changes may still be needed, particularly in light of the cost-of-living crisis

Auto-enrolment progress remained stable despite a turbulent year for both the labour market and households due to the impact of the Covid-19 pandemic, according to research from Nest Insight.

The *Retirement saving in the UK 2022* report, which was based on the saving behaviour of over 11 million Nest members between April 2021 and March 2022, revealed that around a million businesses are registered with the scheme, representing a 10 per cent year-on-year increase.

The number of members who made additional contributions to their retirement pots also rose by 36 per cent in 2021/22, with the total level of additional member contributions made to the scheme up just over 50 per cent compared to the previous year.

In addition to this, the report revealed a steady increase in pension pot balances, with the median value of pot contributions for a saver who contributed continuously in 2021/22 standing at £1,390, an 11 per cent year-on-year increase, while the median contribution for members on a part-year basis increased by 10 per cent.

The number of enrolments has also increased by 17 per cent compared with 2020/21, while opt-out levels remained low at 8.3 per cent. This was slightly higher for men at 8.7 per cent, compared to 7.9 per cent for women.

However, Nest confirmed that the impact of the cost-of-living crisis is not reflected in the data, acknowledging that this will be a further challenge facing members in the future.

However, more recent figures from the Department for Work and Pensions (DWP) have been described as "cause for cautious celebration".

According to the DWP, the opt-out rate for newly enrolled employees was 10.4 per cent in August 2022, compared to 7.6 per cent in January 2020.

"There are no signs of these pressures abating as inflation continues to soar and so care needs to be taken to mitigate further opt-outs"

However, industry experts warned that this figure could be set to increase, with Hargreaves Lansdown senior pensions and retirement analyst, Helen Morrissey, pointing out that opt-out rates have "crept up over the past year or so".

"This is likely because of the difficulties experienced during the pandemic and the current cost-of-living crisis," she continued. "There are no signs of these pressures abating as inflation continues to soar and so care needs to be taken to mitigate further opt-outs."

Broader changes may also be needed for the future of AE, however, as research published for the 10-year anniversary has highlighted potential areas of concern.

Research from Barnett Waddingham also found that almost half (46 per cent) of UK workers aren't confident that they'll have enough saved for a comfortable retirement, despite auto-enrolment bringing improvements in participation rates.

These concerns may not be unfounded, as analysis from Hymans Robertson also found that even a 'moderate' level of retirement may prove unattainable for the majority of auto-enrolled savers, unless they increase their pension contributions above the current minimum.

Analysis from Nest Insight also suggested that access to above-minimum pension contributions is unevenly distributed, with higher contributions targeted at those who are, arguably, least in need of support.

Although industry organisations have acknowledged that increases may not be appropriate amid the current economic environment, the government has faced growing calls to outline a timeline for future changes.

In particular, the Pensions and Lifetime Savings Association (PLSA) has launched a consultation on five key pension reforms, in an effort to help build a consensus as to what reforms needed to make the current UK pension system "adequate, affordable and fair".

Launched at the PLSA Annual Conference 2022, the report outlined five key reforms designed to future proof the pension system, suggesting that if policy makers set out a roadmap now, a new framework could be implemented over the next 10 to 15 years.

Written by Sophie Smith

Former trustees face Crown Court over illegal pension loans

Two former trustees are set to appear at Crown Court, accused of having made illegal loans and investments totalling £700,000. In related news, The Pensions Regulator (TPR) has published an updated enforcement strategy, alongside its consolidated enforcement policy, and updated prosecution policy, in an effort to provide further clarification for scheme trustees

Two former pension scheme trustees are set to appear at Preston Crown Court over allegations of making illegal loans and investments in a prosecution brought by The Pensions Regulator (TPR).

Stephen Smith and David Boardman, who were trustees of the Worthington Employee Pension Top Up Scheme, appeared at Preston Magistrates' Court on 19 October, having been accused of making five prohibited loans from the scheme and one prohibited investment.

Smith pleaded guilty to making five prohibited loans but pleaded not guilty to a sixth charge of making a prohibited investment, while Boardman did not enter a plea. Both men were released on bail and ordered to appear at Preston Crown Court for a plea and trial preparation hearing on 22 November.

Derek Thomas, a professional adviser to the scheme, has also been charged with four counts of assisting or encouraging prohibited loans.

The allegations relate to loans and an investment totalling £700,000, including three loans by the scheme to Stonewell Property Company, the parent company of the sponsoring employer, Marcus Worthington and Company.

The scheme also invested in a retail park where the land had been let on a long lease to companies connected with Marcus Worthington and Company.

The case is the latest in a number of prosecutions brought by TPR, including the successful prosecution of two pension fraudsters who were jailed for a combined total of more than 10 years.

In related news, TPR has published an updated enforcement strategy, alongside its consolidated enforcement policy, and updated prosecution policy, in an effort to provide further clarification around enforcement action for pension scheme trustees.

> **"Our work in enforcement is constantly evolving as we take on more cases and test new powers"**

The new enforcement policy includes new powers given to TPR in the Pensions Schemes Act 2021, replacing and consolidating three previous compliance and enforcement policies on DB funding, DC and public service schemes.

The policy identifies the outcomes TPR might pursue in line with its goal to improve safety and security for pension savers, and ways it might go about achieving them. It is now web-based and divided into standalone chapters, each linking to other relevant material.

The prosecution policy has also been brought up to date to reflect new criminal powers in the PSA21 and other developments. The regulator has provided further clarity as part of this, including case examples where possible, although it reiterated that it will adopt a principles-based approach focusing on the risk and harm factors in deciding which enforcement cases to pursue.

TPR has also published a new enforcement strategy, which sets out the overarching aims of its enforcement work, excluding automatic enrolment, and provides insight into the overarching framework TPR applies when selecting cases for enforcement action.

To further assist in providing clarity, TPR has also published updated and more accessible versions of its case team and determinations panel procedures, outlining the steps TPR will follow when considering using its "reserved" powers.

The regulator clarified that although the new strategy and policies are not a fundamental change in approach, they do give a clearer understanding of the enforcement journey and factors TPR will take into account.

"Our work in enforcement is constantly evolving as we take on more cases and test new powers," TPR director of enforcement, Erica Carroll, stated. "We continue to be transparent in the outcome of our cases through our publications and will revisit our strategy and policies if these outcomes require any changes in our approach."

Written by Sophie Smith and Tom Dunstan

DHSC to extend NHS pension easements

Amendments to the NHS Pension Scheme, initially introduced as part of the government's response to the Covid-19 pandemic, will be extended following a government consultation, with a further consultation on "a package of new retirement flexibilities" also expected in the autumn

The Department for Health and Social Care (DHSC) has confirmed plans to extend amendments to the NHS Pension Scheme, with a further consultation on "a package of new retirement flexibilities" expected this autumn.

The DHSC said the ongoing pandemic response presented a clear rationale for continuing the easements, confirming that they would be extended beyond 31 October 2022 as a result.

The DHSC revealed that the proposals to extend the easements received "overwhelmingly positive support", as 98 per cent of respondents agreed they should continue.

However, the suggested date for the continuation of the easements of 31 March 2023 received a more mixed response, with 32 per cent of respondents agreeing, while 68 per cent disagreed.

As a result of consultation feedback, DHSC confirmed that the suspension of abatement for special class status (SCS) members will be extended for a longer period than originally planned, with the suspension of SCS abatement to be extended to 31 March 2025.

In addition to this, DHSC has confirmed plans to launch a public consultation in the autumn on a "package of new retirement flexibilities". This will include proposed amendments to the regulations to allow members of the 1995 section to partially retire but continue working and building up further pension, and provision for pensionable re-employment for those who have already retired and then returned to work.

It will also propose the permanent removal of the 16-hour rule from the 1995 section from 1 April 2023, with the government intending to continue with plans to extend the suspension of the 16-hour rule to 31 March 2023, ahead of its proposed permanent removal the following day.

Written by Sophie Smith

NEWS IN BRIEF

The **Financial Conduct Authority (FCA)** raised concerns that rising costs could leave Brits vulnerable to scams, after research found that 25 per cent of savers would consider withdrawing money from their pension earlier than planned to cover the cost of living. The FCA also found that more than a third (37 per cent) of over 65s are not confident they have enough saved in their pension.

The **Cobham Pension Plan** has completed a £530m buy-in with Standard Life, securing retirement benefits for around 3,000 members of the scheme.

The year to July 2022 saw a 10 per cent increase in UK schemes appointing professional trustees and a 20 per cent increase in sole trustee appointments, analysis from **LCP** revealed, with 43 per cent of pension schemes now having a professional trustee. The research found that sole trustee arrangements now account for a third of professional trustee appointments, with growing popularity among larger schemes in particular.

Zedra announced the acquisition of professional independent trustee services provider, Clear Pen Solutions. Clear Pen Solutions CEO and owner, Stephen Yandle, will continue working for Zedra as part of the deal.

The **Pensions and Administration Standards Association** (Pasa) published new guidance on DC transfers, which aims to "drive high standards and improve transfer option communications".

Nearly 9,000 firefighters are set to receive a payout of £3,750 as compensation for anxiety and distress following a "government pensions debacle". The **Fire Brigades Union** also confirmed that claimants with "additional reasons for being aggrieved" will receive £7,250 in total.

BTPS 'on track' despite £11bn hit amid volatility

The group's latest financial results revealed improvements in the scheme's funding levels. As a result, the company has agreed to reduce deficit recovery contributions

The BT Pension Scheme (BTPS) funding position improved over the past year, despite an £11bn fall in the value of the scheme's assets amid "unprecedented" gilt market volatility.

The scheme's *Annual Report and Accounts 2022* revealed that the deficit reduction plan has remained "on track" despite the recent volatility in the gilt market following the mini-Budget, with the scheme set to be fully funded by 2030. As a result, no contingent contributions were required from BT Group.

According to the report, an interim assessment as at 30 June 2022 also suggested that the scheme's funding position had improved from 88 per cent to 92 per cent, representing a reduction in the deficit from £7.98bn in 2020 to £4.38bn as at 30 June 2022. This improvement was attributed to the deficit contributions paid by BT and a higher than assumed return on the scheme's assets.

However, the report revealed that the value of the scheme assets has fallen by £10.4bn since last year, reflecting the interaction of the scheme's assets and liabilities with changes in long-term inflation and interest rate expectations.

This was particularly noticeable since the year-end, as "extreme volatility" in the gilt market, and sharp increases in gilt yields prior to the Bank of England's gilt-market intervention saw the scheme assets fall around £11bn.

Despite this, the scheme emphasised that its hedges have performed "as expected", and whilst the value of the scheme's assets has fallen over this period, there has been no worsening in its estimated funding position.

The report confirmed that the BTPS Trustee Board is also continuing to update its inflation stress testing and scenario analysis in light of recent announcements, to understand the impact of inflation shocks on the scheme's portfolio.

As at 30 June 2022, 41.2 per cent of the scheme's net assets were invested in equity-like assets and 58.8 per cent were invested in cashflow-aware assets.

"Since the year-end, and up to the date of signing, we saw extreme volatility in the gilt market, with yields rising sharply prior to the Bank of England's gilt-market intervention," BTPS Management CEO, Morten Nilsson, stated.

"During this time, our hedges have performed as expected, and whilst the value of the scheme's assets has fallen over this period, there has been no worsening in our estimated funding position."

Total benefits paid were £2.5bn in the year to 30 June 2022.

Written by Sophie Smith

LETTER TO EDITOR

I have just been reading Tom Dunstan's recent article on the gender pensions gap *[Gender pensions gap 'starts from birth' – 22/6/22 pensionsage.com]*. 1950s ladies are already living the effect of this. It makes me sad as a 1950s-born woman to see that women are still in this position and our daughters may find themselves in the same situation as us in 30 years' time. Pension schemes were rare and unavailable for women of our generation. Then the government took away six years of state pension in the name of equality, which was to be the only income some women were relying on after years of hard work. There was no equality and no advice or schemes to prepare for old age. I have read quite a few articles about the gap for young women. The mothers and grandmothers however have been forgotten.

Beverley Johnson

Appointments, moves and mandates


David Brooks

Broadstone has announced that David Brooks will become its head of policy. Brooks will move to the newly created role from his current position of technical director, a role he has held since 2007. He will lead Broadstone's policy strategy in the defined benefit sector with a focus on regulatory developments and government legislation. Brooks has worked in the pensions sector for nearly 25 years, with his roles spanning pensions administration, consultancy and technical analysis. "We want to be at the forefront of pensions policy development and I am excited to try and make the industry a better place for savers, trustees and employers," Brooks commented.

The Pensions Regulator (TPR) has appointed pensions ombudsman, Anthony Arter, and deputy High Court judge, Margaret Obi, to its Determinations Panel.
TPR's Determination Panel is responsible for making formal decisions relating to cases where TPR seeks to use certain powers. Arter was previously head of pensions at Eversheds from 2005 to 2013 and has been an independent trustee for many years. He was appointed as pensions ombudsman in 2015 and his tenure ends in January 2023. Obi is a solicitor, a former partner in a criminal defence practice and an independent legal consultant. She was appointed as deputy High Court judge in 2018. Sarah Chambers has also been reappointed to the panel to serve a second four-year term. TPR stated that the appointments were made following "full and open" processes.


Simone Lavelle

Pi Partnership has named Simone Lavelle as its new CEO.
Lavelle joins the board with immediate effect, which Pi stated was part of its ongoing development plans for the business. Lavelle was previously a partner at Avida International and has also held senior positions as a director and trustee at Law Debenture. She also previously held the role of COO at Cardano, where she led the establishment of their UK operation. Pi said that Lavelle's experience as a trustee and as a governance specialist made her "uniquely qualified" to lead both Pi's trustee and governance consultancy businesses, and maximise the opportunities for growth.


Paul Brine

Dalriada Trustees has announced the appointment of Paul Brine as a professional trustee.
Brine brings over 16 years of experience to his new role, having served on a variety of pension schemes, including defined benefit, defined contribution and hybrid pension structures. He has also chaired boards at both trustee and committee level. Prior to his work in the pensions industry, he spent 30 years in risk and capital markets in London and New York, starting at J.P. Morgan, before spending 17 years at Credit Suisse, working as a managing director in fixed income and derivatives, and later in alternative investments.


Laura Trott

MP for Sevenoaks, Laura Trott, has been appointed the new Minister for Pensions at the **Department for Work and Pensions (DWP).**
This is her first government post, although she is also a member of the Health and Social Care Committee, the Neonatal Care (Leave and Pay) Bill Committee, and the Taxi and Private Hire Vehicles (Safeguarding and Road Safety) Bill Committee.
In her new role, she will be responsible for pensioner benefits including the state pension, private and occupational pensions, and oversight of arms-length bodies such as The Pensions Regulator.
Trott was first elected as the Conservative MP for Sevenoaks in December 2019.
Her appointment follows the departure of Alex Burghart, who confirmed on 28 October that he was no longer Minister for Pensions and Growth and has been moved to the Cabinet Office, as part of Prime Minister Rishi Sunak's reshuffle. Burghart was confirmed as Minister for Pensions and Growth on 12 October, having replaced the longest-serving Pensions Minister, Guy Opperman.
Alongside the appointment of Trott, the DWP also confirmed that Opperman is new Minister of State for Employment, following his return to the DWP at the end of October. In his new role, Opperman will be responsible for work around the labour market, addressing economic inactivity and for DWP benefits, including Universal Credit.


Mel Stride

MP for Central Devon, Mel Stride, has been appointed **Secretary of State for Work and Pensions** as part of the new Prime Minister, Rishi Sunak's, reshuffle.

Stride was previously Lord President of the Council and Leader of the House of Commons from May 2019 to July 2019, and Financial Secretary to the Treasury and Paymaster General from June 2017 to May 2019. He was elected the Conservative MP for Central Devon in 2010, and also previously served as an Assistant Government Whip from July 2014 until May 2015, and as Government Whip (Lord Commissioner of HM Treasury) from May 2015 until July 2016. His appointment follows the departure of MP for Norwich North, Chloe Smith, who announced on 25 October that she had left her role as Work and Pensions Secretary and would return to the backbenches, following the confirmation of Rishi Sunak as the new Prime Minister.

Appointed by former Prime Minister, Liz Truss, on 6 September 2022, Smith held the job for seven weeks in total. On Twitter, Smith said that it had been a "privilege" to serve as Work and Pensions Secretary and thanked the staff at the Department for Work and Pensions (DWP) for their work during her time there. "I look forward to supporting Rishi Sunak from the backbenches and continuing to work hard for my constituents in Norwich North," she added. Prior to her role as Work and Pensions Secretary, Smith was previously Minister for Disabled People, Health and Work. She was also previously Minister for the Constitution and Devolution between February 2020 and September 2021.


Graham Wrightson

B&CE, the provider of The People's Pension, has appointed Graham Wrightson as group general council.

Wrightson will head up B&CE's legal team and joins from Stephenson Harwood, where he was a partner in the pensions group. In his role leading the legal team, Wrightson will advise the business on both pension matters and broader legal issues. He has 25 years of experience practicing pensions law, providing advice to both corporates and trustees. Wrightson was previously a pensions partner at Squire Patton Boggs and Mercer, where he was head of legal consulting. He is also a member of the Association of Pension Lawyers.


Kim Nash

Zedra Governance has promoted Kim Nash to the role of managing director, effective from 1 November.

Nash, a qualified actuary and experienced professional trustee, has been appointed to the boards of numerous DB, DC, and hybrid pension schemes, and master trusts and independent governance committees. She takes over the role from Richard Butcher, who held the position since 2010 and will remain at the firm for a time as a client director, continuing to look after his current portfolio of clients. Butcher will however be giving up his management and operational duties, and cutting back his working week, as a first step towards eventual retirement.


Laura Desay

Hymans Robertson has appointed Lara Desay as a partner and risk transfer specialist.

Desay joins from Scottish Widows, where she was head of origination and operations for the bulk annuity team at the company and played a key role in a number of significant risk transfer deals. These include £15bn of transactions between the Lloyds Banking Group pension scheme and Scottish Widows. She also led the execution of Scottish Widows' largest bulk annuity transaction to date, the £880m buy-in with the Littlewoods Pension Scheme, as well as the £510m transaction with the Aon Retirement Plan.


Jo Hill

Standard Life has appointed Rachel Haworth, Jo Hill, and Andrew Milligan to its Independent Governance Committee (IGC).

Hill, a director of market intelligence, data and analysis at the Financial Conduct Authority, joined the IGC in June 2022, replacing Sheila Gunn who retired from the committee in January 2022. Milligan also joined in June and will replace Ingrid Kirby, one of the original members of the IGC, who will retire from the committee at the end of September this year. Haworth, meanwhile, joined the committee in August 2022 and will replace Venetia Trayhurn, who steps down in November 2022.

View from the AMNT: Unchartered waters-a turbulent time of change

I have just finished reading, once again, *The Pelican History of the World* by J.M. Roberts and, although written in 1980, the words at the end of the work are as pertinent today as they were then.

"Only two general truths emerge from the study of history. One is that things tend to change much more, and more quickly, than one might think. The other is that they tend to change much less and much more slowly, than one might think. So, for good or ill, we shall always find what happens somewhat surprising."

We are in a period of change, politically, socially and economically. The drivers of change are ideological, institutional and environmental. Some of these changes are seemingly slow, some seemingly quick but all will have a propound effect on our individual and collective futures.

Pension funds are not immune from these changes; in fact they have to ride out the turbulence created by these factors and often feel like a storm-tossed boat far from a safe haven. To navigate such waters needs a good helmsman and reliable crew.

A diverse board of trustees reflecting the variety of people in a pension fund, provides that reliable crew; particularly those who have intimate knowledge of the fund members – the MNT. But above all in the words of that well known financial guru, Corporal Jones: *"Don't panic!"*

AMNT member, Stephen Fallowell

AMNT Association of Member Nominated Trustees

View from the PLSA: Maintaining pension contributions

As the cost of living increases, it is more important than ever that people are engaged with all aspects of their finances, including their pensions.

In a recent PLSA survey we heard that one in five pension schemes surveyed have seen savers asking about reducing or stopping their pension contributions (19 per cent), with a fifth wanting early access to their pension after age 55 (17 per cent). Only a quarter of scheme respondents said they have seen no changes in saver behaviour over the past few months (28 per cent).

More positively, there is very little sign that savers are actually taking the next step beyond asking questions and actually taking action to reduce their pension contributions. Moreover, only around one in 10 schemes surveyed said that they have seen members wanting to opt out (12 per cent), which is only a little above the long-term trend of 9 per cent. But there is some sign of people over the age of 55 accessing some of their pension savings early.

Savers who are considering reducing or pausing their pension contributions or – for over-55s – dipping into their pot to cover short-term expenses, should understand that doing so could have significant impacts.

For members of workplace schemes, this could mean losing out on employer contributions, and for those contributing to any kind of pension scheme, would mean missing out on the tax relief the government boosts pension contributions with.

We believe that it's important that people maintain their pension contributions, whenever they can afford to do so, as stopping contributions now could have a serious impact on their retirement living standards in the future.

PLSA director policy and advocacy, Nigel Peaple

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

View from the PMI: The diversity conundrum

I recently had an opportunity to meet a couple of new pension consulting apprentices who were engaged and enthusiastic about embarking on a career within the financial services industry. In turn they were keen to learn about my 35-year career in pensions and about my long association with the PMI.

This encounter led to me reflect on the diversity conundrum that many in the pensions industry face in trying to encourage young people to get involved in careers in pensions, whether as member-nominated trustees or to train to be pensions administrators or governance experts.

We do not all perceive the meaning of pension scheme governance the same way. If you ask an investment consultant, it is about environmental, social and governance (ESG) and the governance requirements associated with the Task Force on Climate-related Financial Disclosure (TCFD). The secretary to the trustees will add to that the importance of focusing on processes and policies such as conflicts of interest policies, risk registers and business continuity, and a pension administrator's focus is on the procedures that ensure the right benefits are paid to the right member at the right time.

If we want to attract young people to pensions careers, we need to get better at describing to them what we actually do that supports good member outcomes and experiences rather than using jargon that they are unable to relate to.

In opening their eyes to the different and rewarding options available to them, we have an opportunity to bridge the diversity age gap.

PMI president, Sara Cook

Royal London Asset Management senior fund manager, Rachid Semaoune

Global sustainable credit

In the latest *Pensions Age* podcast, Laura Blows speaks to Royal London Asset Management senior fund manager, Rachid Semaoune, about global sustainable credit

Investing 'sustainably' can be quite confusing for investors, Royal London Asset Management (RLAM) senior fund manager, Rachid Semaoune says, due to its many definitions and subjectiveness of the term.

However, RLAM makes it simple for investors, he explains in the *Pensions Age* podcast, *Global sustainable credit.*

It has used the same definition of sustainability since it started managing sustainable funds 18 years ago.

"The companies meeting our sustainability criteria must provide net benefits to society for the products and services they offer, or by being an ESG leader. By being an ESG leader we mean by being the best in class within its sector. These two strands depend on companies following good governance practice, so it's very important that companies we invest in have a very high standard of governance," Semaoune explains.

To find these companies, RLAM implements a bottom-up stock selection process via its in-house team."We have a long-term record in stock picking, looking at governance and security packages attached to a specific bond and also by exploiting market inefficiencies and finding value," Semaoune says.

Using the Barclays Capital Global Aggregate Bond Index as RLAM's Global Sustainable Credit Fund's benchmark, RLAM looks for issuers within that which best fits its sustainable themes. RLAM has 13 sustainable themes, which include energy transition, health, circular economy, community funding and essential infrastructure.

The fund also benefits from investing globally. "Different regions have different interesting areas for where to invest sustainably. This is one of the benefits of having a global fund; you can really identify your sustainable themes and widen and diversify by the number of issuers and also sectors," Semaoune says.

He gives the example of the pharmaceutical sector, where there are only three pharmaceuticals that have sterling bonds outstanding, "but if you go global and can buy euro or dollar bonds then the number of pharmaceutical issuers increases to well over 80".

While there are third-party ESG data providers out there to help assess the ESG credentials of companies, these are "primarily geared up for equity investors and we know that corporate bonds are a lot more complex instruments than equities", Semaoune states.

"For corporate bonds it really matters where you are lending within the capital structure of the company, and what subsidiary you are lending to. Also, we are lending to a lot of companies that do not have a public listing and these companies, such as the social housing sector in the UK, are not usually covered by third-party data providers. So, you really need to have an in-house sustainable process and a big responsible investment team to do some in-depth analytics for those that fall between the cracks of third-party data providers."

The ESG data provided by these analytics companies can be very useful, for example for carbon emission figures, but "a high third-party ESG data rating is not a substitute for a full ESG analysis that we undertake for every single security in our portfolio", he adds.

There are challenges in undertaking ESG analysis, Semaoune admits, as for instance "in Europe, governance standards tend to be higher than US governance, such as with higher board independence and executive pay tends to be lower in Europe than the US".

One method of green investing, through green-labelled bonds, "really divides the investing community", Semaoune says.

"Our sustainable process doesn't rely on green label or any other label attached to a bond. This is because a label is not a substitute for a full sustainability analysis."

He explains that green bonds often come with a premium price compared to a non-green bond and proceeds from green bond issuance are not legally ring-fenced.

Investing sustainably can see cyclical performance, Semaoune notes. For instance, the energy sector is currently outperforming any sector on a year-to-date basis, he says, but RLAM's fund "has a very strict exclusion process within our portfolio, whereby we are excluding fossil fuel extraction".

"So you could expect some cyclical underperformance when commodity prices are very strong, which is what we are seeing this year. However, longer term we are seeing that the cost of funding the oil and gas companies is going up. Over the longer term we expect these sectors to underperform versus more sustainable friendly sectors."

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

VIEW FROM TPR: Boost your climate understanding

All pension schemes face climate-related risks and opportunities.

And trustees of all authorised master trusts and pension schemes with net relevant assets over £1 billion are already legally required to manage and report on climate-related risks and opportunities.

They must be ready to protect savers' pensions from the material financial risk climate change poses and take advantage of opportunities from a global move to low carbon economies.

Trustees do not need to be climate change experts, but they should have sufficient knowledge and understanding to be able to identify, assess and manage the risks and opportunities for their scheme.

We recognise this is a new and challenging area for trustees and this will be a learning process. We've produced guidance in this area and are grateful for industry's assistance in shaping it during our consultation.

It includes an illustrative example charting how trustees of a fictitious pension scheme might approach meeting the requirements of the regulations.

We know this may still be challenging for some. Trustees with questions on this topic can join a Pensions and Lifetime Savings Association (PLSA) Twitter Q&A on 9 November at 12.30pm. For one hour The Pensions Regulator will be answering questions on this topic.

Those who miss the session but want to see the questions posed and the answers will be able to view the conversation on The PLSA's Twitter profile – www.twitter.com/ThePLSA.

TPR executive director of regulatory policy, analysis and advice, David Fairs

The Pensions Regulator
Making workplace pensions work

VIEW FROM THE ABI: Lost pension pots

Forgotten pension pots are on the rise. The ABI last asked the Pensions Policy Institute for an estimate in the number and value of defined contribution lost pots in 2018, and the figure of the latter (£19.4 billion) was shocking then. This has now increased by 36 per cent to £26.6 billion, primarily due to job churn from the pandemic, and an increase in people moving home.

While the value is significant, it is perhaps the number of lost pots, which paints a bleaker picture. This is nearly 75 per cent higher than in 2018, at just under three million.

Sixty-five per cent of these pots belong to those under 55, although over half a million are still lost in the pre-retirement period of 55-65.

These pots are not insubstantial. The average size pot which is lost amongst the 55–75-year-old range is £16,004. The average across all ages, is £9,474. The size of a women's average lost pot is 75 per cent of the size of the average pot.

Pensions dashboards will help people find their lost pots, but government and industry need to make sure dashboards are utilised. Providers spend millions of pounds every year trying to trace customers, and campaigns like Pension Attention aim to encourage people to keep their records up to date. Hopefully the prospect of an extra £10,000 in your pension pot will prompt people to go find their provider.

ABI

ABI manager, long-term savings policy, Hetty Hughes

VIEW FROM THE PPI: Care policy under the new government

The UK government has spent years trying to determine how to fund social care costs. A 2010 social care commission (set up by the coalition government) made recommendations including a cap on individual's spending on care and a more joined up system that were initially accepted by the government but then never implemented.

The Johnson government resurrected the issue, publishing a white paper in December 2021 setting out the reforms they intended to bring in, including a personal care cap of £86,000 in 2021 terms, changes to the means testing asset thresholds, and a levy of 1.25 per cent that was an extension of National Insurance to be used to pay for it.

However, the Truss government abolished the levy in October 2022 and substantially reduced taxes. The government have committed to maintaining public services. But this commitment is not specific about whether this also applies to the care policy that is yet to be fully introduced.

Abolishing the levy that was intended to fund the new care policy could be seen as a worrying move. But if the policy is still going ahead there are questions to be answered on how it will now be funded without the levy, and whether the rates will be at the same levels as indicated previously.

Providers, alongside people requiring care and their families, are no doubt anxiously awaiting answers to these questions.

PPI senior policy analyst, John Adams

PENSIONS POLICY INSTITUTE
PPI

Sustainable investment fixed income: Bond markets can't intimidate everybody

FTSE Russell's Lee Clements explores how sustainability risks are now a key consideration within fixed income investment

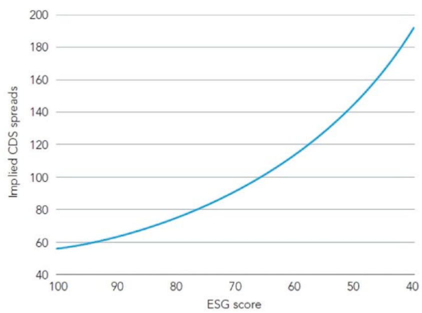
This year, rising bond yields have seen many market analysts reach for a famous fixed income quote. James Carville, a White House political adviser, on being told that his government would have to rein in spending, wished that he could be reincarnated as the bond market – "because you can intimidate everybody."

But fixed income markets are facing one risk that they cannot face down. Not so long ago many investors saw sustainability or climate issues risks as down the road, but numerous data points show the future is already here. A material portion of both issuers and investors are now sustainability-focused, it is now firmly part of the list of risks to be considered, alongside rates, inflation, credit etc. and ESG performance can impact investment performance in some markets. If that is not enough regulators and stakeholders are forcing it to be a key issue for all investors.

Here are examples of the arrival of ESG fixed income risks:

• Studies show a direct inverse correlation between sovereign bond performance (evidenced by CDS spreads) and ESG scores [1]. The better a security's ESG score, the lower its risk of default

• Issuance of sustainable finance bonds, such as green or sustainability linked bonds, are growing rapidly and are now 9-10 per cent of global debt capital markets proceeds [2]

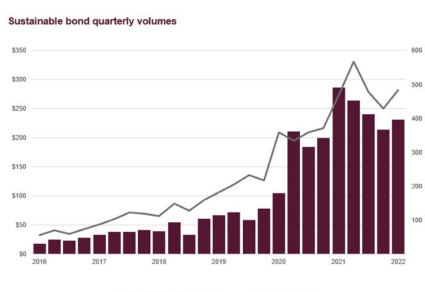


Source: Federated hermes and Beyond Ratings, as at December 2019. Past performance is no guarantee to future results. Please see the end for important disclosures.

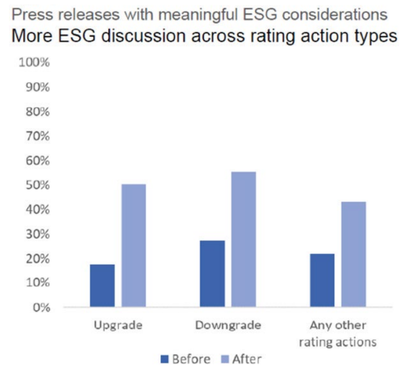
• Sustainability issues have a growing influence on credit ratings. A recent NLP study by ESMA found meaningful ESG considerations in ~50 per cent of the press releases relating to credit rating actions [3]

• Rising geo-political risk related to the war in Ukraine war has led investors to reconsider governance in issuers (both sovereign and corporate) relating to authoritarian regimes, human rights etc. [4]

• The European Central Bank has recently stated that it will apply climate risk measures to its €386 billion holding of corporate bonds [5,6]



Source: Refinitiv Sustainable Finance review, Q1 2022. Past performance is no guarantee to future results. Please see the end for important disclosures.



Source: ESMA. Past performance is no guarantee to future results. Please see the end for important disclosures.

• Fixed income markets are not only unable to face down or ignore sustainable investment issues, but they are also assimilating sustainability risks into their frameworks more than ever. These risks are firmly on the agenda of regulators worldwide, with the number of sustainable investment policy interventions growing rapidly [7].

In recent months there have been plenty of examples of bond markets intimidating central banks, economists, and investors. But it seems that sustainable risk is integral to fixed income markets, and that process can only deepen.

Written by FTSE Russell head of applied sustainable investment research, global investment research, Lee Clements

In association with FTSE Russell

[1] Pricing ESG risk in sovereign credit: an emerging divergence | Federated Hermes Limited (hermes-investment.com); Pricing ESG risk in sovereign credit | Federated Hermes Limited (hermes-investment.com)
[2] Sustainable finance weathers wider market storm | Refinitiv Perspectives
[3] Text mining ESG disclosures in rating agency press releases, ESMA, Feb 2022
[4] How Russia's war blindsided the world of ESG investing | Reuters
[5] ECB takes further steps to incorporate climate change into its monetary policy operations (europa.eu)
[6] ECB set for greener 'tilt' in €386bn corporate bond portfolio | Financial Times (ft.com)
[7] UNPRI regulation database

Soapbox: It's the end of the world as we know it, and I feel fine

This past month has been one of the busiest and most chaotic I can remember during my time in pensions, with rising inflation, volatility in gilt yields and the announcement of a new Pensions Minister, followed within weeks by the announcement of another Pensions Minister. At many points, it has genuinely been challenging to keep up with the tsunami of developments in the news but, whilst it has been difficult for me, I shudder to think how savers who aren't directly engaged in the pensions' world have managed to keep up. In times of such intense change with an overload of information, I believe it will be less likely that average savers will become more determined to stay informed of all recent developments and more likely for them to give into their apathetic leanings. I worry that this will undermine the work that campaigns such as the PLSA and ABI's Pension Attention campaign has been doing to get savers to engage with their pensions.

On the bright side however, I do not think that this is a problem without a solution. As the political world continues to shift and change, impacting the pension world as a result, pension communications must concentrate on the basics that savers really need to know, and filter out all the extra information that is not necessary. I believe that the turbulence in the pensions world provides the opportunity for the industry to act as a stable influence for savers to latch on to so that they don't lose their way or become overwhelmed.

However, I don't think that the pensions industry should necessarily fear big, eye-catching updates in the news as these can be a way to draw everybody's attention to the subject of pensions. As an example, in the last month, following the mini budget from the ex-Chancellor, pensions escaped the bubble of our industry into mainstream news, after gilt yields made people worry about their defined benefit pension schemes. As we spend so much of our time invested in the world of pensions, we can sometimes become slightly desensitised to discussion of the topic, but this story was eye-opening for many parts of the mainstream press. As I set up my laptop in the press office of the PLSA Annual Conference I was puzzled to see some faces that I didn't recognise. After talking to them I discovered that we had been joined by a reporter from Bloomberg, only sent to the conference the day before it started after the news had broken, to follow up on the subject. In many ways it felt as though the wider world placed pensions centre stage. I believe that, using this kind of attention to connect with savers in simple and helpful ways could really be of benefit to savers and help them stay in touch with their retirement savings even in a news cycle as chaotic as the one we find ourselves in now.

Written by Tom Dunstan

VIEW FROM THE ACA: Funding regulations flexibility required

In our response in October to the draft consultation on the draft DWP Funding & Investment Strategy Regulations, we strongly support the overall objective, that the trustees of maturing schemes should consider a long-term target, covering both investment and funding level, and establish a plan to move towards this target as the scheme becomes more mature – and that this should all be agreed with the employer.

However, we have significant concerns that the proposed regulations are insufficiently flexible and reduces the 'scheme specific' element of the current funding regime – replacing it with an industry standard approach, only permitting limited variation in how schemes plan their journeys and set their ultimate destination. Based on these regulations, it would not be possible for the 'bespoke' option outlined in The Pensions Regulator's initial 2020 consultation on a revised Code of Practice to be as flexible as we had hoped, and all schemes will be required to adopt fairly similar plans.

This standardisation also has potential unintended consequences, such as increasing systemic risks in future by encouraging all DB schemes to invest in very similar ways. The financial market developments over the past month or so bring these systemic risks into sharp focus.

In addition, the costs that would flow from this reduction in flexibility have not been properly considered, making it difficult to assess the full financial consequences for employers.

ACA chair, Steven Taylor

ACA
ASSOCIATION OF CONSULTING ACTUARIES

Soapbox: Pension Awareness Week – Making time not money

People often say that no publicity is bad publicity, but the recent headlines around pensions have not had the best impact on members, as concerns that pensions were on the brink of collapse sparked fears.

Many in the industry have been quick to stress that pension schemes faced a liability-driven investment (LDI) liquidity issue rather than solvency issues, with industry experts appearing on the evening news to help reassure members that their pensions were safe.

But pensions didn't have the best image even prior to this. While Brits clearly remain protective of their pensions, past scandals have left their mark, as seen in recent evidence to the Work and Pensions Committee inquiry.

"The pensions industry has a poor reputation in regard to honesty and fairness," wrote one anonymous saver, going on to state that receiving "poor returns due to unscrupulous companies is why people avoid pensions in general".

Others argued that savers should "forget about pensions", suggesting that as pension savings "remove a great deal of money from circulation", they could be "in essence, collecting from the poor and loaning to the rich".

The blame game following the recent LDI issues will no doubt continue, with an inquiry recently launched into this by the WPC.

In the meantime, it's important that members are being provided with straightforward information to help them understand the impact on their pension.

It is perhaps serendipitous timing that the ninth Pension Awareness Week occurred recently, with co-founder of the campaign, Rachel Parkinson, arguing that "it's never been more important to provide straight forward information to help the public make informed decisions about their money".

This is also a year with a difference, with the backing of the cross-industry Pension Attention campaign, which has support from 17 providers, while those involved are also working closely with the Department for Work and Pensions (DWP) and the Money and Pensions Service (Maps).

The campaign, headed up by the Pensions and Lifetime Savings Association (PLSA) and the Association of British Insurers (ABI), has also enlisted the help of grime artist and TV cook, Big Zuu, who produced a new pension awareness-inspired track and music video to support the campaign.

But getting the message right has become even harder amid the cost-of-living crisis, as some are left to face the impossible decision of 'eating or heating'.

Although this may make pension awareness efforts more challenging, it also means that they are needed now more than ever.

Indeed, Parkinson said that "it's never been more important for initiatives like Pension Awareness during the cost-of-living crisis" as people have even more question that they need answers to, with the campaign receiving an increasing number of queries as to the impact of pausing pensions.

Adding to this, Punter Southall Aspire, the creators of National Pension Tracing Day, chief commercial officer, Alan Morahan, suggested that the rising cost of living makes it "all the more important that people track down the money they have worked so hard to earn and save", with recent research revealing that the total value of lost pensions had grown to £26.6 billion.

And campaigns such as Pension Awareness aren't necessarily about changing saving behaviour, but making the time to review their existing pension, to understand what they have and where it is.

The National Pension Tracing Day, for instance, doesn't look to encourage individuals to save more, but to trace down the savings they have already made with the extra hour gained when the clocks went back.

Similarly, recent messaging from the Pension Attention campaign urged savers to ditch some household chores and check in on their pension instead, after research revealed that people spend at least 30 minutes a week on household chores, but just 30 minutes a year reviewing their pension.

"We're suggesting everyone skips a job this week and uses the time for some pension admin instead, or perhaps persuades another member of the household to step in!" Pension Attention campaign manager, Sarah Cordey, commented. "This isn't about saving more money – we just want people to spend a little time making sure they know where their pensions are and how to keep an eye on them."

Interest in the Pension Awareness campaign already seems to be up, with nearly 27,000 savers signed up for the campaign's live shows so far, up 50 per cent on 2021.

With savers making the time to engage with the campaign, it is up to the industry to maintain this momentum, to work with members and rebuild trust.

The industry seems ready to step up to the plate, but whether this proves enough to repair the damage already done is yet to be seen.

Written by Sophie Smith

Diary: November 2022 and beyond

TISA Annual Conference 2022
24 November 2022
200 Aldersgate, London
The conference will explore how financial resilience of UK households can be boosted and how inclusive digital financial services can facilitate this, consider the importance of financial education and how young adults engage with their financial resilience and what the industry should further consider in helping them to improve their financial wellbeing.
For more information, visit:
https://www.tisa.uk.com/annual-conference-tisa-2022/

ABI Annual Conference 2023
21 February 2023
155 Bishopsgate, London
The ABI Annual Conference 2023 will explore the value and contribution of the insurance sector to society at large, against the current backdrop of economic and political turbulence. The sessions at the conference will explore the impacts of the digital and data revolution for the sector and insurance customers, and how the sector must respond to changing customer demand.
For more information, visit:
https://www.abi.org.uk/events/abi-conference-hub/

Pensions Age Awards 2023
21 March 2023
Great Room, Grosvenor House, Park Lane, London
The Pensions Age Awards, which are celebrating their 10th successful year, aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. Entries are open for all UK pension schemes and provider firms serving pension schemes in the UK until 23 November 2022.
For more information, visit:
pensionsage.com/awards

PMI ESG and Investment Forum
07 December 2022
Eversheds Sutherland, London
The PMI is covering this important topic outside of its normal event schedule. The insight shared by the ESG speakers at the event will highlight the latest developments in this topical area. PMI looks forward to creating a platform for in-depth and constructive discussions.
For more information, visit:
https://www.pensions-pmi.org.uk/events/esg-and-investment-forum-2022/

Visit www.pensionsage.com for more diary listings

Month in numbers

705,666

The total number of pension schemes accessed for the first time increased by 18 per cent year-on-year to 705,666 in 2021/22, the Financial Conduct Authority has revealed.

£374.5bn

The PPF's September 7800 Index revealed that the aggregate surplus of defined benefit pension schemes increased from £313.8bn at the end of August to £374.5bn at the end of September.

56%

More than half (56 per cent) of adults in the UK think that the state pension is not generous enough, compared to 22 per cent who think it is "just right" and a further 4 per cent who think it is too generous. The survey uncovered a generational divide, as 76 per cent of over-55s felt that the state pension was not generous enough, compared to a third of 18–34-year-olds and half of 35–54-year-olds. Sixty-one per cent of respondents said they would be against using life expectancy to calculate state pension income.

VIEW FROM THE SPP: The DC clock is ticking

The eighth edition of the Pension Policy Institute's *The DC Future Book* recognises a number of DC success stories. At 13.8 million, active DC membership continues to hit successive highs, with 10.7 million employees having been auto-enrolled by over two million employers and almost a million re-enrolled, propelling overall workplace pension participation to nearly 80 per cent. Moreover, aggregate DC assets could almost double from £545 billion today to over £1 trillion in 2042, with the number of active savers increasing to 15 million – over 70 per cent of whom could be saving via a master trust, from 64 per cent today.

However, as we approach peak DB benefits, the report also recognises that on current trajectories the DC generation is set to unwittingly sleepwalk into retirement penury. This is evident not only from sub-par DC contribution rates, current and future projected median DC pension pot sizes, the meagre pensions uptake of the 4.1 million self-employed and those 10.5 million employees excluded from auto-enrolment, but also from the dwindling numbers using regulated advice when accessing their DC pots.

In other words, whether a basic, moderate or comfortable retirement becomes the norm for generation DC, is largely contingent on timely and decisive action being taken by both the pensions industry and by policymakers. The clock is ticking.

SPP member, Chris Wagstaff

THE SOCIETY OF PENSION PROFESSIONALS
making pensions work

A week in the life of: Squire Patton Boggs head of pensions, Matthew Giles

Since becoming head of pensions on 1 May 2022, I have challenged myself to take on the expanded role and responsibilities, whilst continuing to play a full part in the lives of my three primary school age children. This has required an increased focus on prioritisation, delegation and efficiency at work. I have introduced various new strategies to improve my productivity, including spending an hour or so each Sunday planning the week ahead.

Sunday

My Sunday planning session is all about diary management. I use a colour coding system in Outlook to highlight family commitments, meetings, calls and travel plans. I then convert my running 'to do' list into diary entries, with specific time allocated to each item of client work and partner/managerial activity, leaving room each day for catching up with messages and dealing with the unexpected. The week ahead never turns out precisely as planned, but at least I start each week with a broad sense of how it should play out and where the crunch points might be.

Monday

There tend to be fewer meetings scheduled for a Monday, so I often earmark this as a home-working day. I start with complex tasks requiring full brain power while I am fresh, to build momentum early. I then schedule less challenging/quick-fire tasks for later in the day. On a Monday I also plan the agenda for our Tuesday pensions partner meeting, linking in with those partners who are due to be presenting updates on their focus areas.

Tuesday

Tuesday is typically an office day and a chance to have a proper check in with colleagues. Particular attention is given to the juniors in the team to ensure that they feel fully supported. This is the day that we gather and share capacity declarations for the national team to help ensure an even distribution of work. We then have a pensions partner meeting, running through HR, business development (BD) and finance updates, as well as a report from our excellent professional support lawyers (PSL). Each partner meeting will include a briefing on three or four key focus areas, like risk transfer activity and our code of practice compliance proposition. If, at some point in the day, I can squeeze in a coffee with an industry contact that is the icing on the cake!

Wednesday

The middle of the week is typically a travel day, attending a client meeting or visiting one of our other UK offices. It is also the day we tend to have our pensions BD committee meetings. There is always lots of great stuff on the BD agenda – our PSL and BD colleagues are always full of creative ideas for how we can reach new audiences. A recurring theme in recent months has been how to build on our own #AttentionPensions campaign (aimed at trustees and employers), that has been running all year, and link it to the PLSA/ABI's consumer-focused #PensionAttention campaign that followed in the autumn. Given that the campaigns are virtual namesakes, it seems obvious to join the dots!

Thursday

Thursdays are our 'all in' days when we have the chance to sit down with the entire team. It is also when our PSLs host their technical update sessions. As well as helping to keep our collective finger on the pulse of emerging pensions topics, these calls are the forum for sharing team news. The 'and finally' item is normally the absolute highlight, defying the theory that pensions and comedy doesn't mix!

Friday

The week tends to end as it began with a super-productive home day. This is my opportunity to close off any of the week's remaining tasks, and to have everything in good order by the weekend. The golden rule is to turn off the computer by 6pm and switch into family mode. If it hasn't been done by then it can normally wait until next week!

To be Frank-lin

Quietroom co-founder, Vincent Franklin, chats to Tom Dunstan about his blacksmithing skills, desire to be a Bond villain, and love of Bradford City FC

What's your employment history (including jobs outside of pensions)?
I was brought up working in cafes and then market stalls. It was a job in a restaurant that allowed me to pay my way through drama school. And I've also done a bit of fairly unsuccessful stand up. I've worked in communications, and specifically in pensions communications, for about 20 years. Alongside that, I've worked as an actor and a theatre director in everything from panto to *Happy Valley.*

What's your favourite memory of working in the pensions sector?
I really like it when we're working on something that's going to help a lot of people in a difficult position make a better decision about their future – especially when that decision is complicated and unwanted. So, perhaps, helping members of the Kodak pension scheme when it was facing closure was one of the most challenging and satisfying jobs. It also meant being part of a bigger team, which I really love, working with trustees, employers, lawyers and pension managers.

If you did not work in pensions, what sector do you think you would be in instead?
I already do work in another sector – everyone needs a sideline – so I would probably do a bit more acting and perhaps a bit more writing if pensions decided they didn't need me anymore.

What was your dream job as a child?
I wanted to be a villain in a James Bond film. And then I found out (or slowly realised) that people worked as actors all the time. From then on, that was that.

What do you do in your spare time?
I do a lot of photography and lino cutting. I do a little bit of blacksmithing, and, like all old men, I discovered the absolute joy during lockdown of growing vegetables. So I grow carrots, leeks, potatoes and more. There's a real pleasure in that.

Do you have any hidden skills or talents?
Not really. I'm a show off, so if I have a talent, I like to put it front and centre. I suppose not many people know that I know how to blacksmith.

Is there a particular sport/team that you follow?
Yes, Bradford City Football Club. The finest club on the planet, although maybe not necessarily the finest team at the moment. I've supported Bradford City since I was four and I was taken on the bus to see them play by Chris Hutton, who lived next door to us in Haworth.

If you had to choose one favourite book, which one would you recommend people read?
I'm a massive reader so there's a lot of answers to that, but I would plump for *Bleak House* by Charles Dickens.

And what film/boxset should people see?
I did *Celebrity Mastermind* a few years ago and I answered on the films of Disney Pixar. And the films you should definitely see are the *Toy Story* films. They are the only film set where they don't lose their way.

Is there any particular music/band that you enjoy?
I would argue that I like lots of bands, but my son will tell you that I only really listen to David Bowie.

Who would be your dream dinner party guests?
Tricky. I would really like to have Charles Dickens, Denis Healey, Eric Morecambe, one of the Marx brothers, probably Groucho, and my wife. I'd also like to have Victoria Wood there. She was a great friend and I would have dinner with her at every available opportunity.

Is there an inspirational quote/saying that you particularly like?
I'm very nervous about inspirational sayings in general but one I like is: "It's not a dress rehearsal."

Written by Tom Dunstan

China's renewable energy industry ready for lift off

China's burgeoning renewable energy industry offers strong growth prospects as the country sets ambitious net-zero targets

From air pollution and rising sea levels to soil contamination and water scarcity, China, the world's largest emitter of greenhouse gases, faces a series of environmental problems. Its predicament is further complicated by the fact that it is also home to almost half of the planet's electricity and industrial assets – infrastructure that is most at risk from stranding.

Yet the world's second biggest economy is well placed to take a leading role in the battle against climate change. That's because of its burgeoning environmental industry, and more specifically its competitive edge in renewables. In line with Beijing's ambitious plan to peak emissions by 2030 and become carbon neutral by 2060, China's electricity mix is changing rapidly.

Renewable sources of energy are expected to oust coal, currently the country's primary power source, as the main contributors to the grid. Wind power is expanding particularly rapidly. The share of wind power in the country's electricity generation has doubled in the five years to 2020, and is expected to rise five-fold in the coming decades to 30 per cent.[1]

Since 2010, the country has been the world's largest wind market by installed capacity, with the International Energy Agency expecting the total capacity to reach 1,000 gigawatts (GW) by 2050 from the current 300-plus GW. While China's main wind resources to-date are based inland in areas such as Xinjiang and Inner Mongolia, we think offshore wind will experience considerable growth in the coming years given the 18,000 km of coastline and 3 million km squared of sea available for offshore wind installations.

Offshore areas near Guangdong are rich in wind resources thanks to frequent typhoons which typically pass through the western province in July to October.

Research by the Chinese University of Hong Kong shows that the intensity of typhoons around South China Sea has been steadily increasing in the past 40 years. Its modelling shows that by the end of the century, typhoons' average wind speed could strengthen by 6 per cent or 7.2km per hour, with an average typhoon lasting five hours, or more than 50 per cent, longer.[2]

While typhoons can cause problems if particularly severe, they may be a blessing for China's renewable energy industry.

Guangdong, the country's manufacturing hub, is rapidly developing its capacity as it aims to become the first province to reach offshore wind electricity-pricing grid parity with traditional feedstocks, such as coal, by 2025. This parity refers to a point where wind power is generated unsubsidised at a levelised cost to fossil fuel energy.

China's renewables sector could receive an additional boost due to the problems laid bare by Covid and the conflict in Ukraine.

Post-pandemic supply disruptions and a growing urgency among European governments to gain energy independence in the wake of the Russia-Ukraine war represent a major commercial opportunity for Chinese renewable equipment manufacturers. Many of these firms have proved more resilient than their European peers, whose margins have been hit by higher steel prices.

An A-share listed renewable equipment manufacturer, for example, is steadily growing its global market share thanks to next-generation wind power technologies which are more efficient and cost effective, with more than a third of its key components supplied domestically.

More broadly, large Chinese renewable energy firms have been delivering strong earnings growth; according to consensus estimates, the sector's earnings per share is forecast to grow at least 30 per cent in the coming 12 months. That is some distance above the rest of China's listed companies, whose profits are expected to rise just 5 per cent over the same period.[3]

China's net-zero pledges are expected to require some $16 billion of investments. The signs are that such capital would be put to profitable use.

Written by Pictet Asset Management head of emerging market equities management, Kiran Nandra

In association with PICTET Asset Management

[1] Source: CEC, NEA, JP Morgan estimates
[2] https://cuhkintouch.cpr.cuhk.edu.hk/2022/02/7922/
[3] Goldman Sachs China Renewable Index and MSCI China Index as of 25.08.2022

Pensions Age Autumn Conference: Bringing out the best

Despite the recent market volatility and uncertain political landscape, this month's Autumn Conference presenters kept a strong focus on bringing out the best in UK pension provision

It may have been Halloween at this year's Pensions Age Autumn Conference, but our delegates did not need anything more to spook them, having already experienced one of the most dramatic months in UK pensions history.

But while the drama following the mini-Budget was still fresh in everyone's minds, a sense of positivity ensued with speakers looking at ways to get the best out of pension provision, both across defined benefit (DB) and defined contribution (DC), be that via environmental, social and governnace (ESG) considerations, focusing on value for member (VFM), improving administration and more.

We were delighted to welcome London Pension Fund Authority (LPFA) CEO, Robert Branagh, as chair for the day, who was able to draw on his own extensive experience in pensions throughout the event.

The conference opened with an overview of the ever-changing political landscape, presented by Association of British Insurers (ABI) head of long-term savings policy, Rob Yuille, who reflected on what the new Pensions Minister's in-tray will look like, and "what the ABI and wider industry is doing right now to help the government's policy goals". He also asked what pensions under a Labour government might look like; plus how the tug-of-war between political 'change and stability' might play out in relation to issues such as the triple lock, the future of liability-driven investment (LDI) and the state pension age review.

He also acknowledged the frustrating disconnect that often occurs in relation to the treatment of occupational and personal pensions, and welcomed the areas in which regulatory bodies are co-ordinating on things such as stewardship.

Finally he touched on auto-enrolment (AE), the "biggest piece of unfinished business for the Department for Work and Pensions (DWP)". He added: "While we recognise the difficulty of trying to improve pensions adequacy at a time when so many people are struggling just to get by, let alone having to choose between heating and eating, that shouldn't deter us from finding a fair, long-term solution to the problem of pensions adequacy."

Next, the delegates were treated to a fireside chat between Branagh and BlackRock global head of real assets sustainable investing, Katherine Sherwin, who did a deep dive into the "how" of transition finance. She also considered what a just and fair transition might look like, and how to partner with some of the harder to abate industries to help them transition. "When we talk about the energy transition, the transition to net-zero carbon, it's not actually a transition, it's a transformation, and what we are going to have to see is deep change across all parts of the economy; so it's a massive transformation and we are on a really tight timetable in order to meet those critical net-zero carbon targets by 2050 or sooner. It is going to be a bumpy road, with challenges, as various parts of the economy move at different speeds to get to various shades of brown to various shades of green," she said.

Finally, Sherwin looked at the "significant" role that private markets can play in the energy transition. "In order to get that transformation right, we need innovation and a lot of that innovation is coming out of private markets. So that is a major way we can access some of those investment opportunities, and the illiquid and long-term nature of private market investments means they are well suited to be driving that transition forward."

Next, the volatility of recent weeks was under the spotlight as Charles Stanley head of fiduciary management, Bob Campion, presented the results of its 2022 survey of DB professional trustees, which looked at their risk appetite, how schemes' exposures to various asset classes has changed in the last year, to what extent attitudes to liability hedging has changed, and what schemes' long-term plans

are. He also illustrated the extent of the post mini-Budget drama, with graphs highlighting how dramatic the falls and rises in bond yields were over the course of a number of days.

Looking ahead, he commented: "While every scheme is different – and all our clients have different investment strategies and there is a good reason for that – on the whole, it makes sense to take less risk because our time to ending is nearer, the returns we will get on investments are likely to be less dramatic than they have been in the past decade and schemes are becoming much more mature which also means you have got to be careful with illiquid assets.

"So we all need to think about taking less risk, if we haven't already, have a long-term plan, and really think about the illiquidity of our investments too."

With an aptly entitled presentation, *It's not easy being green*, AMX by Carne's Pippa Rudling (consultant relations) interviewed the firm's managing director, James King, on the topic of the Task Force on Climate-Related Financial Disclosures (TCFD) reporting, focusing on why it is relevant to pension schemes, the challenges surrounding it and how these challenges can be overcome.

"In preparing for today," Rudling told delegates, "we spoke to our consultants and trustee contacts about the challenges they are having around TCFD and these included lack of access to portfolio data, the quality and availability of emissions data, costs – both time and money, the complexity of reporting operations and other regulatory projects, and that was before the LDI drama kicked in, so there is a lot! AMX has built a tool that aims to alleviate some of these issues."

On a positive note, King commented, "I would argue, in the context of strategy, governance and risk management, the pensions industry is leading the way in implementing TCFD. But where we do have a challenge is how we get the data up and how we make that data consistent.

King also argued that "technology provides a blueprint for good governance". What technology does, if set up in the right way, is "makes things predictable, repeatable, and importantly for this type of regulation, adaptable".

Biodiversity was next under the spotlight, as AXA Investment Managers portfolio manager, Tom Atkinson and director, UK institutional, Tim Banks, looked at why it is important to consider biodiversity now, why it is relevant in the context of the Taskforce on Nature-related Financial Disclosures (TNFD), and where the opportunities lie for pension schemes.

With the use of fascinating case studies, AXA IM showcased how, using listed equities, they are helping both DB and DC schemes with the dual objective of having an impact using investment, whilst making the required returns. Banks commented: "We know we can do this in the private markets space, in the illiquid space, but we have also just seen how important liquidity is, so how can we harness listed equities to get the right return, but make impactful investments?"

Atkinson also highlighted the importance of investing in data: "The portfolio is doing better than the benchmark which is good to see; this is a really interesting area as quite a lot of asset managers are not invested yet in this space due to a dearth of biodiversity data; we have been proactive and we are pushing the agenda here."

VFM was the next topic of focus, as Evolve Pensions CEO, Paul Bannister, and director of strategy, Jessica Rigby, looked at ways a DC scheme can use the VFM assessment to improve member outcomes and overall governance.

Bannister commented: "To gather this information takes a lot of time and effort, it is not just a tick-box exercise, and there is going to be time costs and financial costs, so it is onerous."

Highlighting the four categories of investments, administration, governance and communication, Rigby explained how schemes can get from basic, to better and ultimately best. "We want to open eyes as to why this could be a really good opportunity to improve the standard of schemes across the board from operating either a basic scheme or parts of your scheme up to best. As a master trust that has gone through this, we feel we have things that we can show other schemes.

"We should do these things because they genuinely make a difference to people that are saving money, and receiving that money. So this is a call to action – even if you don't strictly fall under the regulations, there are things you can take from it."

Continuing the focus on VFM, HSBC Retirement Services and HSBC Tomorrow Master Trust CEO, Alison Hatcher, talked about the need to tackle some of the biggest risks facing members, in particular those occurring at the point of retirement.

"Value for member has a member," she stressed, "and we want to make sure that, for those individuals, all the hard work that we are doing during accumulation and the building up of that wealth is then retained when they come to spend it in retirement".

Following extensive research, Hatcher argued that approximately £1.7 billion is lost due to "friction" at the point of retirement. "It is such a substantial point of risk that we are not evaluating correctly that we might want to re-visit and think about better solutions for members so that we can support them

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through this process.

"I am suggesting we shift the way that we perceive value and really look at what members need to preserve that value, going through into retirement, how can we support them better, how can we be open-minded about newer solutions that might also be designed very specifically to tackle these issues."

Transforming member satisfaction was the title of the next session, as BT Pension Scheme (BTPS) head of pension services delivery, Dave Tomlins, joined head of pensions administration strategy, Andy Whitelaw, to tell delegates how BTPS has transformed its member satisfaction by bringing scheme administration in-house, moving its member call centre onshore, and launching a new member website and portal together with a new administration system.

Tomlins commented: "Our vision was to deliver a high quality member service with below median costs to the scheme which, given our starting position was a huge task. Today, our member satisfaction scores are at an all-time high. We also have more options to self-serve and more efficient processes, which reduces administration costs."

Touching on the future, Whitelaw concluded: "We are a closed scheme, we have a declining membership each year and that puts an upward pressure on our costs per member; we also have member expectations going through the roof – these are challenges we are all dealing with, so we would be happy to collaborate with other schemes, share their views and share ideas."

Up next, the evolving de-risking landscape was the focus of Linklaters pensions partner, Sarah Parkin, who covered current topics including: The possible changes to Solvency II; developments with the different de-risking options available, and challenges trustees and employers are facing.

"A key thing to think about when trying to decide which de-risking strategy is right for you is what is the structure of the product. Is it an insurance policy or something else? Do you retain a link to the employer covenant? Is it your ultimate endgame or is it a step towards that? You also need to understand what risks this structure will cover – and a key point is that no transaction will cover all of your risks," Parkin stressed.

Also focusing on legislation, Mercer UK senior governance consultant, Grace Bensley, and governance leader, Lindsay Sadler, together tackled the new Single Code of Practice, looking at the objectives of the new code, what makes up an Effective System of Governance (ESOG), and what an Own Risk Assessment (ORA) is.

Bensley explained: "In March 2021, The Pensions Regulator (TPR) published its consultation on its new code of practice consolidating 10 of the existing codes into one web-based code. The code is a great leap forward and what it offers is clarification, avoids some repetition, and also some of that conflict which we might have seen in some of the codes.

"We are encouraging our clients to factor the code into their business plans, and allocate appropriate resources – ensure from a financial perspective that you are prepared."

Sadler added: "This new regulation should be welcomed with open arms. Good governance is the armour you need in the war against existing and emerging risks. The new regulations are an opportunity to test the chinks in that armour, and demonstrate that you are ready for battle."

Finally, the closing keynote speaker, TPR executive director of frontline regulation, Nicola Parish, talked about the recent market turmoil and updated delegates on work relating to the Pension Schemes Act, collective DC, the DB Funding Code, superfunds and combatting scams.

Parish commented: "Thankfully the market volatility has abated, although we are continuing to monitor the situation considering the impact on DB scheme funding. It is important that we reassure savers that DB pension schemes were not and are not at immediate risk of collapse due to these rapid movements in the price of gilts. We call on trustees and advisers to continue to review the resilience and liquidity of their investments, to look at risk management and funding arrangements and to plan accordingly, protecting the interests of members." On the corporate plan, she highlighted the efforts that TPR has made to "re-focus our work to make us more forward looking, agile and to put the saver at the heart of what we do".

On TCFD reporting, Parish stated that TPR was "encouraged by the efforts trustees have made"; while on innovation she was "excited to see the emerging superfunds"; and on equality, diversity and inclusion, she emphasised how "diversity of thought on trustee boards will lead to better outcomes for savers".

Finally, after highlighting several prosecutions against those that TPR believes have put savers' benefits at risk, she concluded: "We remain focused on the saver, on the longer term and on your needs."

Please visit pensionsage.com/autumnconference to view selected presentations

Written by *Pensions Age* team

Against the tide

Francesca Fabrizi asks the SC Johnson 'Pensions Lady', Julie Thake, how, despite the challenges of today's economic climate, the DC scheme continues to achieve impressive engagement and contribution rates

Please give a short introduction to the SC Johnson (SCJ) DC scheme.

SC Johnson is a global entity and a household name, with our products gracing your supermarket shelves, however the UK operation is not a large one. The total defined contribution (DC) scheme membership is around 1,000, of which 300 are active members.

For many years, we provided a trust-based defined benefit (DB) and DC pension scheme. The arrival of freedom and choice in pensions meant the trustees of our DC section were increasingly stretched, making it difficult, if not impossible, to continue providing employees with the best retirement plans. For the DC section in particular, we worried that we were taking care of current and former employees up to the point of retirement, then leaving them without the support they needed to make decisions about their life savings.

In 2017, we began our search for a pension provider we could partner with to build the type of future-proof scheme we desired. Moreover, we researched the pensions industry ourselves, so that we'd be able to challenge decisions and secure the best provider for our members.

As a paternalistic employer, with a strong focus on members, our requirements were many and varied, but all targeting the same thing: Delivering the best possible retirement outcomes for our employees via a master trust framework.

The scheme was recently shortlisted for a *Pensions Age* Award in recognition of the work you have done to successfully improve members' projected outcomes – how did you go about this?

We focused on three elements: Firstly, contribution rates. SC Johnson has always offered a generous contribution structure, with employer contributions rising with increased employee contributions. Prior to auto-enrolment, we had excellent take-up rates – new employees would typically join at the highest contribution rate to maximise company contributions. This changed with the dawn of auto-enrolment, prompting us to re-evaluate our contribution engagement process.

We created an auto-escalation process wherein every October, in line with a company-wide pay increase cycle, employees who were not already maximising the employer contribution to their pension saw their contributions automatically increase by 1 per cent, (and of course the employer match also increases accordingly). This continues every year until a combined maximum of 14 per cent total is reached. Employees can opt out, but importantly, do not have to opt in. By linking the timing of the auto-escalation to our pay increase cycle, most employees do not see a reduction in salary, but almost all still receive a pay increase in the month.

Secondly, reducing member costs and improving investment options. We committed to meeting the administration and investment costs of as many members as possible, active or deferred. Currently, we meet up to 0.40 per cent of investment fees, covering the entire cost of our default strategy – in which 99 per cent of members are invested – and c.75 per cent of our self-select options.

Having addressed fees, we looked at tailoring our default strategy. Working with SEI, we created a lifestyle strategy to de-risk members to and through retirement, and keep members' savings growing for as long as possible. We also ensured that our self-select fund range satisfied most members' requirements.

Finally, communications and member

engagement. Whilst we ensured that the fees SCJ paid on behalf of our members were competitive, we also focused on providing high quality services for employees, ensuring that every type of engagement approach would be available. As part of the selection process we had deliberately looked for a master trust that could meet our demand for exemplary member communications, engagement and education.

What were the challenges and how were they overcome?

The above objectives were not achieved easily – there were challenges along the way. When considering our contributions, we noticed a change in employee behaviour following auto-enrolment. New employees realised they no longer needed to fill in a form to join the company pension scheme, and so ignored all pensions communications thereafter. By not electing to pay more, these employees missed out on additional employer contributions. For many years we had used nudges and reminders with some level of success, so when we moved to the SEI master trust we applied the lessons learnt from auto-enrolment and its low opt-out rates to engage member and embed the auto-escalation process.

We understood the company had to be fully committed to improving member outcomes to support the reduction in member fees, and also to provide members with the time and support to engage with the communications exercises, initially and ongoing. This was overcome by a strong SCJ trustee body including leaders in finance and HR championing the importance of the SCJ pension provision.

How successful was that?

First and foremost, the work we have done with respect to our contributions structure has been a huge success. This year – and under the tight economic constraints we are all facing – we publicised our auto-escalation details to employees, allowing them to opt out, should they wish. Encouragingly, just 6 per cent of those eligible opted out, with a number of employees actually choosing to increase their contributions. All told, over 75 per cent of employees are now contributing at the highest rate.

Secondly, our efforts to improve the way we communicate with members has seen the launch of several initiatives designed to bolster engagement. Our SCJ master trust microsite links employees through to their fully transactional member portal, where they can access their annual video benefit statements, booklets, factsheets and 90 second videos on topics such as investment basics and retirement planning. With a well-signposted internal website, we have also made it easier for employees to find what they're looking for. This may relate to forms and contacts housed on SEI's website, or internal resources.

With member engagement being one of the biggest challenges in DC, how have you worked to improve that?

We acknowledge that member engagement is one of the most pressing challenges facing DC schemes.

As well as the online solutions mentioned above, we have been running an annual 'Pensions Awareness Day' at our offices for the past five years *[see photo above left]*. Attended by the trustees of our DB scheme, as well as SEI's client team, this informal event provides access to pension information, guidance and advice. It also contains my contact details, SCJ's very own 'Pensions Lady'.

It is worth noting that having one person act as an internal point of contact when it comes to pension queries has made a big difference. Whilst, in the UK, we are not big enough to employ a fully dedicated pension professional, we have myself as a long-serving employee with 20+ years of trusteeship acting as our 'Pensions Lady'. As an approachable

and trusted face of pensions at SCJ, I work hard to actively promote pensions opportunities and training, encouraging employees to focus on planning for their retirement goals.

What are your aims/priorities now for the scheme?

Moving forward, we will continue to prioritise member outcomes, with several exciting projects in the pipeline.

On the technology side, we are launching the SEI pensions and wellbeing app, which will allow our members to view all their pensions, savings, investments, loans and debts in one location. The app is designed to give an in-depth view of a user's 'net' wealth – as well as short-, medium- and long-term savings – with in-retirement spending analysis and budget planning features. The app was awarded 'Retirement Innovation of the Year' at the UK Pensions Awards 2021.

We have also decided to move pension contributions to salary sacrifice from April 2023, in recognition of the increased National Insurance burden our employees are now facing.

We were delighted to be shortlisted for the *Pensions Age* Awards (see photos above and left), particularly given the calibre of companies shortlisted. We hope to have proven that the size doesn't have to be a barrier – with the right partners and company support, even moderate-sized organisations can do big things in the pensions space to improve their members' retirement outcomes.

Written by Francesca Fabrizi

Reflect and adapt

In the aftermath of the recent LDI liquidity crisis, Laura Blows considers the reasons for this turmoil, the long-term changes it may instigate and the lessons to be learnt

Summary
• The then-Prime Minister's mini-budget in September, with £45 billion of unfunded tax cuts, caused gilt prices to downward spiral, meaning DB schemes utilising LDI had to sell gilts and quickly put up more collateral to maintain their hedge ratios, creating a liquidity crisis. However, the recent market volatility has caused many DB schemes funding positions to improve.
• The government, the Bank of England, TPR, DB trustees, LDI managers and the national media have all been criticised for their roles in this crisis.
• LDI is expected to become more robust to such market shocks and schemes may now reach buyout sooner than expected due to the improved funding levels. The use of LDI may therefore decline. However, the DWP's proposed DB funding regulations would result in LDI strategies still being required.
• Lessons will need to be learnt to try to prevent future similar crisis.

Pensions and politics have always been intrinsically linked, and never was this more evident than in recent weeks.

Gilt yields had already been rising throughout the year, but then-Prime Minister Liz Truss' mini-budget on 23 September, with its £45 billion of unfunded tax cuts, spooked investment markets. This sparked a sell-off on government bonds, resulting in gilt yields rising rapidly and gilt prices falling over just a few days.

Liability-driven investment (LDI) strategies *[see box out]* are used by many defined benefit (DB) schemes to hedge inflation and interest rate risk by investing in assets whose values move in line with their liabilities' values. This minimises the likelihood of any funding gap widening.

As gilts are a core asset within LDI, this rapid rise in gilt yields required schemes implementing LDI to quickly put up more collateral to maintain their hedge ratio. This need to find cash in such a short time resulted in a liquidity crisis, with schemes having to sell some of their gilts at decreased values, putting further downward pressure on gilt prices and increasing gilt yields, further exacerbating the problem.

Reactions

The Pensions Regulator (TPR)'s guidance during this time acknowledged that decisions had to be made at very short notice and encouraged trustees to engage with their investment advisers to gain an accurate position so they can focus and prioritise the key areas of concern.

In particular, the regulator recommended that DB trustees review their operational processes, review their liquidity position, their liability hedging position, and funding and risk position.

But before this guidance was even published, those with LDI strategies had already leapt into action. According to XPS Pensions Group investment partner, Adam Gillespie, "the immediate and urgent focus was dealing with collateral and liquidity, with schemes accessing (or deciding not to access) other assets to re-capitalise their LDI fund".

Speaking at the recent Pensions Age Autumn Conference, Charles Stanley Fiduciary Management head of fiduciary management, Bob Campion, described this period as "frantic" and the "most dramatic time any of us will remember".

"I got emails on the Friday night *[following the mini-budget]* saying that clients' LDI funds needed more collateral quickly. Then another email Sunday morning bringing forward the timescale for how quickly that money was needed. On Monday morning the amount needed was doubled and this continued throughout the week. The Monday and Tuesday of that week was the craziest I have ever seen," he said.

"Pension schemes and their advisers have needed to move at speed to take the appropriate course of action when faced with a high volume of capital calls," the Society of Pension Professionals (SPP) Investment Committee spokesperson acknowledges. "There have been challenges in raising liquidity quickly to meet these calls. In some cases, schemes have had to work with sponsors to arrange loan facilities. LDI fund managers have also been re-capitalising to lower levels of leverage and liquidity risk within their funds."

Even investment managers not involved with LDI strategies were affected. Axa Investment Managers director, UK institutional, Tim Banks, says: "The impact of the crisis was so much more widespread than just LDI providers. All our clients at the time were asking questions about where they could source collateral and were trying to find creative solutions."

Cardano Advisory managing director, Sinead Leahy, notes that "there were definitely winners and losers during the recent crisis. We understand that

Liability-driven investment (LDI) and leveraged LDI

LDI is a risk-management strategy that aims to make a scheme's asset values move in line with its liabilities' values so that interest rate rises and inflation does not detrimentally affect its funding level.

The assets in an LDI strategy hedge the scheme's interest rate and inflation risk by matching all (or a portion of) the interest rate and inflation risks in the pension liabilities.

The assets within an LDI portfolio are corporate bonds and government bonds (gilts), as changes in interest rates and inflation will affect the value of a bond in the same way it affects the value of the scheme's liabilities.

However, the issuance of gilts is subject to the needs of the UK government to raise capital and therefore makes supply unpredictable.

Therefore, the use of swaps and gilt-based derivatives within LDI strategies has increased due to their flexibility and capital-efficient ability to hedge inflation and interest rate risk.

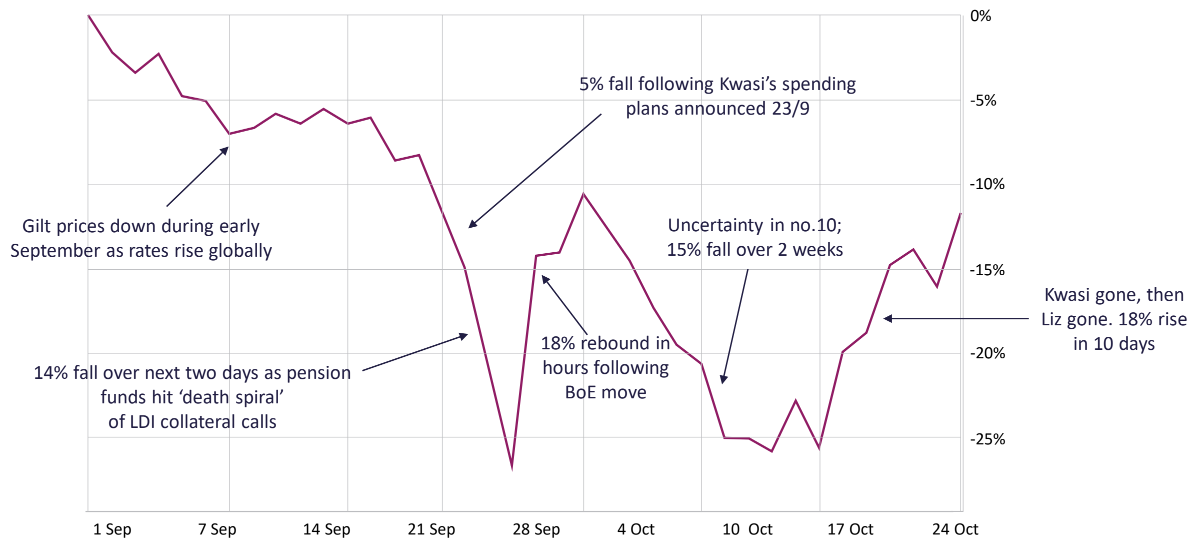
For example, swaps are available over virtually any maturity of up to 50 years, making them an excellent match for long-term liabilities and, unlike gilts, are not restricted by physical supply. A swap starts from a zero cost investment and then may rise or fall in value. A bond would rise or fall in the same way but would have required the upfront investment to acquire it. The swap therefore leaves schemes with more capital to invest in growth assets. However, if interest rates were to rise, the value of the bond would fall, causing the swap to have a negative value. So some cash (collateral) is held back for this scenario.

Leverage arises from the fact that the collateral pool may be a fraction of the liabilities being hedged. For example, when hedging £300 of liabilities, £100 may be in the collateral pool and the remaining £200 invested in growth assets. In aggregate, the scheme is not leveraged because it has the full £300 to support the hedge, but it has just chosen to keep some of it invested in growth assets. Viewed in isolation however, the LDI portfolio is three times leveraged. If the collateral pool becomes depleted, leverage rises and it becomes necessary to top up the collateral pool.

Leverage is reduced either by the pension scheme putting more capital into the LDI fund or by those managing the fund reducing exposure (albeit this results in a reduction in hedging). The process also works both ways, with the LDI fund manager returning cash to clients if leverage becomes too low.

Source: BMO Global Asset Management

UK gov't bond markets since the end of August



Source: Bloomberg, as at 24/10/2022

Past performance is not a reliable guide to the future.

10

CHARLES STANLEY *Fiduciary Management*

schemes in pooled funds fared less well than those with fiduciary arrangements or bespoke LDI".

Mercer partner and senior investment consultant, James Brundrett, agrees that segregated mandates generally maintain hedges better than some pooled approaches, but they require "higher governance and running costs, and are complex and sophisticated products, typically only open to the large schemes".

In an online statement dated 24 October 2022, BlackRock explains that, in response to the gilts turmoil, it "reduced leverage in a small number of multi-client LDI pooled funds, acting prudently to preserve our clients' capital in extraordinary market conditions, and undertook recapitalisation events".

However, DB schemes' LDI strategies were not considered in silo during this time.

The review of the collateral requirements for LDI, the comfort with the leveraging of their LDI funds and their own scheme liquidity for potential future collateral calls was part of a wider strategy review for most funds, Zedra director, Colin Richardson, states.

"This involves considering how LDI fits with the funding and investment strategy, and the potential returns and risk of the remaining balance of their assets; and what assets have had to be sold to provide collateral so far," he explains.

RSM UK warned in October that the current market uncertainty came at a peak time for signing pension scheme accounts, which made this usually 'routine process' much more complex.

However, for many DB schemes, their accounts showed good news at this time, with improved funding levels.

PwC analysis showed that collective DB funding levels had reached a 'record high' amid the market volatility, with the surplus on an insurance buyout measure estimated at £155 billion at the end of September. The "unprecedented" funding level was attributed by PwC to recent increases in long-term interest rates reducing the cost of buyout policies.

Following this, XPS Pensions Group research found that 95 per cent of schemes surveyed saw their buyout position improve following the market volatility, with 23 per cent seeing an improvement of more than 20 per cent in their position.

Brundrett is seeing this in Mercer's clients. "A lot of schemes are finding they are four to five years ahead of where they thought they would be with their funding levels," he notes.

How to make the most of this opportunity is the next consideration. "Some schemes have funding improvements from the overall yield increases and are considering whether to increase hedging further or, in contrast, some are considering more direct gilt/bond investment to take advantage of funding improvements," Richardson says.

"As schemes may have seen the nominal amount of their deficits fall quite sharply, deficit repair contributions might now be expected to close funding gaps sooner and the potential to de-risk by rebalancing growth assets into cashflow-matching assets might make sense," Leahy adds.

The funding level improvements are clearly good news, and the recent market volatility 'only' created a liquidity crisis for leveraged LDI funds – as opposed to a pensions solvency crisis as it was sometimes reported in the national press *[see boxout]*.

However, gilt prices continuing to spiral would have caused DB scheme problems had the Bank of England (BofE) not helped stabilise the situation, "by helping to buy time for schemes to raise sufficient liquidity and for LDI managers to reduce leverage within their product ranges", an SPP Investment Committee spokesperson says.

On 28 September, the BofE announced that it would carry out temporary purchases of long-dated UK government bonds on "whatever scale" necessary, fully indemnified by HM Treasury. The scope of its daily gilt purchase operations was later extended to include purchases of index-linked gilts.

In a 7 October letter to the Treasury, BofE deputy governor, financial stability, Jon Cunliffe, states that "in some LDI funds, the speed and scale of the moves in yield and consequent decline in net asset value far outpaced the ability of the DB pension fund investors to provide new capital in the time available. This was a particular problem for pooled LDI funds.

"Had the BofE not intervened on 28 September, a large number of pooled LDI funds would have been left with negative net asset value and would have faced shortfalls in the collateral posted to banking counterparties."

By 10 October, the BofE had carried out eight daily auctions, offering to buy up to £40 billion, and made around £5 billion of bond purchases. Its market intervention ended on 14 October.

The blame game

The BofE's intervention certainly calmed the crisis, along with the government's new chancellor rolling back the majority of the mini-budget's reforms. However, neither of these institutions were immune to criticism.

In a session at the Pensions and Lifetime Savings Association (PLSA) Annual Conference 2022, LCP partner and former Pensions Minister, Steve Webb, was asked what he would do if he was still Pensions Minister.

"Sack *[BofE governor]* Andrew Bailey," he responded. "The bank is partly to blame, the government … I don't feel they've played a blinder."

Also speaking on the panel, broadcaster Fiona Bruce noted that Bailey "seemed to be saying it's all the *[pension]* funds' fault, they've got to sort themselves out".

Fellow PLSA panellist, AgeWage executive chair, Henry Tapper, agreed that pension schemes had to take some of the blame.

"A key piece of learning for everyone is not to rely on models alone. A wider view, using scenarios, and asking searching questions is needed"

"Frankly, pension schemes got themselves into a mess by borrowing money using these leveraged *[LDI]* tactics, which were always supposed to be short term, and then developing them into strategies, and they've been playing a game that has been going on far too long. And now they've been caught out … I think pension schemes are at fault for adopting this cavalier attitude towards risk, which they have done for LDI strategies," he said.

According to Hymans Robertson partner, Patrick Bloomfield, in a recent LinkedIn post, DB schemes using LDI typically had enough collateral to cover long-dated gilt yields of up to 4 per cent. Beyond that they needed time to convert more assets into collateral, so "the speed caught them out".

In answer to whether schemes should have planned for this, Bloomfield says in the post that the likelihood for this gilts scenario was less than one in 1,000. He highlighted that 30-year gilt yields were 1.2 per cent on 1 January, 3.2 per cent on 1 September, and over 5 per cent on 28 September. "If schemes had planned for this then many would have struggled to meet other regulatory targets," he says.

Bloomfield tells *Pensions Age*: "That leveraged LDI had coped with long-dated gilts almost halving in value in the year to September demonstrates the risk aversion and forward planning that was in place. Pension schemes only struggled to cope when two successive days of off-the-charts stress caused markets to dysfunction and liquidity to freeze. Within a fortnight pension schemes were collateralised and ready to face what could come next, with the BofE only using a fraction of the £65 billion support it had made available."

There were always market-related and operational risks associated with LDI strategies, the SPP Investment Committee spokesperson says, and the majority of DB pension schemes were well-provisioned for a range of historically unlikely events.

"Recent weeks have seen the realisation of these risks at a speed and magnitude that was genuinely unprecedented. The ability of the industry to rapidly respond to the circumstances, which in many cases has seen deficits reduce, should be seen as a positive," they add.

However, LDI itself has been described as a 'timebomb' in the national press, threatening to 'blow up the economy' *[see boxout]*.

"Inevitably, the desire to find a flaw in the system seems to have landed at the door of LDI, but let's not forget that this has been a very useful strategy for more than 10 years, and many pension schemes would be chronically underfunded without it", Isio investment partner, Ed Wilson, says.

"The chaos was caused by market events, which the industry thought would happen over the next five years, happening in three weeks, with huge moves in just two days. It's very difficult to be fully prepared for something that accelerates at such a pace and that is inter-dependent on so many variables. Pension schemes had the money, the issue was that even with very significant liquid available in a matter of a few days, but the speed the market moved meant even this wasn't sufficient for liquidity purposes," he adds.

LDI is an investment strategy that has existed in the market for nearly 20 years and has played a significant role in helping to manage the affordability of DB schemes for employers, Leahy states.

"It is fundamentally a sensible investment strategy for a pension scheme to do, and we believe going forward will continue to be. It has been used to protect schemes from adverse movements in interest rates and inflation, and to reduce the impact on funding levels when interest rates fall."

Bloomfield's LinkedIn post highlights how regulation led to DB assets being concentrated in gilt-based assets, with comments in response claiming TPR had 'coerced' schemes into holding LDI.

In October, TPR defended itself against accusations of having not taken "stronger action" to prevent the recent turmoil experienced by DB schemes employing LDI strategies.

In response to a letter from Work and Pensions Committee (WPC) chair, Stephen Timms, TPR chief executive, Charles Counsell, says that the watchdog has "consistently alerted trustees to liquidity risk".

Counsell also highlights TPR's call – back in May in its Annual Funding Statement – on trustees to consider their liquidity plans and take necessary precautions in light of rising interest rates.

On 24 October, the WPC launched an inquiry into the impact of the rise in gilt yields on DB schemes, the impact on pension savers, and whether LDI is still 'fit for purpose' for use by DB schemes.

It is also seeking views on whether TPR has taken the right approach to regulating the use of LDI and had the right monitoring arrangements, and whether DB schemes had adequate governance arrangements in place – for instance, whether trustees sufficiently understood the risks involved.

Lasting changes?

The inquiry's call for evidence closes on 15 November, but long before we see its results, potentially long-lasting changes are already starting to occur.

In a 19 October letter to the Treasury Committee, Cunliffe states: "LDI funds have reported to the bank that they have enough capital to withstand much larger increases in yields than before … Taken as a whole, LDI funds are now significantly better prepared to manage shocks of this nature in the future. As such, the risk of LDI fund behaviour triggering 'fire sale' dynamics in the gilt market and self-reinforcing falls in gilt prices has been significantly reduced."

For LDI, LCP partner, Dan Mikulskis, expects to see "larger collateral headroom and deeper liquidity in collateral waterfalls, with appetite for illiquid assets and synthetic exposures likely to be trimmed as a consequence".

Given the extra collateral LDI managers now require, Gillespie says many schemes will be faced with the dilemma of having to choose between lower hedging protection or lower investment return targets.

For those schemes needing to prioritise returns, this may leave trustees and sponsors more exposed to funding volatility. For schemes deciding to prioritise hedging protection, this may push out horizons to achieving long-term targets, he explains.

The recent events are likely to result in more contingency planning and larger buffers in financial stress tests, Gillespie says. For example, schemes may now change their yield stress test to consider a 3 per cent increase in rates versus a previous 1.25 per cent, he suggests, as well as being less inclined to invest in illiquid investments, losing illiquidity premium, "which could be detrimental to long-term funding".

For Campion, the increased buffers required in LDI funds means UK pension funds will have less to invest in growth assets.

"For some schemes that may have happened already. For others it may take a while to unwind as some of the big schemes took loans from sponsors to not have to reorganise their portfolios straight away, but they will need to do so over the coming months or years, so there will be this gradual reorganisation of asset allocation. The markets where UK pension funds are big owners, such as long-dated government bonds, long-

Impact on members

The national media has been subject to pensions industry criticism for its reporting of the spiralling gilt prices and subsequent LDI turmoil. Headlines of 'timebombs' and 'chaos', along with the apparent confusion between a 'liability-driven investment (LDI) liquidity crisis' and a 'pensions solvency' crisis drew the most ire.

"The central problem with LDI might have been inadequate preparation for a world of rapidly rising gilt yields, but the way those problems were communicated to the wider public caused untold damage to people's perceptions of pensions," AJ Bell head of retirement policy, Tom Selby, said in response to the announcement of the Work and Pensions Committee's inquiry into recent events.

Hymans Robertson partner, Patrick Bloomfield, agrees that "some national media, particularly mainstream news broadcast, was inaccurate and scaremongering".

"Pension schemes were never at risk of 'going bust'. This worried a lot of pensioners unnecessarily. It's for us in the pensions industry to give a full account of how leveraged LDI performed over the short term and long term to avoid lasting damage to saver confidence," he says.

This sentiment is echoed by The Pensions Regulator, with its chief executive, Charles Counsell, stating: "It is important to reassure savers that pension schemes are not at risk of collapse, and so savers should not make any hasty decisions about their pension pot."

In early October, the Pension Protection Fund reassured defined benefit (DB) members, with its chief executive, Oliver Morley, stating: "Recent market stresses will understandably have caused concern amongst pension savers. It's important that members of DB schemes understand that we are ultimately here to protect them if we are needed to step in.

"I want to reassure members that we remain confident in our funding position – and their benefits remain fully secure. We are carefully managing our investments and closely monitoring the impact of market movements on the schemes we protect."

Despite DB pensions being the top news story at the time, member enquiries were fewer than might be imagined, Richardson says, and that "most schemes have forms of words ready that can be used to reassure members".

The focus may understandably be on DB members, but arguably the impact of the volatility and confusing media headlines on defined contribution (DC) scheme members is a greater concern.

"Members of DB schemes may have been unhelpfully spooked by misleading headlines regarding the solvency of pension schemes. Whilst trustees may want to provide comfort to their DB members, we believe that communication for members in DC arrangements is far more important and time-critical, but DC schemes don't seem to be getting the same level of headlines as DB arrangements," Gillespie says.

LCP partner and former Pensions Minister, Steve Webb, highlighted this worry at a recent panel discussion.

"On the DC side, you're coming up to retirement, you've got a pot that has been de-risked on your behalf; it's gone down 30 per cent, can you even afford to retire?" he said.

"Or, worse still, you're in retirement managing a pot of money that's slumped. The way that we manage DC is much more of an issue for me."

dated corporate bonds and UK property, will see a significant impact from these recent events," he says.

According to Brundrett, now that "everyone is coming up for air", the realisation is dawning that LDI will need to be more robust to deal with the new market environment. However, he suggests that LDI structures are already changing in this way so "the industry is self-regulating".

Despite the 'self-regulation', Richardson predicts that regulators will keep close monitoring of LDI funds, possibly with schemes or LDI fund managers needing to disclose more details of some of the parameters of operation of their LDI funds.

However, in the future, there may be fewer schemes implementing LDI strategies to monitor.

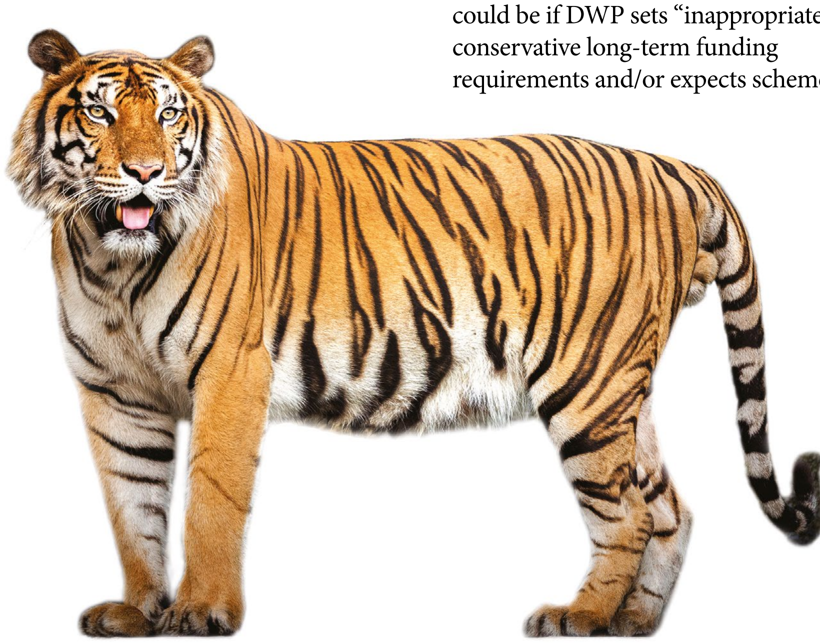
While Richardson feels schemes that are extremely well funded and close to buyout "may be more inclined to reduce LDI investments, but this should be a small minority of schemes", Wilson states that there will be a natural decline.

"LDI has served everybody really well over the past decade and has been a great risk management tool, however, we are very much entering a new world, where we need to forget everything we knew and work in a very different investment environment," Wilson says. "With more schemes closer to reaching a fully funded position and more holders of physical assets, there will naturally be less requirement for LDI strategies longer term, and we were starting to see this decline before the mini-budget happened, so it's not a direct consequence."

Leveraged LDI has been a solution of its time, to cope with the ultra-low yield quantitative easing (QE) environment since the global financial crisis, Bloomfield agrees.

"Scheme funding has seen a significant improvement from growth assets gains in the past few years (an exposure made possible for many schemes by leveraged LDI). Gilt yields of 4 per cent plus and credit yields of 5-6 per cent plus would mean many schemes can afford the assets they wanted to buy all along. Looking forward, I expect most schemes will need lower growth asset exposures than they've pursued for the past decade and probably less leverage too," he adds.

However, a 'fly in the ointment' could be if DWP sets "inappropriately conservative long-term funding requirements and/or expects schemes to reach new long-term targets too quickly", Bloomfield warns. "That could lead to leveraged LDI playing a similar role in future to the role it played in the past, to avoid sponsors being hit with substantial contribution requirements."



In July, DWP launched a consultation into its draft Occupational Pension Schemes (Funding and Investment Strategy and Amendment) Regulations 2023, which will require DB schemes to have long-term plans set out in a funding and investment strategy to submit to TPR.

Commenting on its proposed DB funding regulations, a DWP spokesperson says: "The intention behind our new DB funding code is to have better – and clearer – funding standards, whilst retaining the strengths of a flexible, scheme-specific approach. Millions of people rely on DB schemes and our new measures will help ensure they are protected for the long term."

The industry has raised concerns over the 'prescriptive' nature of the draft regulations, with LCP research finding that the new rules could risk "unnecessary" costs of up to £30 billion for instance, and so have requested more flexibility.

Just like the draft DB regulations, DB schemes have remained focused on their endgames – even with the recent distractions. Mikulskis says he is seeing trustees and corporate sponsors continue to focus on their path to buyout, continue to want stability in their funding position and want more certainty over the cost of a buyout to secure their members' benefits.

"This means that for the majority of clients we're continuing to advise pursuing LDI strategies, but crucially these have to change and adapt for the world we're in," he says.

Brundrett also notes that buyout affordability is dominating his conversations. There is "huge demand" for bulk annuity deals, resulting in illiquid assets being sold "across the board in preparation for a transaction, as a consequence of many schemes' improved funding levels", he says.

However, at the PLSA panel discussion, Tapper said schemes' funding levels may be up because interest rates/ gilt yields are up, but this is "not on a sustainable basis".

"At some stage, what goes up will come down, and when they've finally got a great big hole in their assets, then we've got problems with scheme solvency. Is the damage being caused by the forced sale of all these assets going to create, in the long term, problems with scheme solvency," he mused.

The next year may also see legal actions occur as a consequence of the recent market volatility.

"Whether or not legal claims are likely is something that is not immediately clear, but questions are likely to be asked (and are already being asked) about the appropriateness of LDI and the liquidity of investments in the wider pension scheme portfolio to match the LDI strategy," RPC partner, Rachael Healey, says.

"Trustees are also obliged to maximise the assets of their trust and that means considering legal claims where appropriate. This may result in claims and/or pressure on commercial relationships and that is something we are likely to see looked at over the next year or so, and particularly when schemes conduct their triennial valuations and agree new deficit reduction plans with employers," she adds.

The next year is also likely to bring more headwinds for the gilt market, Brundrett adds, with the government's debt level to be addressed, the latest Prime Minister still to deliver his budget, the unwinding of QE to come, more BofE interest rate hikes to be made and a recession expected "creating a long window of uncertainty".

Lessons

With more changes on the horizon, it is important to not rush to 'knee-jerk' judgements, but what lessons can be taken so far from this recent period of volatility?

In Cunliffe's 19 October letter, he says the BofE is continuing to work with TPR and the Financial Conduct Authority on the lessons to be learned, stating that while it might not be reasonable to expect market participants to insure against all extreme market outcomes, it is important that appropriate levels of resilience are ensured.

"The government recognises that there will be lessons to be learned from the market turbulence seen in recent weeks," the DWP's spokesperson says. "The authorities are working with the industry to improve their resilience to market shocks. It remains a focus of government and regulators to ensure that we have a robust regulatory system."

Bloomfield hopes that the DWP itself takes on the lesson that "the more constrictive and prescriptive the regulation of DB schemes becomes, the greater the systemic risks and unintended consequences will be".

The Institute and Faculty of Actuaries president, Matt Saker, also believes the recent turbulence in the gilt market and resulting impact on LDIs can be a catalyst for open discussion for possible thematic or wider learnings.

"It is too early to draw any hard and fast conclusions, but we believe the pensions sector and regulators need to consider whether adjustments or improvements can be made to schemes' approaches to their risk management and investment strategies, while ensuring public confidence and trust is maintained for consumers. We expect these discussions to be primarily in relation to governance and the amount of leverage used rather than necessarily moving away from LDI," he says.

For Wilson, "a key piece of learning for everyone is not to rely on models alone. A wider view, using scenarios, and asking searching questions is needed. Models always work until they don't".

Putting the past few weeks in context, Bloomfield says: "Practitioners and regulators have long known that pension schemes were potentially a system risk, but it was thought to be at a level that would never be reached this quickly in the real world.

"The potential for snap political announcements to take markets beyond anything they've known before is an enduring lesson everyone will take from this."

Written by Laura Blows

Summary
• While there are connections, comparisons between the housing market and real estate as an asset within pensions portfolios are of limited use.
• Real estate can hold a variety of roles within a portfolio, but it is generally considered a long-term proposition.
• Real estate has not been immune to recent political and economic turbulence – uncertainty in the market and a 'wait and see' attitude have somewhat put the brakes on.
• Real estate is likely to continue to be attractive to pensions, offering access to a spread of sectors, and potentially providing stability and diversity in the long term.

The role of real estate in pension schemes

Sandra Haurant looks at the role real estate investment can have in pension scheme portfolios and the impact of recent market turmoil on the asset class

With Britain's current tumultuous economic landscape, homeowners across the country are paying close attention to interest rates – and the forecasts predicting how much higher they might go. Anyone with a mortgage, or anyone planning on applying for one, will be acutely aware of the upward pressure on borrowing rates, and will no doubt have read about the consequences for the market.

While homeowners tend to feel they have a good grasp on the property market, comparisons between residential housing and real estate in pensions investment are of limited use, says Mercer senior real estate investment specialist, Anne Koeman-Sharapova, noting there are substantial differences. "The first thing to say is that most pension schemes use a vehicle to access real estate," she says. Direct investment in buildings does happen – but it's not the norm; pooled investment vehicles are the standard way real estate is accessed.

"The second thing is that when people buy a house, they tend to use 80 per cent, or maybe even more, leverage *[through a mortgage]*. So, the domestic market has a much greater reliance upon mortgages and lending. But in the institutional real estate market in the UK, real estate markets are actually entirely – or almost entirely – unlevered. The related risks are far less prominent," says Koeman-Sharapova.

The risks are not the same, but the markets are not immune to knock-on consequences. DWS lead portfolio manager, Martin Zdravkov, says: "The spike in interest rates has had a chilling effect on transactional activity."

Cardano senior investment manager, Julita Perelgritz, adds: "Generally, volumes in real estate have been lower in the summer and first months of the autumn. Given the current macroeconomic uncertainty, market participants have tended to adopt a 'wait and see' approach with respect to pricing, with instances of failed transactions as buyers recalibrated their interest rate expectations. However, unlike during the early days of Covid shock, the real estate market has not shut down."

The place for property

According to Investment Property Forum research into defined contribution (DC) investment in real estate, most schemes said that "what they wanted to achieve from property investment was diversification, followed by a desire for long-term investment. Also mentioned were risk diversification and non-correlated return".

There are a variety of uses, depending

on a fund's objectives and requirements. "In recognising the multiple facets of the sector, private equity real estate can either be a growth asset or a cashflow-driven investment, if structured correctly," says Zdravkov. "Traditionally, core income-producing strategies have been used to support inflation hedging, while more development-focused ones naturally lend themselves to growth portfolios." Because when it comes to matching inflation, rents tend to rise along with rising costs, helping income keep pace in a way that cannot be done with cash, for example.

Meanwhile, Perelgritz says: "Real estate plays a role as a growth asset within pension scheme allocation. It is a compelling asset for schemes seeking to outperform their liabilities and improve the pension scheme's funding ratio. Real estate can provide stable yield or income."

However, she warns there are "pertinent risks" to be considered. "Broadly, real estate is cyclical. A lot of value can be created, or risks avoided, if real estate is acquired at an attractive basis or cost.

"Real estate can be offered through open ended investment structures that represent a liquidity mismatch between the structure and underlying assets. Since real estate investments are illiquid, this can create issues if, often in times of stress, investors decide to redeem capital in size. Therefore, an understanding of the structure for investing in real state is very important."

Properties and portfolios

Bricks and mortar are traditionally seen in the retail world as solid investments; and real estate is an illiquid asset class – something that brings advantages as well as challenges. Quickly selling up is not really an option – particularly if the market is at a standstill or if one is faced with selling at a lower price. Koeman-Sharapova says: "You can't, from one day to the next, say: 'Oh, I'll liquidate that building.'"

Real estate should be viewed, first and foremost, as a long-term investment strategy; the illiquidity premium – higher returns effectively compensating for less flexibility – is one of the "attractive features of real estate investments," says Perelgritz.

However, it is also a reason for some funds to be moving out of property, or at least adjusting. Over the past few years, Perelgritz says, there has been evidence of divestment from defined benefit schemes, which have moved away from open-ended real estate as part of wider de-risking strategies.

For some DC schemes, the lack of flexibility provides a barrier to entry. As access is generally through vehicles that are, in some cases, not well-adapted to their needs. "A lot of the access routes don't meet the requirements of DC schemes," says Koeman-Sharapova.

"Value can be created, or risks avoided, if real estate is acquired at an attractive basis or cost"

Buildings on shifting sands

The ongoing political and economic uncertainty made the markets tumble and left many equity investors unnerved. Has the real estate world been shaken, too? "Absolutely," says Zdravkov. "Real estate is a medium- to long-term investment proposition that relies heavily on policy stability. Increasing uncertainty feeds through higher volatility in currency and debt pricing, which takes the science away from price discovery." The result, he says, is a reduction in transactions and consequently lower growth in the wider economy.

Is there an argument for pensions to consider moving away from real estate? "It depends on the role of the real estate allocation within a given pension plan, and its journey plan," says Perelgritz. "Real estate can still be a valued allocation within the pension scheme investment strategy given its stable income stream, as tenants pay rent."

In effect, Zdravkov says, the real question should be: "Are current real estate allocations serving their intended purposes, and how should overall portfolios be adjusted for the uncertain environments ahead?"

What's next for real estate?

To predict what might happen next in the real estate sphere, it is worth looking at the past. Echoes of the issues faced in the 2008 financial crisis can be heard today, according to a JTC spokesperson: "The increasing distress in the credit market has historically seen the opportunistic real estate funds thrive; 2007 also saw an increase in the number of opportunistic funds come to market, along with the percentage of loan to value increasing at a lower interest rate environment than today."

The requirements for building standards in real estate are also shifting; environmental regulations, and the move towards a net-zero carbon emissions, mean that many buildings will need significant investment to bring them up to scratch.

Whatever the future holds, it is unlikely that real estate will be ruled out. There are challenges, but many argue that there are considerable benefits; not least because real estate is unusually positioned to give exposure to a huge range of different sectors.

"You can actually make a diversified basket of different kinds of properties that will have exposure to different parts of the economy," says Koeman-Sharapova. "So you can, in that way, get exposure to both cyclical and structural elements."

After all, the underlying assets within real estate portfolios are hugely varied. From giant ecommerce warehouses to physical shops in the retail sector, from companies using office space through to social housing and student accommodation, they all need a roof over their heads.

Written by Sandra Haurant, a freelance journalist

Summary
- Some industry figures have observed heightened interest in private market assets for pension scheme portfolios, including DC default funds.
- However, barriers remain that are making investment in these assets more difficult.
- The government's push to increase DC illiquid investment has raised awareness, but not necessarily resulted in increased demand.
- Despite this, there is confidence in the industry that private market investment has a long-term role to play in DC pensions.

Going private

Jack Gray explores whether there has been an uptick in demand from DC schemes for private market investment and what barriers exist that are preventing increased allocations

Defined contribution (DC) pension scheme investment in private markets has been thrust into the spotlight amid the government's push to encourage greater allocation to illiquid assets and changes in regulation that will see trustees reporting on their illiquid policies in their Statements of Investment Principles.

While DC schemes have always been able to invest in private markets, the sector is evolving, and some industry figures have observed an uptick in demand for illiquids. However, the government's initiative is not appearing to have as pronounced an impact as it may have hoped, and others within the industry do not believe demand has increased, despite the increased awareness.

Interest rather than demand

"There has certainly been a heightened interest in private market investments," comments Standard Life head of investment solutions, Gareth Trainor. However, he concedes, this has mainly been to understand the asset class, and its potential benefits and challenges, regarding DC investment.

"We are not seeing significant demand for investment into these assets at the moment, at least not for inclusion with an off-the-shelf DC default," he adds.

WTW senior director, investments and LifeSight lead investment adviser, Marc Bautista, notes that while he has not observed huge demand from DC members yet, it is something clients are interested in, as many "recognise the benefits" illiquids can bring to a portfolio.

However, others are seeing different trends. Quantum Advisory senior investment analyst, Joe Condy, states that an increase in demand has not been seen amongst its clients, but there has been some interest through the selection of private market allocations by individual members, although not through default strategies.

"We are aware that demand has increased across the industry as a whole," notes Condy.

Meanwhile, Zedra client director, Richard Butcher, states he has not seen a marked increase in private market investments from DC investors: "DC schemes have always been able to invest in private markets and they have done so where it is consistent with their strategy and objectives.

"The exception to this is some of the very large trusts and master trusts who, perhaps, have been reminded of some of the benefits."

Supply push

There are several potential reasons for why some industry experts have witnessed increased interest. The government's recent push for greater illiquid investment by DC schemes is one, alongside new regulations that will force trustees to consider their illiquid investments and the creation of the Long-Term Asset Fund. Trainor notes that this means increased interest comes from the perspective of 'supply push' rather than 'demand pull'.

"Interest from industry stakeholders is typically driven by stakeholders across the industry keen to know more about the asset classes and the potential opportunities and challenges," he says.

"Or where stakeholders have a DB background and recognise the benefits of illiquids and are keen to see them used in DC. There is minimal support or demand from advisers, employee benefit consultants, employers, trustees etc to include illiquids into DC defaults beyond the 'in principle' support."

Outside of the 'supply push' there are other factors that may make private market investments attractive for DC schemes.

"In an era where returns from traditional asset classes such as listed equities and fixed income are likely to be more modest going forward, allocating to private markets may be necessary in order to achieve decent returns," explains Smart Pension chief investment officer, Paul Bucksey.

Furthermore, Bautista states that the illiquidity premium is "perfect" for long-term investors to exploit, both from a return and diversification perspective.

"The case for DC schemes investing in private markets is becoming clear: Potential for higher long-term performance, diversification from traditional asset classes and inflation protection," says Condy.

"There are also strong opportunities to incorporate environmental, social and governance considerations into private market investments, which are becoming increasing popular with members."

Overcoming barriers

While there are potential benefits in private market investment, there are also barriers that need addressing to help investors access the asset class more easily.

"Private market investment has some merits but also some drawbacks, not least its illiquid nature and the opaque costs," says Butcher.

Condy adds that interest is being deterred by the practical implications, reduced liquidity, costs and barriers to entry of implementing these strategies.

Bautista agrees, stating: "Implementation is still restricted because pure illiquids cannot easily be accommodated through traditional platform arrangements. Work is ongoing, but there are still challenges to be overcome, which is easier said than done, but we believe it's possible."

Bucksey believes that employers and DC consultants need to focus less on charges in absolute terms, and more on the overall value and the quality of the investment proposition.

"Implementation is still restricted because pure illiquids cannot easily be accommodated through traditional platform arrangements"

Understanding the risks

Alongside these barriers, as with any asset class, the risks need to be carefully considered. Liquidity risk is the most obvious, as Trainor explains: "This plays out if the fund overall is shrinking significantly and would impact a customer who may not be able to access their investments when required, and in extremis may prevent a scheme from transferring from one provider to another.

"If due to terms and conditions or other reasons a large scheme leaves a DC default/provider, then the provider maybe left with more illiquids than it requires.

"Performance may be impacted if the assets don't perform as expected, or are performing less well than traditional assets. Given the inability to sell the assets this may lead to longer-term performance challenges, and questions around value for money, especially if poor performance drives towards a 'crowded exit' scenario."

Butcher also points to other risks, including costs opacity, inability to price accurately, and greater volatility and failure risk, while Bucksey highlights higher costs offsetting returns, and manager and sector risk.

However, Condy notes that while the potential risks "seem plentiful", he believes they are manageable if approached correctly.

"Private market investments should also be considered to be high risk," he adds. "We would therefore expect them to make up a part of a well-diversified investment portfolio and be used in conjunction with a range of other asset classes and funds."

Moving forwards

While appetite for private market investment appears mixed, most agree that it will play a role in DC scheme investment going forwards.

"I think private markets/illiquids have to be part of default strategies in order to achieve meaningful scale and have a positive impact on a majority of DC members," comments Bautista.

"We are working on solutions to incorporate more illiquids and true illiquids in our defaults to get the full benefits of the illiquidity premium.

"Initially, I would like to see allocations building up to around 5 per cent true illiquids within a default strategy. That will mean that we've overcome the liquidity challenges and operational barriers, managed to get an illiquid vehicle on a platform solution, and found a way to do it at a reasonable cost and at a good value.

"Once that's done, we can start thinking about what the next stage is. Whether at some stage in the future we can get up to 10-20 per cent, I don't know yet, but let's get to the first target first and then take it from there."

Written by Jack Gray

In association with SEI

DC ownership roundtable

CHAIR

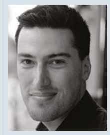
Steve Charlton, DC and Solutions Managing Director, EMEA & Asia, SEI

Steve joined SEI in 2017 and is responsible for building upon the ongoing success of SEI's US and UK DC proposition across global markets. Steve has over 30 years' experience in the pensions industry, with particular expertise in DC plans. He joined SEI from Vanguard Asset Management, where he was the DC manager for Europe. Prior to Vanguard, Steve spent 15 years consulting with some of the largest DC clients in the UK whilst working at Towers Perrin (now WTW), Punter Southall and Mercer.

PANEL

Karen Bolan, Director, Retirement Communications, Gallagher

Karen is retirement communication director at Gallagher's employee communication and experience practice. Combining excellent pensions knowledge with a proven track record in developing engaging communications strategies, she helps trustees and heads of pensions empower members to make informed decisions about their financial future. She is an accredited member of the International Association of Business Communicators and a regular speaker at prominent industry events.

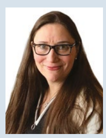


Joe Craig, Development Lead, Quietroom

Joe is a communication specialist, a best-selling author and screenwriter. He's developed communications strategies for pension schemes, investment firms, insurers and financial institutions, big and small. His work at Quietroom is all about making complicated or difficult messages more meaningful to more people. He specialises in engaging a reluctant audience and using the tools of a storyteller to bring unloved subjects to life. He is regular contributor to the pensions press and a popular speaker at industry events across the pensions arena.

Harriet Hayward, DC Client Relationship Director, SEI

Harriet joined SEI in 2022, but she has been working in pensions since 2011. She is a client relationship director for SEI's defined contribution master trust, ensuring its master trust gives the best possible experience to clients and their employees. Prior to SEI, she worked on Willis Towers Watson's (now WTW's) master trust LifeSight. She holds a Masters of Science in actuarial finance from Imperial College; and a Bachelors of Science in Economics, from the University of Birmingham.



Alison Leslie, Senior DC Investment Consultant & DC RI Delivery Lead, Hymans Robertson

Alison provides DC advice across a range of private sector clients and master trusts covering both governance and investment. Alison joined the Hymans DC consulting team in 2021, bringing with her a wealth of experience from general consultancy and administration having spent over 20 years previously covering governance and investment aspects of DB and DC schemes. She is also responsible for the delivery of responsible investment solutions to DC clients at Hymans.

Ryan McGowan, Institutional Sales, SEI

Ryan joined SEI in 2020 and supports the growth of SEI's UK institutional business, which includes growing SEI's master trust and DC governance solutions. Prior to SEI, he spent time at NatWest Markets covering legislation such as MiFID II, European Banking Authority (EBA) guidance on outsourcing arrangements, and ringfencing legislation. Ryan holds a CFA Investment Management Certificate; a Masters of Science in Management from Warwick Business School; and a Bachelors of Science in Accounting and Management from Essex Business School.

Rachel Meadows, Consulting Director, Head of Proposition Pensions & Savings, Broadstone

Rachel leads the proposition and strategy for Broadstone's pensions & savings team, sitting within the employee benefits consulting practice. The team focusses on DC pensions, workplace savings and financial wellbeing, spanning employer consultancy and worksite engagement. She co-hosts the broadcast pensions podcast, is a chartered financial planner and a fellow of the personal finance society.

Mark Pemberthy, Benefits Consulting Leader, Buck

Mark is benefits consulting leader at Buck. For over 25 years, Mark has advised companies and trustees across a broad range of industries, adapting pension and employee benefit strategies to meet their evolving needs and changes in legislation. Mark is passionate about the importance of data, technology and creative communication in improving outcomes for organisations and their multi-generational workforces.

Simon Redfern, DC Consultant, First Actuarial

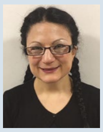
Simon has over 25 years' experience in the pensions industry, and is a Fellow of the Pensions Management Institute. Specialising in workplace pensions, he advises a wide range of companies, in a range of sectors, from those with just a handful of staff through to FTSE 100 and equivalents, on all aspects of their DC pension provision.

In association with

DC ownership roundtable

Pension ownership

SEI presents its latest research paper, *Looking through the Lens Of Ownership*, carried out in collaboration with Ignition House, exploring the reasons behind the low levels of pensions ownership in today's defined contribution (DC) world; while our panel of DC experts reflects on how the industry needs to evolve in order to best meet members' changing needs



Daniela Silcock, Head of Policy Research, Pensions Policy Institute (PPI)
Daniela joined the PPI in 2008 as a researcher. She took a break in 2012 to work as a committee specialist for the Work and Pensions Select Committee and returned to the PPI in 2014. In 2015, Daniela became head of policy research and leads the PPI policy research team and oversees the research conducted by the team. She has a wealth of experience in conducting quantitative and qualitative research into all aspects of state and private pensions policy.

Janette Weir, Director, Ignition House
Janette is one of the founding directors of Ignition House, a specialist financial services research agency. She is an industry expert in pension, saving, investing and behavioural finance, working for a variety of clients which include the FCA, TPR, insurers, asset managers, plan sponsors and consultancies. She has helped some of the largest DC pension providers understand the voice of their members when developing new products and investment solutions.

Chair: As an industry, we have been trying to engage, communicate with and educate individuals about pensions for many years and have not been very effective, so perhaps we need to look at a different way of addressing pensions; and maybe a sense of ownership of pensions is a better place to start than the ambition of educating. That's why we at SEI felt it was important to sponsor this essential research carried out by Ignition House.

Initial findings

Weir: To explore the topic of pensions ownership in the UK, we used a mixed methodology, which was reviewed by our sponsors and our steering committee. We began with 10 face-to-face in-depth discussions with members who self-reported as having low or no ownership with their pensions. We then used those discussions to shape the main part of the research, which was an online survey of 1,000 respondents, aged 22 to 55, who were currently contributing to a workplace DC pension.

We think that ownership is different to engagement. SEI and our steering committee helped us shape this research and, together, we talked about ownership being about feelings, emotions and attachment, whereas engagement is actually the action that happens afterwards. You can't have one without the other. You need ownership first before you can then move on to engagement, so perhaps as an industry we are starting from the wrong place.

Taking a step back, therefore, we wanted to look at what ownership means to people, what they understand about it, and then see if we can work from that.

One question we asked in the survey was: what does taking ownership mean to you?

A few responses included:
"Taking ownership is having control over my life choices."
"It's something that I'm responsible for, and what the future holds is all down to me."

The key words that kept coming up were 'control', 'responsibility' and 'accountability'.

We also researched inherent personality characteristics; and from the 1,000 people that were surveyed, 81 per cent believed that they were 'a generally organised person'; 70 per cent liked to feel 'in control of events around them rather than letting life happen'; however 36 per cent were 'living for today and not

DC ownership roundtable

worrying too much about tomorrow'.

We also discovered that 82 per cent 'liked to be in control of their finances'; while 40 per cent say they're 'a spender, not a saver'. Thus we are starting to see little groups of people for whom blanket messages about pensions would be unlikely to do the job.

We then wanted to ask people how they felt about pensions, and why they had low or no ownership. These were a few quotes:

Example 1: *"People don't have a lot of insight around pensions, because it's not something that's easily accessible. It's not a tangible asset. I can't just put in my debit card and withdraw my pension. I have to wait until 60 years of age, or whatever the age might be, before I can withdraw maybe 25 per cent. So for me, it's a really long-term thing that I cannot see right now."*

Example 2: *"Pensions feel confusing and there's almost nobody there to talk to. When you set up any other financial product, there's normally a sparkly website which has all the terms and conditions. With my pension, do I really understand exactly how much I'm putting in, exactly how much my employer's putting in and exactly how that company is investing it, as well as what rate of return I'm getting? There's almost nobody I can ask to explain what they are doing with my investment."*

Chair: Were there some common themes that came through?

Weir: Absolutely – that pensions are a long way away, they feel too distant, they are intangible; also that there's a lack of social capital – people who you can turn to who know about pensions.

It's not a topic of conversation amongst family members either; and people don't learn about it at school. They get asked by their employer if they want to join, and if it's yes, they tick a box and that's literally it.

When we got into sizing this, 74 per cent of our survey respondents self-reported low or no ownership; 58 per cent didn't feel connected to their pension; 72 per cent said that savings felt like their money, whereas pensions felt different; 66 per cent said they didn't pay their pension much attention – it was just sitting there in the background; and 45 per cent said pensions felt like a tax.

Worryingly, 65 per cent agreed with the statement 'my employer set the pension up, and I trust that they're making sure I'm paying in enough to have a comfortable retirement'; and on that basis, if that's what they believe, why should they engage?

From this data, we then developed four personas to capture the spectrum of ownership among workplace savers:

Blissfully Ignorant Ben and Becky (27 per cent): These are the people for whom pensions is a tax. It just comes off their wages and they don't have to do anything. They probably never will.

Procrastinating Pete and Paula (30 per cent): Those who want to find out a bit more, and every now and then, get triggered to do so, but then life gets in the way, or they get confused.

Help-me Harry and Helen (19 per cent): They're feeling frustrated. They want to know more, but they just don't know where to start, or it's been confusing and they've hit some barriers, and they just don't feel like there's anybody there.

Connected Charlie and Claire (23 per cent): These are people who are doing very simple stuff; maybe they've logged on to the pensions website and had a look. Maybe they've got a rough idea of where to go, but at least they've started on the journey.

Chair: So why are we seeing this lack of ownership?

Weir: Twenty-three per cent said they didn't know what difference it would make, and 21 per cent said they didn't need to, it's all done for them. If we add those two groups together, that's a significant chunk of our population asking: 'Why should I take ownership? What's in it for me?'

There is no immediate reward for a pension in the same way that there may be for taking control or ownership of some of your other finances. We have to be better at understanding that.

We also asked three questions around how much ownership they would like their pension provider to take. We talked about setting contribution rates so you get comfortable retirement. We talked about investments; and then we talked about designing your retirement income solution. A core of around a quarter want the pension provider to do it for them.

Meadows: How would you say ownership around pensions compares to other financial products such as car insurance?

Weir: For current accounts, 57 per cent said they felt ownership; car insurance, 43 per cent; credit cards, 40 per cent; cash savings, 37 per cent; mortgages, 36 per cent; pensions, 26 per cent.

Meadows: That's the standout issue for me. This is not just about low ownership around pensions, but financial literacy in general.

Redfern: Interesting as these are people with workplace pensions – we have been putting together some material

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from the Office for National Statistics (ONS), which states that 24 per cent of employees across public and private sector don't have any pension savings at all. They are not engaged because they have fallen through the cracks of auto-enrolment (AE), can't afford to pay into a pension, or are those people that aren't interested in pensions; so at least the people you spoke to for this research are one step on from that.

Bolan: The scariest issue you raised for me is that so many people think they don't need to do anything about their pension because their employer has taken care of it. That is the fundamental problem with AE. We're letting people sleepwalk into thinking they've got the pensions box ticked.

Weir: Indeed, we as an industry know that the contribution rates in AE are too low. There was a reason why we started low and went up, but now people are generally quite happy that they've got a pension, maybe we need to turn that dial up a bit.

Silcock: We know that there are low levels of trust in the industry, but high levels of trust in employers, but are we actually walking into a trap whereby we're going to reduce trust in employers? Because it sounds like people now are expecting their employers to be doing something that they're not, and if we have less trust in employers as well as industry, it's going to be even more difficult to get people engaged.

Weir: It's worse than that. People don't trust pensions in their 50s because they've had all this historic stuff with Maxwell and so on. Yet we are potentially creating problems with another generation – because when we start retiring the first generation of AE savers with not very much in their pension pots, what are they going to tell their kids? That these pensions are rubbish.

Meadows: Part of the problem is not just with AE but the fact that there's a state pension – there's a cohort of people that abdicate all responsibility to the state, thinking the state won't let them starve. But they don't understand what they are going to get from the state. The PLSA Retirement Living Standards help to an extent, but more needs to be done.

Leslie: Also, the conversation starts with their employer – the employer tells them about the pension, what's being paid in etc – so is it unreasonable that they assume the employer is taking control of it? Then you've probably got people now whose parents have or had defined benefit (DB) pensions, where the employer is taking care of them, so it's a completely different world now and there's a lack of financial education around that for young people, which is a massive issue. The parents, probably the people who they would turn to for advice on this, have come from a completely different world.

Bolan: That's a really important point, because we're just seeing the start of people with major DC retiring and major DB have moved through in the main.

As part of previous research that we at Gallagher have done is ask, "who do you turn to when you want to talk about pensions?", and a family member scores really highly.

Meadows: You're absolutely right – some employers understand this and are taking voluntary steps, for example by paying for financial education in the workplace, offering pension sessions, one-to-one guidance, and they are making quite a big difference to their staff. But the fact that it's not mandatory means we're always going to have a divide between employers that will put their hands up to do these types of things and those that won't.

Bolan: Also, the chain of command is

influential in terms of who people look to when they want advice about pensions in the workplace. If your line manager isn't equipped to give you the answers to the questions that you're asking, then that's a downside. We find a lot of employers don't consider good communication to their line managers to be important, but it is very important – not that we need to turn them into pensions experts or to give advice, but to be a signpost. If you've got questions about your pension, this is where to go, for example.

Redfern: We've been talking today about the conversation between employees and employers. I don't think that conversation happens an awful lot. The disengaged retailers – the local mechanics or the local second hand car dealerships – they're not going to have those conversations. For them, it's about signposting and pointing employees in the right direction and so on.

Much of the communication needs to either come down from the government through perhaps MoneyHelper or similar, or directly from the providers, because often the employer doesn't have the resource, nor often the inclination, to offer it. They don't have the advisory firms either and, for better or for worse, now that commission has gone, if you want any of us to do a piece of work, we have to charge you, because that's how it works. So it comes back to the point that someone's got to give those little communication nudges to people.

Meadows: You should be able to

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do something with the rules there – if you're in a DB scheme, you've got to take advice; with an occupational scheme, you've got to consider value for members (VFM). So there are regulatory things that could be done that state, if you're running a workplace pension scheme, if you're an employer, you need to do some governance, at least every couple of years – some engagement with your staff.

Redfern: But with the small firms it is a problem. Getting small employers to do anything around VFM is a real challenge.

Responsibility

Bolan: A lot of what we are hearing today comes back to the question that we've tried to answer so many times – where does the responsibility lie to inform people about pensions? Is it with the employer? Trustees? The government? The education system? The advisers?

Pemberthy: It is a collective responsibility, but it needs to go beyond just information. Behavioural finance studies show us that pensions are just a very difficult thing to get even financially engaged people to think about and take ownership of. Even someone who is quite engaged with their financial circumstances may view pensions as intangible, as they are so far away.

To take responsibility, and importantly take action, people need to have some kind of emotional connection with the outcomes. In your report, was there much indication about emotional connections with pensions?

Weir: We got the members to give three-word descriptions of pensions, and then we got them to give three-word descriptions of savings. Words included: 'confusing', 'boring', 'worried' – there was a mixed bag of emotions with pensions.

But a general message also was: 'I'm glad I've got one. I know I need one, but they are boring and I don't want to think about them.' So, they're happy in one sense, and not so happy in another.

Words relating to savings were more positive, words like 'mine', 'good', helpful', 'rewarding'.

I come back to this time and time again – reward is key. People don't do something for nothing. What's the reward with pension? Some indeterminate retirement that happens but we can't really put our fingers on it.

We also gave respondents three sets of pictures – of people looking a bit unhappy with their finances; people having a generally okay lifestyle; and then the usual pictures that the industry uses of people on the beach. When we asked them, 'which one are you?', a significant number of people on minimum contribution rates put themselves on the beach. They just don't know the trouble that they're getting themselves into.

Craig: Coming at this from a communication provider angle, the point that was made earlier about responsibility is a really good one – it's telling how often we're engaged by the trustees rather than the company. We sometimes are employed by the company, but that's becoming less common. It's more and more the trustees taking on the responsibility, because they've spotted a gap. It's a responsibility vacuum that they've stepped into.

Also, the 'instant reward' point just doesn't get mentioned enough. The money that the employer puts in now, to match contributions, is an immediate doubling of members' money! That's an immediate reward that is something tangible that we don't talk about enough.

That immediate reward is a big lever that we could use to help members take more responsibility for their pension, yet it gets swallowed up by other complexities in the system, other things we in the industry deem as important or are to do with our process.

Finally, to take ownership of something, it's got to be either useful or you've got to feel good about it. Sometimes, it can be both. But at the moment, pensions is doing neither. You can't use it, because the one thing people know about it is they can't access it. When people do feel anything about it, it's trepidation or it's uncertainty.

If you look at anything else in the world that people do take ownership of, and there are fewer and fewer things these days, then it's either useful or they have an emotional connection to it.

Weir: I've found that the only thing that works for that emotional connection is ESG. If you tell people their pension is helping to solve the climate crisis, or helping to solve modern slavery, or building windfarms, that makes them feel differently about pensions.

That's a link to feeling good today, rather than feeling good about something sometime in the future.

Craig: It's empowering, and we're finding more and more of this work becoming more important to the schemes that we work with, not just for differentiation within the industry, but actually for moving a needle with members. If you show them, this is something that your money is doing now, that strikes a chord because it is an immediate thing.

Leslie: There seems also to be a lack of understanding that resources do

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exist for members – sparkly websites that they can interact with, for example, where questions can be answered, and there is a lot of material to be found on these websites, but the members don't know about them. There's clearly a communication breakdown somewhere and that could be a financial wellbeing piece that could be explored.

Defining ownership

Chair: What does 'ownership' really means in the context of pensions, and more specifically DC pensions?

Pemberthy: The utopian meaning of ownership for me around retirement, DC or otherwise, is taking ownership of the outcome, the lifestyle, the plans that you have to stop work and having a conscious plan to be able to sustain a particular lifestyle at that point.

Something that is a constant mystery to me is that when you ask people when they want to stop work the stock answer is 'tomorrow'. This indicates that people see retirement as a positive, aspirational outcome, but then there's this huge disconnect with actually taking any planned steps or ownership with regards to getting there. So, to achieve this we need to overcome the behavioural biases and enable people to take an active interest in retirement planning by having a sense of empowerment and responsibility for their future.

The default nature of pensions is a barrier to engagement and ownership. However good AE has been – and it has been fantastic – I keep remembering the OFT market study on workplace pensions from nearly 10 years ago, which said that the workplace pensions market was one of the weakest buyer-side markets that they had ever analysed.

Silcock: The buyer-side issue is critical here, in that the client is actually the employer most of the time, rather than the employee, and perhaps that's why there's so much separation between people and their pensions, because they didn't actually choose those pensions. They choose their ISA, they choose their mortgage, but they don't make that mental choice of choosing their pension, so there's an extra psychological barrier there. They do have some choice, which they may or may not realise – how much they can contribute, what types of investments they have; but that inherent choice of a pension is taken away, and is it even possible to give people an ownership when they haven't chosen their pension? How do we overcome that barrier?

Chair: Does that mean, as providers, we have to become more retail-like?

Meadows: I don't think that would necessarily solve the problem – I completely agree that it creates an information issue when someone isn't actively buying something. But the problem we've got in pensions particularly, and in a lot of financial services, is that people probably aren't armed with the right information to empower them to make those choices in the first place, so we're just putting them off even further by giving them some form of choice or influence.

If we understand that we've got this hurdle that someone hasn't chosen something, but we try and address that ownership some other way, would that help? Also, does it exacerbate the lack of ownership, the fact that when you get your annual pension statement, it's heavily branded from your provider and then your employer, and your own name's in really small print?

Silcock: The system's actually doing what it set out to do, which is working with inertia and working with people not understanding. AE has been set up to create almost a lack of engagement. Obviously, there was an assumption that people would have to annuitise at the end, so there wouldn't have to be this transition, but then that all changed with pension freedoms. So, we talked about whose responsibility it is to educate or drive engagement with individuals, and the responsibility has to rest with government, because they have created the policy infrastructure that has led, to some degree, to this lack of engagement.

We could look at completely different systems, like Australia, for example, where they say, 'come and compare pensions, and you can just press a button and transfer. Your employer will contribute into that'. It may be the case that if we really want to foster more engagement from people, we need to have that fundamental infrastructure and that fundamental policy landscape that fosters this, otherwise we'll always be fiddling around the edges until we get to that point.

Bolan: We do a lot of work in Australia, and there are several fundamental differences. Australia is completely mandatory. There is no opt-out. It's actually an employer responsibility to pay the superannuation contributions as well, not the employee. However, there is a greater sense of ownership, because you can choose whichever fund you want to go into, and your employer has to pay to that fund.

There are lessons we can also learn from New Zealand – KiwiSaver, for

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example, enables you to use your pension as a deposit on a house.

In the Covid crisis, in Australia, the government also mandated that people could take out $10,000 from their superannuation funds to help them with getting over the crisis, and they were allowed to do it twice. We all know, around this table, that that is going to have a long-term impact on what you've got in your pension pot, so it's not necessarily a great thing to do, but it did go some way towards demonstrating that they're thinking about members and employees and what their immediate needs might be.

So, inherently, we just might need to look at a different system and different options for people that make the pension a bit more like a savings vehicle that they feel they can own.

Connectivity

Pemberthy: We're in a pretty competitive UK pensions environment and pension members generally benefit from low charges and well managed investment strategies. The biggest single lever for people to build adequate savings is contribution levels, and that's the one thing that the employee has the most control over. When it comes to savings decisions, they are making all sorts of complex trade-offs about whether they save for retirement or , say, for a housing deposit, or building a short-term savings buffer. We do tend to talk about pensions in isolation and we need to change this so that people start to understand that

short-term, medium-term and long-term savings are all part of one financial life journey, all connected, to make these decisions easier. That connectivity is really important, and we can do this either through policy – by allowing more flexibility – or just through more joined-up education.

Craig: As an industry, we are terrified of the decisions that people might make on their own behalf. We don't want to suggest to them that they have control over that, because they might make the wrong decision. But if someone wants to take ownership of this thing, they're entitled to make wrong decisions! Also, while we want to support people, we have not put ourselves in a position to work out what the right or wrong decision for them is, because we've been so blinkered – we've only been looking at the pension in isolation.

When you start looking at someone's entire life and setup, and when you start empowering people and giving them what they really need and the feeling that they can make decisions that they feel are right for them, then they'll have ownership of it.

Meadows: The problem is, if someone makes a poor decision, it's not just on their own heads, but it has a knock-on effect on others. The employer is a great example, because if you have someone who accesses their pension at 55, blows the lot, and needs to carry on working way past the point where they're capable, the employer suffers too as you can't easily force them to retire. So there are consequences. There are also consequences on a macro level for taxpayers in terms of benefits for people who are under subsistence levels. That's the challenge – there are gaps in the framework.

Leslie: That connectivity point reminds me of the board game, Game of Life – you start when you're, say, 20, and go off on your journey. What do you need to know? You need a mortgage, an ISA etc. And if someone takes, say, £10,000 out of their pension pot, they need to realise what it means in the long-term, that they will need to top it up. People need to see the interlinkage between all of it.

The other thing that's important in the comms piece is that, we talk to members about pensions in different terminology – we talk about percentages they are paying in; then we talk about them having a pot of, say, £1000s, but we don't explain to them, in pounds and pence, what this all means as an annual income in retirement.

Meadows: Pension freedoms don't help with that either. On the one hand, they make people feel more ownership, because they've got more choice, but on the other hand, it's all so complicated.

Silcock: Alongside this, there needs to be more education around longevity. The Institute for Fiscal Studies (IFS) produced a report several years ago looking at why people don't buy annuities, and the underestimation of longevity was one of the key reasons. That obviously changed once people were in retirement, and they started being more realistic. But I wonder if some of that underestimation feeds into people's under-engagement with their pensions? They don't think they will need their pension for long as they don't think they will live to a very old age.

So education is essential around what they'll need, but also around how long they might live for and what they therefore might need in their pension pot. Also, what if they have to stop working at 60, or 65, because of health needs? Again, they need educating on what they might need to have saved.

Weir: That's a really difficult one, though, because if you've got so many people who are living in the moment, they're just not going to take onboard those messages.

Craig: Also, the younger end of the DC population is out of the habit of owning anything today. They don't necessarily own a house, or a car. If they want to ride a bike, they don't even need to own that. We're training a population to rent everything down to the music they listen to, and the films they watch. The closest you're going to get to something that someone actually owns and cares about is probably their phone – they don't want to drop it and smash it but, then again, they know they can get a new one within 18 months anyway.

Redfern: And these people also receive no education or training on finance. The first time they hear anything about it is when they go to university or start working. In the olden days, you would join a pension because your employer made you, and then they changed the rules. But after then, you joined a pension because either you might have thought it was a good idea, or your dad told you to do so. Now, things have changed, and people have got to catch up on that.

Leslie: Also, people don't at the moment connect that there are places they can go to get help with their pensions. Even when I think of where to go, there are lots of different options but not a marketplace as such.

Pemberthy: There is another real challenge in the workplace – in that pensions are often disconnected from a lot of other workplace communications. We see a lot of employers now spending time and effort on communicating their culture, and really trying to get a sense of connectivity between the employee and the employer. But frequently the pension communications are issued by the trustees or by the provider, and it's the one thing that is completely out of that concerted engagement activity from the employer. So not only are pensions complex, far away and intangible, but it's not even part of the mainstream engagement communication from the employer half the time.

Bolan: We are trying to do something to change that by doing culture work with our clients. But I remember back in the 1980s/90s, the Sharesave schemes at work were provided by Halifax – they were nothing to do with my employer, so Halifax got all the kudos for providing this great scheme that you got money out of every three years. It's the same problem that we've got with provider-led pensions.

But why are employers so ready to give away the keys to the castle, give away their identity in providing this benefit? Plus it's getting worse with master trusts, because trustees are giving away responsibility, but I would argue quite strongly that the employers shouldn't give away the name over the door for that benefit that they're providing. They should still work really hard to get that kudos and join up the communication of not only pensions but all benefits as well, because there are numerous financial benefits that employers provide for employees. But there's always been this tension for pensions, and it does go back to Maxwell; and the fact that the stories about pensions in the press are always negative; always scaremongering.

I have battled for years also with this trustee-employer separation – that we have to be seen to be very separate. But put yourself in the member's shoes. To the member, it's a message about their pensions. It matters not a jot to them who it comes from, and neither should it. It's all about their benefit and the benefit that you're providing as an employer, whether you've got a trustee hat on or an

employer hat on.

Weir: Many employers are never going to take ownership of this as they just want to tick the compliance box.

ESG

Chair: Could ESG be the easiest way to push pensions and positive ownership messages out?

Pemberthy: ESG does provide an opportunity, whether it's driven by regulation or because it is a way that employers can demonstrate their culture and identity when engaging with prospective or current employees. corporate social responsibility is becoming a stronger focus for organisations – so if they're doing lots of work to reinforce how their benefits/rewards or their internal processes and policies echo their corporate values, then let's bring pensions into that discussion and show how the pension investments can mirror some of those principles.

It comes back to finding that emotional connection, and if that is something which some employees are engaging with or feel passionate about, then absolutely it makes sense to do that.

Also, for many, pensions don't feel like real money. But when you start to talk about pensions in relation to the companies or assets that people actually hold in the underlying investments, and the impact they have through different lenses, all of a sudden, pensions become a little more real. That can help as well.

Bolan: We did some research

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among our own employees around ESG and whether, if there were more ESG investment opportunities open to them, would they consider that? One member who was pretty switched on and environmentally aware said he would do it for his kids – that he wouldn't actually think about it necessarily from his own standpoint, but it made him feel like he was investing in his children's future.

That's the emotion. That's where you get an emotional hook with things like that. They're actually thinking not just about their own future and how they're going to live in retirement, but what future they're leaving for their kids.

Weir: That's the reward, isn't it? We're looking for rewards all of the time, asking ourselves, 'What's in it for me?'

Redfern: ESG is one answer, but we need to keep on at people to engage, nudging them, keeping up that communication.

You don't have to send them 20 pages every week on pensions, but just popping up every couple of months, or every six months, all helps. There's so much that can be done, but it's just about getting in front of people, nudging people and saying, 'hi, we're here'.

Bolan: That regularity is very important, because we all like to think that pensions are front of mind for everybody but they certainly are not, so we do need that regularity of nudge.

Also, anybody who goes to a pensions website is not just going there for interest. They're going there because they've got a need, and we need to make sure that those websites meet that need very quickly and easily for people. There are still a lot of pension websites that are, sadly, just information dumps and we expect a level of knowledge from people who are going to those websites to know what they are looking for, to know where to go and they don't.

Weir: But websites don't do the job because what members want to know is whether or not their pension is doing a good job for them, but there's nothing they can look at that compares one pension performance to another that an individual can easily access.

Meadows: For some people, ESG will switch them on, but that's still long term. We're probably talking about the people that think into the future rather than the people that think about today.

We need to help those people that think about today to value the employer contribution that they are getting now. Linking pensions to all the other benefits as part of a total remuneration package is key to achieving this – for example, when employers are telling people about their salary review, and what their salary is changed by, they need to also explain what it means for their pension contributions, what it means for their employer contributions.

Very few employers, even those that do total remuneration well on a flex platform, are going out bullishly at pay review time and putting in the letter what that pay review does to the pension contributions, yet it's a tangible benefit.

Chair: We have an open banking app where people can engage all of their financial circumstances – debt, savings, credit cards, current accounts, incomes. What that does is give us the ability to communicate; the ability to publish and send messages to people. Is that the first stage of reward, getting people to go in and read those messages? Maybe occasionally we could send something about ESG – about what we have achieved with the money that we look after on their behalf? If we sent messages like that, that people read, maybe that is the start of that engagement.

Pensions dashboards

Chair: Will pensions dashboards act as a catalyst to change in this area?

Silcock: Pensions dashboards are an essential piece of the puzzle, but the people who go to it will be the people who would have gone to something like that anyway. So, while it does create an extra tool, what it doesn't do is create access to and use of that tool.

It also brings us one level closer to engagement, because we know that people are more engaged if their pension is worth one year of their salary; so if they see that their 10 pots together are worth one year of their salary, they might be more likely to get engaged.

What is worrying though is that only around 14 per cent of people who are accessing their DC pots for the first time use Pension Wise. So while there is good support stuff out there, people aren't using it. Can we get the dashboards to be used by more than 14 per cent of people? If so, then it won't solve the issue, but it will definitely help it.

What I'd like to see is dashboards being the first step towards providers all using a uniform data standard, which is necessary if we're going to start building the platforms that allow people to look more holistically at their pensions and transfer between providers.

Bolan: We're just talking about engaging the engaged though, aren't we? There was a view that the dashboard was going to be this great panacea that was going to solve all our ills, but I don't

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think it will. It's another tool that people will use, but will it do the whole job? No, although I am an advocate of there being a dashboard subject to the good data standards. We all know that rubbish in is rubbish out, so data really is king in that.

Redfern: Pension dashboards will be good, but I don't think they will change a huge amount, because the people who go on the dashboard would have gone onto other schemes.

You'll find a few people will go on and discover pensions they had forgotten about; but that's pretty much it. However I do wonder if, over time, it will become like an open banking platform, where you will have pensions sitting alongside other things.

Chair: Will it improve ownership?

Redfern: It will help people consolidate and bring things together, lots of small pots, and more members will take ownership when they see one big pot. But we still need to keep popping our hands up and saying, 'hello, pensions,' and just reminding people that they're there. Because, there's always something more interesting to do than manage your pension.

Leslie: Pension dashboards will be seen as somewhere people can go to find answers to their questions, but I have an issue in that there's going to be information there without context – how will people know if what they have is good or bad? If fees are too high? We need to compare the market but, in pensions, that option doesn't exist, like it does in Australia.

Also, until we have a policy change that enables people to do what they want, within reason, with their pension pot – move it about and link it to savings, for example – and we have somewhere they can go to for the right information, then we are going to fall short. So pensions dashboards could be a piece in the jigsaw but we need other things around that.

Meadows: Context is important at every stage. Even at the point of retirement, there's still this narrative around getting retirement advice around your pension, but you need retirement advice on all of your assets – your outgoings, your health, and so on.

Also, for some younger people, a pension might be the biggest asset that they ever own. Is that maybe the way to be more excited about ownership, if they realise that?

Craig: I'm less excited about the dashboard than some because anybody who is going to use the dashboard to find the information they need and go elsewhere to consolidate things has already done that with PensionBee or similar services. We're not having one single, central authority either, because we've decided there's going to be lots of dashboards. We've also decided that it's okay to start the dashboard without the data being up-to-date. We've also decided it's okay to have a dashboard where, for one scheme, that's going to be a value from six months ago, for another, that could be a year, so we've got confusion there, as well.

Then, the big one for me is that we've deliberately set out to build a dashboard where you can do nothing. We've removed control. So I don't think the dashboard in the form that we're going to have it is going to touch the sides of ownership.

Pemberthy: I don't think the dashboard is a silver bullet either. In the short term, people who are actively reviewing their pensions will go to it to check information, so it will be convenient, but not a game changer.

In the long term, where it will be positive is that it will give one version of something like the truth in terms of projected retirement. That's not going to be the case from day one, but there are opportunities there for the future.

And generally, it needed to happen – the fact that we're building an infrastructure, that there's a degree of collaboration across the industry and we are getting data up to scratch, is a positive even if, ultimately, there will be probably be a disappointing take-up. So I'm not expecting miracles from it, but in terms of what it can do to help bring things together, it's a step in the right direction.

Silcock: One of the really important things will be what kind of referrals are on the dashboard. Because the dashboard doesn't need to necessarily provide all of the supplementary information, but if it can at least tell people where to go, that's going to be a huge step.

Conclusion

Chair: From what I have heard today, it certainly seems like ownership is a better ambition than education or engagement. What I also heard is that the sharp end of that ownership could be ESG and messaging around 'what is your money achieving?'.

Also, we're not teaching people to own anything so, by trying to encourage ownership of pensions, we're trying to buck the trend in the general direction that society is going in. I don't think that's a bad thing, but if we go into it with our eyes open and acknowledge that we're battling against that, then we're better equipped to do the battle.

Comment: Member in the middle

Disagreements within the pensions industry can drive progress and change, but infighting can also damage member trust when it spills into the public space, argues Sophie Smith

The pensions industry has a tendency to air it's dirty laundry in public, with much of the public attention surrounding the industry prompted by scandals and crisis, like the recent liability-driven investment (LDI) concerns, the British Steel Pension Scheme scandal, or even the issues seen around pension transfers earlier this year.

These issues around transfers came to light after the passing of new regulations, designed to help protect savers against the threat of pension scams.

The new rules meant that suspicious transfers could be blocked by pension scheme trustees and managers where there are 'tell-tale' signs of fraud or methods frequently used by scammers, and were broadly welcomed by the industry, with many emphasising the need to protect members from the real damage that pension scams can inflict.

No good deeds

But the road to hell is paved with good intentions, and it wasn't long before disagreements emerged around the new rules.

Around six months after the introduction of the new rules, PensionBee wrote to then-Pensions Minister, Guy Opperman, accusing several pension providers of abusing the new legislation to block or delay consumers from moving their pensions.

In the letter, PensionBee stated that the regulations appear to have been misused in a "variety of inventive ways", including adding new "obstructive steps" to the transfer process to freeze "legitimate" transfers. It also claimed that individuals have been presented with a variety of reasons for transfer delays, including concerns about international investments and routine rewards of a modest monetary value.

Providers were quick to defend their actions, however. In particular, providers explained that some of PensionBee's marketing initiatives fall within the meaning of an 'incentive' under the new regulations, which state that any transfer that has been incentivised cannot proceed as a statutory transfer.

They also explained that these decisions were the result of legal advice, while many suggested that they had already been in contact with PensionBee to find a way forward in the best interests of members looking to transfer.

Steps have since been taken to remedy the situation, as The Pensions Regulator and the Department for Work and Pensions updated guidance to address these concerns. This confirmed that whilst the presence of an incentive could mean there is no statutory right of transfer, trustees could allow a discretionary transfer if scheme rules allow and if due diligence shows the transfer is at low risk of a scam.

This has been reflected in the approach of pension providers, as B&CE, provider of The People's Pension (TPP), director of policy, Phil Brown, stresses that the master trust remains "committed to working with other market participants in order to process transfers within the law as it stands and to protect members' interests".

"In some uncommon situations where the law removes a statutory right to transfer to a legitimate pension provider, TPP will pay a non-statutory transfer and continue to engage with other pension providers to achieve this promptly and efficiently," he adds.

Yet disagreements continue. PensionBee CEO, Romi Savova, argues that despite the updated guidance, a handful of actors are continuing to "take the opportunity to misuse recent legislation to prevent savers from moving their own pension savings, rather than focusing on creating quality products which make their customers want to stay".

Savova also warns that the problem of slow and difficult pension transfers has "long been an obstacle to inspiring greater confidence and engagement in pension saving".

And despite the good intentions of both sides, recent disagreements have likely only worsened member

confidence, as while these disagreements and delays continue, savers are the ones paying the price.

A lost opportunity

Many in the industry will know family and friends who have been looking to transfer their pension amid the recent issues and have faced horrendous delays, with communications often not providing the reassurance needed.

And despite these regulations looking to protect members, much of the onus is being placed back on them, with members being asked to fill out lengthy forms to provide further details when issues such as a potential incentive are flagged.

One of my family friends who experienced these issues is self-employed, a demographic that many in the industry have been fighting to improve pension savings for, with vast resources devoted to encouraging greater pension engagement amongst these savers.

Yet this experience, and subsequent concerns over which providers were legitimate and who could be trusted, meant that they eventually just gave up after feeling overwhelmed by the process.

Pensions and Lifetime Savings Association (PLSA) head of DC, master trusts and lifetime savings, Alyshia Harrington-Clark, agrees that members can often find pensions confusing, which can make interactions with their pension provider a cause of anxiety.

"The example of pension transfers is a good one, with steps taken over a six-to-eight-week period to ensure that the entity they are transferring to is legitimate and not an illegal scam, though these steps are presented by some as delays," she continues.

"The industry is already working hard behind-the-scenes to protect members, but the balance needs to be struck between explaining to members and working on their behalf to maintain and build trust."

Indeed, Savova, points out that as workplace savers do not have the luxury of picking their provider, preventing them from moving their money easily to a provider of their choice can make the pension industry appear "purposely obstructive, often leading to widespread anger and confusion from savers".

"Now is a time of great national anxiety, and retirement worries can become especially pronounced when experiencing economic turmoil and disruption. As such, it's never been more important for consumers to trust that they are being treated fairly by their pension provider and supported in their retirement savings journey."

Finding a solution

Solutions are clearly needed to prevent these issues from further damaging member trust and the pensions industry reputation, although even this is a cause for further disagreement.

Savova, for instance, suggests that "to resolve the issue once and for all, the DWP needs to urgently restore order in the transfer market, making critical revisions to its existing transfer legislation and implementing a 10-day switch guarantee to prevent consumers from being trapped in products they've deemed unsuitable and therefore do not trust."

A spokesperson for the Association of British Insurers (ABI) agrees that the issue "will not just be solved by a tweak to the incentive definition," emphasising that "the regulations must change".

Rather than a switch guarantee, the ABI suggests that mainstream personal pensions that reach a sufficiently high bar on value for money should be treated the same as master trusts, with an automatic statutory right to transfer, they state.

However, Brown says that while it may be possible to change the transfer regulations to better differentiate between transfers headed for scams schemes that should be blocked and transfers to legitimate schemes, it is "likely that some friction is inevitable and consumer protection must come first".

Rinse and repeat

Broader solutions may also be needed to prevent similar issues in future, as Brown acknowledges that it can be a "difficult balance" when drafting regulations as scams are much easier to recognise in the wild than they are to define in legal language.

"Maintaining close collaboration between the DWP and the pensions industry ahead of regulations being drafted would help to avoid unintentional operational difficulties," he suggests.

Industry awareness efforts may also have a role to play, as Harrington-Clark says that issues such as these are "one of the reasons we have been working on the Pay Your Pension Some Attention campaign, which is encouraging people to engage with their pension saving and increase awareness and understanding of how pensions work".

Indeed, the Pension Attention campaign has received 'unprecedented' industry support, with backing from 17 organisations, as well as support from DWP and Money and Pensions Service. And if pension organisations are able to gather round a table (or Zoom call) to work together on engagement efforts, it seems likely that similar discussions could also help shape broader future policies and avoid unintended consequences.

With the recent issues around LDI placing pensions back into the 'bad books' for many savers, it is important that we are doing everything possible to improve the pensions industry reputation, with industry organisations working together to create solutions.

Playing piggy in the middle with members simply isn't good enough.

Written by Sophie Smith

A guiding influence

Tom Dunstan speaks to Pasa board director, Gary Evans, about the association's new defined contribution (DC) transfer guidance, what the guidance is, what its aims are, and how it was created

What prompted the DC transfers guidance?
Two things, firstly there was a desire across the industry to try and improve the member experience for transfers. Secondly, there have been a number of regulatory changes recently so an additional prompt was to review what best practice looked like in this space.

Can you elaborate on what the aims of the guidance are?
The aims of the guidance are to improve the speed of transfers to make it a better experience for members, and to provide guidance to administrators, both large and small, on how to deliver that best practice and what to include in that best practice. Also, as part of that, to provide template letters and transfer forms to smooth the process.

How does the guidance hope to achieve its aims?
It helps to achieve these aims by setting out the process with straightforward and easy-to-follow flows, along with an explanation for administrators and trustees to better understand those flows. So, whilst the guidance is not being prescriptive, it's absolutely trying to show what best practice would look like.

Can you give a brief overview of what the guidance says?
The guidance sets out that, in processing a DC transfer, you should look firstly at whether the transfer is standardised or not and, if it's standardised, then we expect you to have agreed service levels of delivering that with individual scheme trustees and to deliver them promptly.

Where it's not standard, what we're looking for is that administrators and trustees manage that process as quickly as they can but with improved communications for members so that members understand what's happening. Improved communication is a key part of anything that is done standard but particularly here.

Why was the decision made for the guidance not to be prescriptive?
With Pasa, the way we approach any of the work we do on behalf of the industry is that we set standards for accreditation, so if you are an organisation who wants to become accredited by Pasa then we have prescriptive standards that you have to meet. However, we recognise that not everyone has access to good practice as not everyone is a large third-party administrator or insurer who has technical teams. Our guidance is intended to share best practice throughout the industry and make sure everyone has access to it. We don't make that prescriptive as we want to increase the size of the coalition of the willing. We want to get more people who want to do better, and we don't think you achieve that by trying to be prescriptive. We do that by providing guidance and best practice examples to anyone who might need them.

Are there any areas where you think the guidance could have been developed further?
As I said before, we are working on a coalition of the willing. We are trying to get the industry to raise standards all round and I think setting standardised service levels for transfers is something that we'll look to return to in subsequent iterations, but we need to bring the industry with us.

Are there any parts of the guidance that you would identify as most important?
There's a couple of places in the guidance where we explicitly call out member communication as being required so I think that aspect of the guidance is very important. I think a lot of dissatisfaction we see with transfers throughout the industry is members complaining about things that can be explained very easily but hasn't yet happened.

Written by Tom Dunstan

Summary
• Industry campaigns can be an effective tool to not only encourage member awareness but to provide member support and answers amid the recent market volatility.
• Awareness campaign costings may come under scrutiny, but these are often viewed as an investment into members, and can be reduced through cross-industry efforts.
• Results are being seen, but future efforts will still be needed to build on the success of current campaigns.

Can marketing save pensions?

Following the launch of the cross-industry Pension Attention campaign, Sophie Smith considers the successes of past industry campaigns, and whether a good campaign could be enough to improve the industry's reputation

The pensions industry is no stranger to a marketing campaign, whether it's Workie the pensions monster or the Dragon's Den 'I'm in' automatic enrolment (AE) awareness campaign.

The Pension Awareness campaign is celebrating its ninth year in 2022, boosted by the new the cross-industry Pay your Pension some Attention campaign, launched earlier this year with the help of grime artist and TV cook, Big Zuu, who produced a new pension-awareness inspired track and music video.

The campaign has received "unprecedented" industry support from 17 providers, with those involved also working closely with the Department for Work and Pensions (DWP) and the Money and Pensions Service (Maps).

"By also partnering with Pension Awareness Day and the team behind National Pension Tracing Day, we've been able to bring a family of pension campaigns together under a single umbrella to help them all increase their visibility," says campaign manager, Sarah Cordey.

Some progress is already being seen, as the Pension Awareness campaign has recorded growing interest in recent months.

"Over the past nine years we've built up a strong following amongst many different businesses, government and individuals who return each year to participate with the campaign," Pension Geeks head geek and co-founder of the campaign, Rachel Parkinson, says.

Getting results

"Last year, we had a total of 18,566 attend our live shows. For 2022, so far, we've now had nearly 30,000 people register for our live shows," she notes. "For 2022, there's now been over 264,000 page views of the Pension Awareness site *[figures for 2022, correct as at 24 October 2022]*. In 2021, there were 72,000 page views."

More niche initiatives have also reported success, with the Make My Money Matter (MMMM) campaign recording a "massive increase in awareness and engagement on the power of our pensions" since its launch, according to MMMM campaigns and policy adviser, Izzy Howden.

Viewed by nearly 20 million people since it launched in June 2020, the campaign has seen around £1.3 trillion of UK pension money committed to net zero, with over 100 organisations signed up to MMMM's Green Pensions Charter.

"We have engaged thousands of pension scheme members who have taken action through our website, from directly emailing their pension provider asking them to meet net zero to signing petitions calling on the industry to cut its investments in companies linked to deforestation," Howden continues.

"What's more, we've seen an 85 per cent increase in awareness around the link between pensions and climate change and hope to further mainstream the issue as our campaign grows. This shows that you can make pensions more accessible to the public, and in doing so, achieve real change in the industry."

However, a spokesperson for Smart Pension stresses that "as with any awareness campaign, they are as effective as the implementation, and also a little at the mercy of whatever else is happening in the wider world at the point they go live".

Recent issues around liability-driven investments (LDI) amid gilt market volatility, for instance, have brought renewed attention to the pensions industry, for all the wrong reasons.

Indeed, Now Pensions head of PR and campaigns, Samantha Gould, highlights the recent media attention as "a double-edged sword", pointing out that increased pension awareness will have come at the cost of "big scary headlines and questions about whether people's pensions were safe, which would have unnerved millions of people".

An opportunity amid a crisis

Aegon head of pensions, Kate Smith, agrees that the recent media attention may have caused undue worry amongst members. She suggests that pension providers therefore have a role to play in reassuring members and providing clear information on the current situation, with awareness campaigns having a role to play within this.

This is echoed by Dalriada Pensions accredited professional trustee, Shola Salako, who describes the recent press attention on DB pension schemes as a "teachable moment" for trustees to engage with the members.

The cost-of-living crisis has presented a similar double-edged opportunity, as Standard Life chief marketing officer, Sangita Chawla, stresses the need for pension awareness campaigns to be sensitive to the fact that many people are struggling, and long-term savings may not be their immediate priority.

"Campaigns that reference the value of pension features like employer contributions or tax relief can go a long way in encouraging people to stick to their financial plans," Chawla suggests.

The FCA ScamSmart campaign has already adapted its messaged based on emerging trends around the rising cost of living, issuing a warning to savers after research found that 25 per cent of savers would consider withdrawing money from their pension earlier than planned to cover the cost of living.

According to Parkinson, the Pension Awareness campaign has also seen an increase in the number of people wanting to know what the implications may be if they pause pensions, and on whether now is a good time to retire.

"People have even more questions that they're searching for straightforward answers on and therefore need our support more than ever," she says. "Our aim is to arm people with the knowledge they need to make informed decisions – whether it's about pensions or their finances in general."

Agreeing, Gould stresses that "now

We're all in

The DWP has run a number of awareness campaigns in the past, fronted by celebrities, dragons (at least of the investment variety), and even animated monsters. But have they proven effective?

A 2017 review from the government suggested that there is "some evidence" that the national automatic enrolment (AE) advertising campaign helped to reinforce inertia by providing the start of social norming – where people 'like me' were more likely to be 'in' than to 'opt out'.

More recently, the DWP's *2019/20 Annual Reports and Accounts* revealed that the You Work, Your Pension Works campaign surpassed communications' key performance indicators (KPI) set by departmental analysts and Ipsos Mori. In particular, a November 2019 survey of 2,000 people eligible for AE found that 84 per cent agreed a workplace pension is a good thing for them, against a target of 65 per cent, while 77 per cent affected by AE agreed that saving into a workplace pension is normal, against a 65 per cent target.

The DWP's Pension Credit campaigns have also seen success, as over 10,000 claims were made when the campaign run during the week of 13 June, marking a 275 per cent year-on-year increase.

The state pension has been another area of focus of past DWP campaigns, with the department's *2019/20 Annual Report* highlighting results from the 'Get the Retirement you Want' campaign.

The campaign ran for two months from September 2019 and resulted in 71 per cent of those aged 35 to state pension age agreeing that they need to save to make sure they get the retirement they want, exceeding the 65 per cent KPI target.

An additional tracker also revealed 48 per cent campaign recognition in core audiences, a record for retirement planning campaigns, with radio adverts having the highest recall.

As auto-enrolment reaches its 10th anniversary, these campaigns have come full circle, with a recent video based on the initial 'I'm in' campaign for AE featuring *Dragons' Den* star, Theo Paphitis, shared by the DWP.

A DWP spokesperson says: "We want to ensure people are supported to make informed choices about their financial futures and understand both their state and private pensions. We work closely with pension providers and stakeholders to reach as many people as possible.

"AE has succeeded in transforming pension saving, with latest figures showing more than 10.7 million workers have been enrolled into a workplace pension to date and an additional £33 billion, in real terms, saved in 2021 compared to 2012.

"The figures highlight how the policy has succeeded in normalising workplace pension saving, establishing a culture of retirement saving for a new generation, and boosting financial security in later life."

is not the time to be telling people to put more money into their pensions", it is important to ensure support is available when savers consider their retirement plans.

However, Cordey clarifies that while there is "no doubt it's a challenging time to run an awareness campaign", the intention of this campaign was always engagement, rather than a major push towards higher saving levels.

"The increased cost of living pressures didn't change our focus, but we did choose to be more explicit about saying to the public that this is about finding time rather than money," she explains. "We were extremely conscious of not wanting to add any additional financial pressure given the circumstances some people were facing."

Justifying the cost

The rising cost of living and financial struggles being faced by members could also prompt closer scrutiny on the spending in the pensions industry though, and awareness campaign costs are an area that has come under fire before, with widespread criticism when the £8.5 million Workie campaign cost was revealed, for instance.

But as Henry Ford said, stopping advertising to save money is like stopping your watch to save time, and industry organisations are quick to highlight these costs as an investment into savers' futures.

This approach can most clearly be seen in the FCA's approach towards the ScamSmart campaigns, which is purely focused on preventing scams, rather than raising awareness around pensions.

According to an FCA spokesperson, the watchdog's return on investment formula for the campaign is based on the amount potentially saved from scams.

"As an example, in 2021 the cost of the campaign was £776,000, while the average loss due to pensions scams in that year was £82,000, meaning that to have paid for itself the campaign would have had to have prevented 9.5 people from being scammed.

"One thousand and sixty-five people were warned about an unauthorised firm, which potentially saved consumers £87.3 million," they state, noting however, that this measure is a proxy, rather than a definitive measure.

Pooling resources through cross-industry initiatives such as Pension Attention may also be a step in the right direction. Chawla confirms that the cost of the awareness campaign is modest when spread across multiple providers, emphasising that "the potential to make a difference to the outcomes savers achieve is significant, so there's a great deal of value in these activities".

"Having brands unite behind one campaign increases the chances of the message cutting through, and should offer better value for money," Cordey agrees.

The Pension Attention campaign is still only in year one of a three-year initiative and difficult decisions around how it's messaging will evolve, as well as decisions as to how the group will share results and costings from the campaign, will need to be made in future. But it is still early days for the initiative and member engagement is a huge challenge to tackle.

In the meantime, Gould stresses that engagement with savers on pensions shouldn't be limited to such campaigns, but should be backed up and supported with direct member engagement from schemes and where necessary, employers.

"The pensions industry must look to take advantage of every opportunity to engage with savers to raise awareness and nudge them to take action when required," she says.

Written by Sophie Smith

Correlation or causation

"Measuring success can be difficult, particularly when it comes to assessing how a broad campaign, which deploys many tactics, is driving action," says Make My Money Matter (MMMM) campaigns and policy adviser, Izzy Howden.

"At MMMM, we track our media presence diligently and analyse which activities drive the most coverage. The same goes for social media and other digital campaigns – a test and learn approach proves useful to work out what is landing best, driving engagement and raising our profile."

Howden says that conducting regular brand awareness polling has also helped the initiative to monitor how public profile has grown, emphasising that by "tracking awareness of the issue, engagement with the topic, and actions being taken, we can see clearly the journey individuals are going on to make their money matter".

Sealing the cracks

Gill Wadsworth considers the efforts being taken to reduce discrepancies between the regulation of contract-based and trust-based schemes

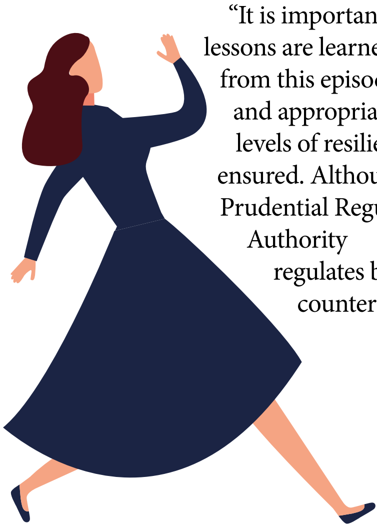
Summary
- September's mini-Budget highlighted inconsistencies in oversight of UK pension funds.
- The government is attempting to align regulatory approaches through a series of consultations.
- Trustees, employers and providers demand greater clarity if they are to communicate with members without falling foul of current regulation.

When pension funds' liability-driven investment (LDI) strategies were hit following the Conservative government's since-reversed September 'mini-Budget', it was not long before fingers were pointed, and questions asked, over who was to blame.

The Bank of England (BoE) was quick to take the credit for saving defined benefit (DB) pension funds, arguing that its temporary repurchasing of government bonds this October prevented those schemes dependent on LDI from falling into another funding hole.

As well as highlighting its prevention of a "vicious spiral of collateral calls and forced gilt sales", the BoE also took the opportunity to demand greater harmonisation and cooperation between The Pensions Regulator (TPR) and Financial Conduct Authority (FCA).

In its Q3 2022 update published this October, the Financial Policy Committee made clear the failings of a system overseen by multiple regulators.



"It is important that lessons are learned from this episode and appropriate levels of resilience ensured. Although the Prudential Regulatory Authority regulates bank counterparties of LDI funds, the bank does not directly regulate pension schemes, LDI managers, or LDI funds. Pension schemes and LDI managers are regulated by TPR and the FCA. LDI funds themselves are typically based outside the UK. The bank will work with TPR and the FCA domestically to ensure strengthened standards are put in place."

Regulatory disparity

This is just the latest in a long line of challenges for those on the frontline of pension management who are overseen not just by TPR and FCA, but the Department for Work and Pensions, as well as adhering to regimes that govern communications, including the Privacy and Electronic Communications Regulations (PECR).

Importantly, trust and contract-based schemes are not subject to the same rules and oversight. Contract is the responsibility of the FCA, trust falls under TPR. These differences were made particularly apparent after pension freedoms were introduced.

According to Aegon UK head of public affairs, Kate Smith, the disparity in treatment between schemes creates complications, particularly for a provider that offers contract plans and runs a master trust.

"The differences in regime are more noticeable because we have got feet in both camps. What we find is when they make rules, they are slightly different, and they are introduced at different times."

Smith points to discrepancies in members' communications and support experiences. In the run up to retirement, under FCA rules, defined contribution (DC) members should receive frequent 'wake-up packs' from age 50, with a clear recommendation to use pensions guidance, limited to a single-page summary.

Under TPR rules, trust-based schemes, meanwhile, are required to provide members with wake-up packs four months before their scheduled retirement date, on request, or when a member wishes to access their pot.

Smith says: "Members may not know if they are in a contract- or trust-based scheme, so it makes no sense to have different regulations about providing this important information. All that matters is they understand what they need to do and can engage with their pension."

Communication complexity

Complexity and inconsistency with pensions communications also includes adherence with PECR.

A letter from Work and Pensions Select Committee, chair, Stephen Timms, to Minister of State for Media, Data and Digital Infrastructure, Julia Lopez, sent this May, highlighted concerns

from trustees, including those at the Universities Superannuation Scheme (USS), that TPR rules on communicating with auto-enrolled members is at odds with the electronic communication regulations.

Timms wrote: "We have heard that the policy of auto-enrolment on the one hand makes getting marketing consent from members at the point of joining more difficult and on the other makes communication particularly important."

USS told the select committee that "this has materially impacted on their ability to communicate helpful information to scheme members and to maximise the benefits of investment in the scheme website, member portal and online functionality".

Providers too face the same challenges.

Aviva workplace policy manager, Dave Critchley, says: "While the law allows providers to enrol people into a pension scheme by default, they are unable to send communications that might help customers make better decisions about that pension by default. These are the customers who tend to need the most support in managing their pension effectively. Right now, these pension savers are missing out on communications about services and products that could make a real difference to their retirement pot."

Critchley says Aviva would like to see changes made to PECR via the Data Protection and Digital Information Bill to allow a 'soft opt-in' to apply for auto-enrolled customers.

"The idea of 'soft opt-in' is that when a person is automatically enrolled they provide their details and are assumed to be happy to receive marketing about those products or services, unless they opt out of receiving them," Critchley says.

The regulators appear to recognise these concerns. In a joint statement issued this June as part of a call for evidence on the DC consumer journey feedback, they say: "*[Providers]* see a current misalignment between our regulatory expectations on communications and other legislation. Many perceive a conflict between our regulatory expectations that schemes and providers should support savers with regular communications to help deliver good outcomes, and the PECR and Information Commissioners Office (ICO) draft direct marketing code of practice marketing guidelines."

TPR says it is working with the ICO to clarify what constitutes direct marketing and also hopes the pensions dashboard will ease conflicts in rules and regulations.

Providing clarity

The DWP is attempting to combat inconsistences between regulators via a range of consultations.

This June, the department opened a month-long call for evidence via the helping savers understand their pension choices consultation, which followed last September's discussion on driving value for money in DC pensions.

There are also efforts to align the reporting requirements under the

Taskforce on Climate-related Disclosures (TCFD) which again differ between trust- and contract-based arrangements.

PLSA deputy director of policy, Joe Dabrowski, calls these efforts "a positive development".

He adds: "For some schemes and funds that straddle both regulatory regimes there can be some difficulties working through different demands. For example, there were some differences between the FCA and TPR requirements for TCFD. Some of these differences are most prevalent for Local Government Pension Scheme (LGPS) funds, which have a more complex environment. For the LPGS, we have called for a more centralised approach, which could involve creating a new regulatory body, or giving an existing body greater power, to be examined."

Sackers partner, Helen Ball, says the consultations show willingness from regulators to work together and provide clarity for pension professionals, particularly when it comes to the grey area between guidance and advice.

"For some schemes and funds that straddle both regulatory regimes there can be some difficulties working through different demands"

"Employers have for a long time worried about where the line is between engaging with members and offering advice. The fashion looking forwards will be to be more helpful, but the issue is trying to express that help in a way that is not straying the advice territory. Anything that makes it easier for providers, employer and trustees will be useful."

Dalriada Trustees head of technical, research and policy, John Wilson, agrees employers and trustees need help to support their members without being accused of giving advice.

"Members are looking for more and more support from their employers and trustees, but there is still a lot of confusion about what can and can't be said. Trustees and employers don't want to become regulated advisers, but they want to help because getting advice is so expensive for members. We just want to have as much possible clarity as possible and reduce the grey areas."

Wilson would like to see the regulators hearing real-life examples on which they base future rules and guidance.

"We need to relay some of the questions members have asked and demonstrate where it has been unclear as to whether we are offering guidance or advice. If the regulators could incorporate those into the guidelines, that would be practical."

Wilson concludes: "There are lots of opportunities to certainly make the regulatory regime better and It is encouraging that the regulators are listening."

Written by Gill Wadsworth, a freelance journalist

Pensions without borders

Pooling internal pension and investment resources across countries can be advantageous for multi-national employers but it brings complex challenges, writes Stephanie Baxter

Summary
- Multinational companies are looking for consistency in investment decision making and to improve the efficiency of scheme management.
- Pooling internal resources can reduce operational complexity, maximise efficiencies and deliver cost savings.
- It is resource-intensive, creates regulatory and operational risks, and requires having the right risk and IT systems in place.

For multi-national companies that sponsor several pension funds around the globe, there are many advantages to pooling internal pension and investment resources.

The sponsor may be able to reduce operational complexity, maximise efficiencies, simplify reporting structures, provide cost savings and improve governance. But while increasing scale brings opportunities, companies also need to be aware of several challenges.

World Pensions Council executive director, Nicolas Firzli, who is also an adviser to the World Bank, says the rush for scale is driven by several financial considerations deriving from economies of scale but also non-financial ones such as managerial efficiency.

He points out that the biggest asset owners in the world are public pension and sovereign wealth funds from eight countries – Abu Dhabi, Australia, Canada, Holland, Norway, Saudi Arabia, Singapore, and the United States – and these are most likely to pool resources. Pooling by even the largest private sector multinational companies has been far less prevalent.

Firzli says: "Now, there's a belated realisation among policymakers in London, Berlin, Paris, and Rome – the headquarters of many multinational corporations – that [*companies*] need to merge their atomised private pension funds to catch up with these foreign financial juggernauts and restore some balance."

Mercer senior international consultant in New York, Peter Stewart, says multinational companies are looking for consistency in their investment decision making to ensure their best investment ideas are reaching all their retirement schemes around the world.

"They are also looking to improve the efficiency of plan management while mitigating fiduciary risks through plan oversight and ongoing monitoring. In addition, they are looking to ensure that employee outcomes are being enhanced while optimising vendor resources and reducing plan administration," he says.

Many multinational companies have in-house fund managers that oversee assets across the global investor pool. However, this is not an option chosen by all multinationals as some would prefer to outsource these responsibilities and focus on their core business, says Stewart.

Benefits of pooling

There are three clear benefits from pooling internal pension and investment resources across multiple countries, according to Aon senior partner, Paul Bonser.

"Firstly, improved governance, with central oversight across the whole portfolio rather than on a country-by-country basis," he says. "Secondly, greater efficiencies through centralising and standardising the process and delivery requirements needed to run global retirement plans. And thirdly, economies of scale with all schemes at the local level benefiting from innovative thinking."

There is widespread agreement that it is easier to pool resources in HR and financial services than to set up asset pooling vehicles. Bonser says: "More multinationals have set up centres of excellence to deliver HR and finance services across their whole businesses and this includes the operational support for retirement plans – centres include Ireland, the Netherlands, Greece and Eastern Europe."

However, only a few of the largest multinationals have set up asset pooling vehicles to serve their pension schemes because it is resource intensive, in part because implementation is not always straightforward.

Others have adopted a virtual pooling approach using a global custody platform as this is often more effective and simpler to implement, says Bonser.

A company needs to be large to be able to launch its own pooled investment funds that can be used by pension schemes in multiple countries.

While dependent on the asset class, roughly a minimum of $250 million of pooled assets would be required, says Stewart. But he adds that pooling often only makes sense for pooled assets over $1 billion, whether internally or externally pooled.

Van Lanschot Kempen head of fiduciary management and institutional solutions, Wilse Graveland, says there is probably an optimum level between €30-100 billion of assets to experience the full benefits of scaling while simultaneously remaining agile.

"If you are a big pension scheme that operates in a small financial market with a lot of homogeneity between investors, you run the risk of everyone trying to exit through the same door at the same time – just as we saw *[with the LDI crisis]* in the UK recently," he warns.

"If you operate in deeper and larger markets, you will find more buyers and sellers and therefore better prices when you need to move your investment portfolio. However, even then, if you become too big, it becomes increasingly hard to move."

What are the challenges?

Pooling brings many challenges: It takes up a huge amount of time to manage in-house, and creates regulatory, reputational, and operational risks. Pensions legislative frameworks and requirements also differ from country to country and across regions, further complicating the task.

Isio investment partner, Emily McGuire, says the company ultimately needs to think about what its goals are as a sponsor.

"There might be different objectives around the world – from de-risking to using the scheme for talent recruitment and retention – depending on where the company is on its pensions journey in that jurisdiction," she says.

"Tax positioning can make it hard to gain the full benefits of global relationships, which can also influence the products and solutions available in different parts of the world."

It may also be difficult for all the different boards of trustees to agree on global policies.

McGuire points out that there is a lot more consolidation within regions than between them, due to companies more commonly acquiring peers in related markets and taking on their pension schemes.

"This way, companies can combine assets in existing vehicles, or create collective investment funds that are able to keep a specific, chosen strategy. This helps to increase companies' buying power, which could give them access to a range of alternative funds – which typically have high minimum allocation hurdles – and better fees."

It is important to have the right risk systems, resources and IT systems in place, as well as being able to meet all the different regulatory requirements.

As Pensions and Lifetime Savings Association deputy director, Joe Dabrowski, says: "There is a lot of tactical stuff to do, as well as making sure you have the resources and understanding of the risks and funding requirements on an ongoing basis. How will you resource your teams? And can you offer competitive rates compared to third-party providers?"

Given that employers have different rules and agreements in each country, it is hard to achieve economies of scale unless all the approaches can be transformed into a uniform approach, which is very difficult to do, says Graveland.

Pooling can be very efficient if investment policies, preferences and risk appetites are similar, but not if there is a lot of differences between them.

Other key considerations include whether to manage everything internally, or work with a partner, and the level of risk and complexity a fund can handle.

"If there's a lot of variety among pension funds, combining schemes might become problematic," says Graveland. "You need to be able to deal with powerful players in the financial markets."

There could also be the potential to see what works well in one jurisdiction and then adopt that best practice across all the multi-national company's pension schemes.

Dabrowski says: "If you're looking across a wider region and noticing how people do things in different countries, for example a strategy for member communication, there is a good opportunity to pick up what works more widely. You can then take that knowledge and apply it across the business."

However, there is a point at which the advantages of gaining economies of scale are outweighed by disadvantages caused by size and complexity.

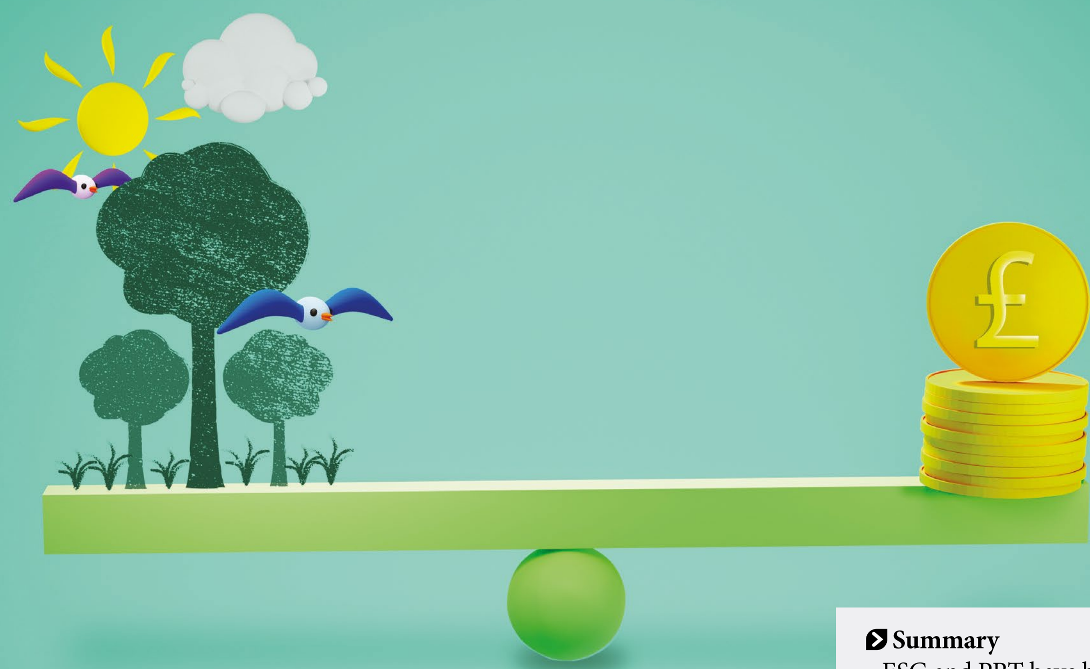
Graveland says it is important to have solidarity between employers and employees, in addition to solidarity between groups of employees, before asking what the employer should commit to. For example, are national entities required to make additional payments to maintain a certain coverage ratio?

"In the Netherlands, we have seen a 'silent revolution' in which most employers capped or ended additional payment obligations, shifting some of the risks to the pension funds. Consequently, the funds' balance sheets simply got too big compared to company size. We are now observing a similar thing happening in the UK, while employers there are still committed to additional payments and inflation correction."

Going forward, Firzli is confident more multinationals with global footprints will follow the Mars and Unilever model: Rationalising and centralising their disparate employee pensions programmes within a single fund management entity as much as possible.

"This will happen in spite of lingering regulatory obligations – including for solvency, liquidity and ESG – currency, and fiscal differences at national level. Once thought insurmountable, these differences are now easier to resolve through modern administrative and HR systems, and new fintech and regtech tools."

Written by Stephanie Baxter, a freelance journalist



The next great coming together?

Pension risk transfer (PRT) and environmental, social, and governance (ESG) considerations have been subjects in the pensions landscape for years. But until now, the two have rarely become intertwined

Summary
- ESG and PRT have been topics of conversation in the pensions space in recent years, but the two have rarely met.
- Trustees looking to transfer their schemes to insurers are increasingly talking about ESG, even if it is not yet a deciding factor.
- The nature of ESG conversations have shifted in recent years from what a firm invests in to how it conducts its business.

There are two topics within pensions and investments that have been separately visible for the past three or four years: Pension risk transfer (PRT), when a scheme opts for a buy-in or a buyout with an insurer of their obligations, and environmental, social, and governance (ESG) investing. But little has been said about how the two meet, if at all.

Firstly, some context: Recent research put out by Hymans Robertson indicates that total pension schemes buy-ins and buyouts in the first half of 2022 reached almost £12 billion.

The research, as *Pensions Age* wrote in mid-October, indicated that the value of these deals was actually much lower than those (£21 billion) during the same period in the preceding year. The number of deals, Hymans Robertson observed in its *Buyouts, Buy-ins, and Longevity Hedging—H1 2022*, fell from 97 in H1 2021 to 78 in H1 2022.

And as Legal & General observed in its *Overview of the Pension Risk Transfer Market* in August 2021: "Relative to the first half of 2020, it has been a quieter start to the year across the market. Nonetheless, appetite from trustees and sponsoring companies to reduce their pension risk exposures remains strong and competition among insurers has been fierce, with well-prepared pension schemes taking advantage of attractive opportunities to secure their members' benefits."

The growing conversation

In contrast, the noise around ESG investing has grown ever-louder. And that conversation increasingly encroaches on the pensions industry, especially since the Pension Schemes Act 2021 required schemes with assets of over £5 billion to produce their own Task Force on Climate-Related Financial Disclosures (TCFD) reports (schemes with assets of over £1 billion were included in this from the beginning of October).

As Dalriada Trustees a lead trustee, Tiziana Perrella, puts it: "ESG-related topics are evolving even more rapidly, partly driven by regulations and partly by growing concern among the public of issues such as climate change. Bulk annuity providers have positive stories to tell, for example around investment in infrastructure projects with an environmental bias in fields such as renewable energy."

There is evidence that the ESG conversation is becoming more common amongst schemes seeking to transfer risk.

In September, pensions insurance specialist Rothesay released a report called *The Journey to Buyout 2022*. There, the authors asked 69 respondents (schemes pursuing buyouts) about the importance of ESG considerations. Nearly four in five (79 per cent) said that ESG considerations were somewhat or very important when choosing a transaction counterparty.

"Two years ago," says Cardano managing director, Adolfo Aponte, "we would get one or two questions around ESG. These days, that's over 60 per cent of schemes that are looking to transfer their obligations. The reviews are generally at a fairly high level. Some of the defined benefit schemes take it very seriously and have a checklist of policies where they have a target because they've been through the process of developing their climate change policies and want to know how an insurer compares."

These remarks are echoed by Hymans Robertson head of ESG for risk transfer, Paul Hewitson. He says that there is a variance amongst schemes as to their level of interest around ESG. The larger schemes, he says, have had a greater focus on this area.

"Those with their own ESG views in their investments probably care more," he says. "And there are always going to be sceptics in the trustee community. But most – and especially professional trustees – are taking notice and making it a thing that they consider."

The nature of the interest has also changed, says Perrella. "Five or six years ago," she says, "it would have come down to not investing in tobacco or weapons, or not supporting regimes. But now, it's about how embedded the principles are within the firm."

But while ESG may have become a more-commonplace conversation, says Perrella, it is not decisive for schemes in choosing between one insurer and another.

"Seventy-nine per cent *[of schemes purchasing buyouts]* said that ESG considerations were somewhat or very important when choosing a transaction counterparty"

"The key factor," she says, "is price. And the second is the quality of the administration. If you're giving all your money to an insurer, you want to make sure that your members are going to get the right benefits over the next 40-60 years. And you want to do it in the best way you can. You want members to be able to call you and ask about the insurer."

Pensions Age asks those interviewed if ESG was ever a decisive factor in whether a transfer went ahead or not with a particular insurer. Their answers indicate that it was a rare occurrence.

"Yes," says Aponte, acknowledging that ESG considerations have been a factor in some cases, "but that's the exception."

If anything, it had become a dealbreaker when all other things are considered equal, says Hewitson.

He explains: "We had a transaction last year when we put forward the ESG ratings of the insurer. And there was pushback when we were speaking to the scheme. They said that if the prices had been level, then they would have gone with one insurer over the ESG issue rather than the other insurer. So it does factor in."

The role of trustees

The discussion around ESG is still a nascent one. Hewitson says that most trustees that approach Hymans Robertson do so with a lack of knowledge around these issues. They are, he says, looking for guidance. "The standard trustee board is not that up to date on the details," he confirms.

"Part of the process is looking at the underlying processes and culture within the firm or insurer in order to understand what they do and how they do it. There are things like exclusions that will evolve over time. It's looking at the targets set and the attitude on things such as reaching net zero. In the long term, we hope that these firms will keep up with the longer trends that emerge," Hewitson adds.

There is also a conflict that arises with the fiduciary duty of trustees. Legally, the overriding priority for a trustee is to get the best returns for the members of their scheme. Does focusing on ESG impinge on that?

According to Hewitson, that is the million-dollar question. And he says, honestly, that he does not have an answer to that. It will come down, he says, to the impact of ESG on a firm's bottom line.

Aponte expands on that idea, taking a more-sanguine view.

"Many trustees," he says, "will try to do the right thing that delivers ultimately for their fiduciary responsibility. I think they ultimately need to weigh relevant factors and the impact on their members. It's something that's relevant and a lot depends on how much focus the trustee places on it. Most will try and find that joining of perspectives. But there are those who will take it further and are committed to do that while getting their membership to go on that journey with them."

Written by Pete Carvill, a freelance journalist

Ready, set, go!

After Clara Pensions became the first UK superfund to gain TPR approval, Tom Dunstan examines the superfund landscape and provides an update on Clara's first deal, the approval of other funds, and what superfunds might mean for the industry

Summary

- Superfunds are a new type of DB scheme solution that allow schemes to separate themselves from their sponsor and transfer to a separate body.
- Clara Pensions is the only superfund that has been approved by TPR but is yet to complete its first transaction.
- The Pension Superfund is currently undergoing TPR's approval process having already agreed two deals, subject to approval.
- The two models are separate and distinct, with Clara's being a 'bridge to buyout' and the Pension Superfund being a 'run-on' model.
- Superfunds could play a large part in the future of the pensions industry, but this potential will depend on how Clara and the Pension Superfund manage their superfunds.

Superfunds are a relatively new and fresh concept in the UK pensions world, with only one approved superfund currently operating at present. However, although they are not yet firmly established, their full potential within the industry remains unknown. With this in mind, it is worth asking what superfunds are and how they have developed recently.

The one and only

Superfunds are a relatively new type of DB scheme solution. They allow a sponsor's responsibility to a scheme to be transferred to a separate body without it having to be distressed enough to fall into the Pension Protection Fund (PPF) or having to pay the higher cost of an insurance buyout. This sets it apart from other methods of separating sponsor's ties.

The first superfund to be approved by The Pensions Regulator (TPR), Clara Pensions, was officially approved in December of 2021. Since its approval as a superfund, Clara has yet to complete its first deal and has not committed to an exact timeline on when this first deal may be completed. However, it has said that it expects the details of its first transaction to be announced soon.

Explaining why its first deal is taking so long, Clara Pensions chief origination officer, Ashu Bhargava, says that "we are working hard on our transaction as we want to make sure we get it done right rather than just get it done quickly".

Although there is no current concrete understanding as to when Clara's first transaction will be completed, there is some information as to the potential circumstances of the deal.

Bhargava states that he "suspects" that Clara's first deal will emerge from one case in particular from Clara's pipeline. Namely, "a scheme with a number of sponsors who have not been able to undertake corporate activity for a number of years because of the scheme. However, more opportunities would open up if they were able to bring forward the scheme's settlement".

Bhargava also provides insight into how day-to-day operations have changed at Clara Pensions since its approval as a superfund. He says: "What's been the biggest changes has been the interest from the corporate side. Before the assessment we had greater interest from the trustee side, in particular if they had schemes where they needed to transact quickly and so they were working with us ahead of our assessment."

Waiting in the wings

Whilst Clara is the first and only superfund to be approved by TPR, the Pension Superfund (PSF) is currently undergoing TPR's approval process, hoping to be the UK's second approved superfund. However, there is no exact understanding as to how far through the process PSF is, or when it expects to gain approval.

In order to appreciate the standards superfunds are held to by the regulator, it is worth understanding the approval process itself. This is something that Bhargava explains by detailing Clara's journey through the approval process.

One of the most important aspects of TPR's approval process, identified by Bhargava, is that the schemes that become a part of Clara's superfund are supervised by the trustees rather than Clara or its investors. The process also involved TPR confirming that "the people at Clara were good and proper", according to Bhargava.

Bhargava also describes that the process's attention to detail was a source of comfort for those working with Clara. "The thing that a lot of people take comfort from is that the long and rigorous process that we've been through means that they can take comfort that TPR has scrutinised our governance process," he says.

Although PSF is still undergoing TPR's approval process, it has already agreed two deals, which it submitted to the regulator in 2019.

However, agreed deals and TPR approval are not the only ways in which Clara and PSF's superfund differ.

LCP partner, Steve Webb, explains these differences by describing Clara's model as a 'bridge to buyout', looking after a scheme until it reaches a funding level necessary to achieve buyout with an insurance company. Webb describes the PSF model as a 'run-on' model, using its larger size, access to capital and collective nature of the fund to invest for growth after the scheme's sponsor has passed the scheme onto PSF.

Clara's model allows the assets and liabilities of each pension scheme to be consolidated into its scheme, to become their own section supported by their own ring-fenced and funded capital. This capital will remain available to that section until all members' benefits are secured through a buyout.

In contrast, PSF's 'run-on' model is more aligned to scheme self-sufficiency, as each year one-third of any improvement in PSF's funding level above 100 per cent will be paid into a separate members trust. PSF then determines if this will be used as a one-off payment to members or held in reserve.

One of the biggest challenges for superfunds recently has been market volatility, causing changes in the schemes seeking superfund assistance. This point is made by Bhargava who says: "As a result of recent changes, the schemes we were working with at the beginning of this year were able to achieve buyout," thus not requiring the assistance of a superfund as a result.

In the future

Looking forward, the potential of superfunds in the UK pensions landscape seems difficult to determine right now due to its relative youth.

PwC consolidation market lead, Matthew Cooper, expresses his frustration from market participants about the potential of superfunds given the long time period for them to be assessed and complete a transaction. Cooper points to an alternative he believes is gaining traction in the pensions market: "What I'm seeing in the marketplace is more interest in underwritten journey plan solutions rather than superfunds."

Cooper went on to clarify that, whilst there may be more interest in alternative solutions, there was still potential for superfunds in the pensions industry. He says: "If the two superfunds who are in the market complete a few transactions, this will increase market confidence in the solutions. There will most likely be a place for superfunds within the market."

Webb repeats this sentiment: "If the Clara model is seen to work you could see why other funds may enter the market with a similar model".

Webb also makes clear that, whilst it is unclear just how significant superfunds could be in the future, it is not wise to write them off just yet, saying they are "potentially very significant".

Additionally, the superfund landscape could change significantly in the future as its guidance changes. This is something that Hymans Robertson head of alternative risk transfer, Iain Pearce, points out: "We are currently operating under interim guidance so there will be future legislation covering how superfunds are allowed to operate and the biggest model at which they can draw profit".

The world of superfunds seems to be in a bit of a strange place recently, simultaneously being quiet and busy. Although Clara has been silent on its first deal, its hard work continues behind the scenes. Although PSF cannot give any concrete details concerning its approval, it seems internal workings with TPR remain underway. It does seem as though, whilst superfunds have not grabbed as many flashy headlines recently, the work they do remains continuous throughout. As to what to expect from superfunds in the future, the only advice seems to be: Watch this space.

Written by Tom Dunstan

In association with Capital Cranfield, ZEDRA, JUST. The Retirement Specialist, Standard Life Part of Phoenix Group, ENTRUST

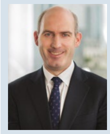
De-risking roundtable

CHAIR

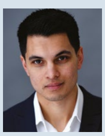
Andy Cheseldine, Professional Trustee, Capital Cranfield Pension Trustees
Andy joined Capital Cranfield in 2017 after a career as an adviser to trustees and employers at Watson Wyatt, Hewitt Bacon & Woodrow and latterly as a partner at LCP. Using his experience of over 30 years in consulting on both DC and DB pension arrangements and liaising with regulators throughout the pension and financial services industry, he is able to use his wide knowledge and understanding for the practical benefit of trustee boards. He has served on the PLSA DC Council since 2013.

PANEL

Louisa Harrold, Trustee Director, ZEDRA
Louisa is an accredited professional pension trustee and qualified actuary with over 20 years' experience in the pensions industry. She works with a range of DB, DC and master trust pension schemes in a variety of capacities, including chair of trustees, co-trustee and as sole trustee. Over her long career in pensions she has undertaken various roles such as scheme actuary, pensions consulting for both DB and DC scheme trustees, as well as working closely with corporates.

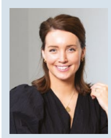


Rob Mechem, Director of DB Commercial, Just Group
Rob joined the defined benefit solutions team in 2014. He cares about finding the right solutions when trustees are preparing to buy-in or buyout. His team supports trustees and their administration partners from enquiry to transaction. He is a qualified life insurance actuary, which helps ensure the right questions get asked to maximise value for trustees. Before joining Just Group, he spent 12 years at Aviva. He is a regular contributor to the pensions press.



Kieran Mistry, Senior Business Development Manager, Standard Life
Kieran is a senior business development manager at Standard Life, responsible for the pricing and execution of buy-ins and buyouts. Kieran works with consultants, trustees and sponsors who are seeking to de-risk their pension schemes. He joined Standard Life at the start of 2021 having previously spent almost a decade as a pensions risk transfer consultant, including leading propositions focused on alternative risk transfer. He is a regular contributor to the pensions press.

Tom Neale, Trustee Director, Entrust
Tom is a professional pensions trustee who helps fellow trustees and scheme sponsors understand their schemes and run them efficiently and cost effectively. He has a long career of helping sponsor and trustee clients achieve their objectives for their schemes, managing risk, controlling costs and securing member benefits. His experience covers scheme management, actuarial, investment and covenant fields, and he has direct experience of a wide range of solutions including asset backed financing solutions, and integrated risk management strategies to name a few.



Róisín O'Shea, Business Development, Rothesay
Róisín is part of Rothesay's business development team. She has spent most of her career focused on pension de-risking and has worked on a wide range of transactions both at Rothesay and also during her time in Aviva and Legal & General's bulk annuity teams. Róisín is a fellow of the Institute and Faculty of Actuaries and has received the Chartered Enterprise Risk Actuary accreditation. She is a regular speaker at pensions events and contributes to the pensions press.

Alan Pickering, President, BESTrustees
Alan is president of BESTrustees and a trustee of a number of pension schemes. These include The Plumbing Industry Pension Scheme, which he chairs and The People's Pension. Alan also chairs the governance group of the Royal Mail Statutory Pension Scheme. He was a trustee of the Kosovo Pensions Savings Trust between 2011 and 2015. Until February 2013, he chaired the financial literacy charity, Life Academy. He has served as a non-executive director of The Pensions Regulator and a past chairman of the PLSA.

Matthew Swynnerton, Partner, DLA Piper
Matthew advises on all aspects of pensions law, including corporate and bulk annuity transactions, reorganisations, benefit redesign and liability management projects, reviewing and updating scheme documentation and advising trustees and employers on their legislative and trust law duties. Matthew drafted key legal sections of the Combatting Pension Scams Code of Practice, receiving widespread praise from TPR, the Pensions Ombudsman and the Pensions Minister. Matthew heads the London pensions team.

Robert Thomas, Director, Law Debenture
Robert brings deep trustee knowledge to his clients, acting as chair of trustees, as co-trustee and leading a large corporate sole trustee engagement. He has a commercial outlook and understands the corporate perspective. He was tax director for Xerox and a corporate finance director for Pfizer before joining LawDeb in 2017. He is well acquainted with the latest thinking on DC, working with the flagship Legal & General workplace master trust as well as leading LawDeb's corporate sole trustee engagement on a large own-trust DC plan.

In association with

Rothesay BESTRUSTEES DLA PIPER LawDebenture

De-risking roundtable

De-risking in today's volatile world

Our panel discusses the latest DB de-risking developments, including the impact of the recent turmoil, current and emerging trends, the role ESG plays and how to combat the ever-looming capacity crunch

Chair: What will be the impact of the recent market conditions on demand for de-risking?

Pickering: It will certainly increase interest around buyouts and de-risking in general and, once the dust settles, my hope is that trustees and employers will sit together and ask: What are our de-risking options? How can we make sure that we aren't surprised again? Do we try to transfer risk now, or prepare for transferring the risk? So, there is a silver lining here and we all ought to be trying to convene meetings of employers and trustees to consider the options available.

Swynnerton: Whenever you have a time of high volatility, it focuses minds on risk and consequently de-risking. So people who weren't already looking at de-risking will start inevitably to focus on it. We shouldn't also forget a looming recession, and a threat of insolvency – de-risking involves trustees effectively balancing the support that their covenant provides with the support that an insurer or another de-risking arrangement could provide.

Whether people will pause slightly whilst what's going on currently plays out, I don't know. But the deals that we're seeing are continuing, and the market volatility doesn't seem to be slowing down the appetite for de-risking.

Chair: What would the providers in the room like schemes to do to make their lives easier?

Mechem: Being prepared is absolutely critical – that's not just in relation to data and benefit specification, it's about the end-to-end journey, and thinking about what that's going to look

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De-risking roundtable

like, for example, has wind-up been thought about?

Also, we need to consider assets; we've seen a lot of schemes that have been sat in illiquid assets this year – they need to be thinking about them much earlier in the process; talking to insurers on day one about them, as opposed to in the run-up to signing – that is critically important.

Funding positions are improving and, once this dust settles, more schemes will want to de-risk, so making sure that the right preparation is done, end-to-end, is critical.

O'Shea: Despite the market turmoil, we have seen zero impact thus far on our current pipeline – people who were already in the process of doing a transaction have continued on, however our focus is full buyouts and larger buy-ins and we do hear that some buy-ins have been paused. We are definitely having more conversations with schemes whose funding levels have improved, and it's only natural that, as funding levels go up, schemes turn their attention to a potential end-game of buyout rather than run-off, when it can be afforded.

In terms of what schemes could do to plan ahead, I would say, 'don't rush to market, take your time, plan what you want to do, think about your benefit specs and your data, think about your illiquid assets and how you're going to deal with them,' because there's definitely no point rushing to the market at the moment.

There also may be a need to realign expectations – as deals have become a lot smaller, the desire for insurers to do complex structures is diminishing. For example, the desire for insurers to do residual risk on a small transaction has dwindled.

Thomas: Is that because of the work involved to do the due diligence for residual risk?

O'Shea: Yes, it's quite intensive, the due diligence process, both on the legal and data side. It's almost a given that you will offer residual risk on very large transactions but, on the smaller end, the level of work generally outweighs the premium that one would charge. Perhaps that might change, there may be a larger percentage premium on small deals in the future if schemes want residual risk, and can afford it.

Mistry: Since the start of the year, as inflation and interest rates were rising, schemes with capped increases and those not quite hedged to buyout funding levels have been watching their funding levels climb. This was resulting in an increasing number of schemes approaching insurers for buy-ins and buyout around mid-year.

During the more recent market shifts, there has been a lot of press around strains on schemes' liquidity due to their leveraged LDI positions. But once the dust settles, schemes that have been able to manage liquidity issues may look at their buyout funding levels and see that they're now much closer to buyout than they expected.

For those schemes, the key will be taking a measured look at next steps and not looking to rush to market. Instead, take time to better match insurer pricing movements, have a plan for illiquids, get your house in order, and set your objectives and priorities. As the market gets busier, efficiency is key, so a well-prepared scheme with a streamlined set of truly important requests will get much better traction from insurers.

Chair: How do the trustees here think positions are running?

Harrold: Over the course of this year, many schemes will have seen an improvement against buyout funding levels. So, even if they were hedged to their technical provisions, they are still likely to have closed some of the gap on buyout funding as yields have been going up. Looking specifically at the turbulent period after the mini-Budget, there were a range of experiences – not all good and also seemingly somewhat random in some cases, depending on who your LDI manager was and the extent to which they maintained liability hedges, for example. We're still waiting for full information in many cases to be clear on the full impact, because since then, yields fell back down by a reasonable amount so some of those very recent gains made as yields were rising may have already reversed.

But, in general, a lot of schemes will have seen improvement against buyout; some by a lot if they were underhedged, some more modest improvements.

'Getting your house in order' is what I've been trying to do consistently over the whole year with the schemes I work on – organising for benefit specifications to be drawn up, which can take quite a while to do properly.

The additional risks associated with LDI that we've seen in the past few weeks may tip a few sponsors who were previously reluctant to go to buyout to look at it more seriously.

Thomas: I'm not surprised by the insurer comments around the importance of taking one's time, and getting organised. There are going to be more schemes that are ready to do more deals, therefore there's potentially going to be a capacity issue. So the insurers will pick those that are best prepared and those transactions that are likely to fly fastest. There has also been a bit of a wake-up call that LDI, which was entered into for very good de-risking reasons, actually had its own risks; or to be more precise, leverage had its risks.

There have been surprises in terms of what those risks look like. So trustees are going to have to, once the dust settles, stand back, look with their sponsors at what risks they really have. We have of course interest rate and inflation risks that were always viewed as the non-rewarded risks, but the attempt to manage those in some cases has backfired somewhat. Then we've got the return-seeking assets risk and, additionally, life expectancy risk. Getting back to basics on some of those and figuring out the right balance needs to happen.

Pickering: I care a lot about my fellow trustees, most of whom are lay people who have given voluntarily of their ability. When we're talking about residual risks, it's really important to try and get a mix of indemnities and risk cover for those trustees who are about to sign off. I don't want someone knocking at their door in five or 10 years' time and saying that they messed up back in 2022. It's really important that we don't lose sight of the fact that they want to be de-risked as well.

Neale: We're seeing, across the spectrum of schemes, funding levels improving. Quite a lot of schemes also that maybe had been resistant in the past have seen the benefits of being not very well hedged over the past few weeks, so suddenly a lot of conversations are taking a very different tone with employers.

They're finding that actually, in some cases, what they were expecting to achieve over the next five or 10 years they've achieved in the past few months, in terms of improving their funding levels. So some schemes do need a fairly significant change in strategy as a result. Then other schemes with more established journey plans, who were further along, are also seeing the benefit and are able to take probably smaller steps to de-risk their positions. But generally, across the board, we are seeing opportunities to take that risk off, and for those schemes that were looking at transactions, those transactions are proceeding.

It's obviously been a very turbulent period, but if you take a step back and look at the funding position of schemes, they're stronger and therefore in general member benefits are more secure as a result of what's happened. There's been a lot of negative press clearly about liquidity risks, which in some schemes I don't doubt will have had a challenge. But in my experience that challenge has mainly been in governance bandwidth and we've actually been able to meet the capital calls as they've come, but there's just been a lot of work.

De-risking trends

Chair: What key trends are we seeing in the de-risking space, at both the larger and smaller ends of the market?

O'Shea: One trend is that there are now more buyouts in the market than buy-ins. As schemes become better funded, they are less interested in doing a pensioner buy-in, for example, and instead have turned their focus to securing the whole scheme in one go,

especially when it's in touching distance.

Another thing we are seeing is demand for illiquid asset solutions. Most schemes coming to market now need a deferred premium, but often the larger ones are also looking for more flexibility from insurers around their illiquid assets and how they can use these to pay some of their premium and actually achieve buyout.

Additionally, the market is very busy, and there's huge demand from pension schemes. Insurers are already having capacity problems, mainly on the people side of things – around processing the data, modelling it up and getting quotes out. Previously, you would have seen five or six insurers quoting on transactions coming to market; this will become two or three insurers, as insurers choose schemes that they are going to concentrate on rather than trying to quote on the whole market.

Mistry: We're also certainly seeing demand increase. The record for annual buy-in and buyout volumes was 2019, when there were around £44 billion of transactions. If you broadly adjust for market conditions and recent interest rate rises, this year is shaping up to potentially eclipse that record.

However, 2019 had a handful of very large transactions that really bumped up the volume; this year, volumes are

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dominated by mid-sized transactions. So in reality, it's the same sort of volume but consisting of more transactions that are similarly resource intensive for insurers, advisers and trustees.

The largest buy-in to date was about £5 billion. With funding levels improving, we're starting to see more conversations happening with some of the largest schemes in the DB universe which may have traditionally thought of themselves as targeting self-sufficient run-off.

I agree that full scheme buyouts are now much more common than pensioner buy-ins. That may be exacerbated going forward by schemes being more hesitant to increase leverage in their LDI to support further pensioner buy-ins, and being closer to full buy-in so less keen to take that interim step.

Flexibility around timing is the other trend we are seeing. It used to be that trustees would say they want to transact by a specific date, for example before a sponsor's accounting year end. Nowadays this is much less common, as all parties see the value in being flexible on timing and schemes are able to adapt during an evolving broking process.

Another notable trend is that recent years have seen a return of increasing demand towards the end of the year, resulting in a bit of a crunch. Some schemes are starting to view targeting a transaction earlier in the year as an opportunity to get better engagement from the market, which would help smooth out demand over the year and help the market support the increasing demand from pension schemes.

Mechem: In terms of trends, we are still seeing significant interest at the smaller end of the market, and indeed among the very small schemes – a lot of schemes in that £5 million to £10 million space for example are wanting to de-risk and get off the balance sheet.

We're also seeing more schemes, even at the smaller end, in surplus, so they are not just getting to buyout but they have got to work out what to do with that surplus as part of the process, which will be obviously dictated by rules and then interaction with the sponsor.

The other thing we're seeing, and have seen for the past two or three years, is a capacity constraint on the administrators as well. So whilst the baseline of preparation has definitely gone up, the capacity to then get schemes to buyout remains a challenge.

Chair: Are the trustees around the table having much dialogue on discretionary payment increases?

Neale: We are speaking to our sponsors about discretionary increases – as trustees it's important to bring it to their attention, but we're not finding many sponsors wanting to voluntarily fund additional benefits within their schemes.

In terms of more general trends within the schemes that we have, many towards the smaller end, we see actually that the buyout side of things for small schemes has a disproportionately larger benefit, because you get the risk pooling aspect. Within a small scheme, you get a lot of variability from not having many members, so you're much more susceptible to one person or a small handful of people living longer than you thought they might do, for example. So we are seeing that being a driver for where people would like to get to and get the scheme off the balance sheet.

Regarding small schemes in particular, de-risking behaviour depends on sponsor size. Is it, for example, one of several schemes within a sponsor group, or is it a small scheme because it's got a small sponsor?

You do get very different behaviours between those two; a lot of larger sponsors would say 'this small scheme is causing me time and pain that I don't need and I can afford to get rid of it, so now's a good time'. However, you get a different dynamic with those schemes where actually, from a pensions perspective, we might consider them small but it's a significant issue for the sponsor.

Thomas: On the point of buy-in versus buyout, the prevailing wisdom has been that you'll get better pricing on a pensioner-only portion – I wonder if that era is over?

Also, on the surplus point, if inflation sticks, it gets harder for trustees not to look at that. If there are surpluses there, then it's very important to understand the powers and what would happen to a surplus in the event of buyout or wind-up. If there are surpluses there, that can certainly change the thinking and lead to some interesting conversations with employers.

Mechem: I'd say that buyout pricing has significantly improved – if you look back two or three years – probably driven by improvements in reinsurance pricing on deferreds. Therefore, from an insurance perspective, you can get similar pricing for a whole scheme buyout versus a pensioner only transaction.

Mistry: There are two different dynamics there. One of the primary drivers for schemes securing pensioner-only buy-ins over time is the ability for funding to improve over time as non-pensioner liabilities mature – for example as members take options. This dynamic is still there, and for schemes a fair way off buyout, pensioner buy-ins continue to offer a valuable de-risking tool.

However, we agree that the market for full buy-ins and those with a high deferred proportion has improved significantly in recent years as insurers have improved long-dated asset sourcing, and pricing and availability of longevity reinsurance for non-pensioners has greatly improved, both of which have driven better pricing.

Harrold: I agree we are seeing more schemes coming to market with a surplus; and I am talking to sponsors about discretionary increases.

In many cases, sponsors are still resistant to agreeing to discretionary increases and I have found that some sponsors don't seem to be overwhelmingly worried about having a trapped surplus that is going to be subject to tax if still there at point of wind up. They're also generally making known their expectations for the surplus to come back to them and not to be used to enhance the members' benefits (of course as trustee, there are additional considerations to work through).

With two schemes that I'm working with, the sponsor has asked if we can meet the ongoing scheme expenses from the surplus, rather than continuing to fund them directly, as they have been doing. If the situation is appropriate, then I've been able to agree to that.

I would also echo the capacity point – benefit specifications can't be turned around overnight. It will involve several of the scheme advisers: your administrators, your legal adviser, and your actuary, and that all takes time.

Neale: And of course there are other pressures in admin as well at the moment. There are all sorts of things going on there – GMP equalisation, dashboards, to name a few – and that all restricts your ability to get that support.

Pickering: Firstly, on the point of discretionary increases, given the current cost-of-living crisis, trustees are already under pressure, particularly in the context of schemes where different cohorts of member get different levels of price protection.

When it comes to buyout, trustees are again under pressure to see if they can consolidate some form of discretion in the buyout because that's the last chance the members think they've got of converting discretion into entitlement.

Thirdly, in terms of surplus, we're getting quotes now for deals next March, April, May, but who knows whether today's surplus will be the same surplus in March and whether we can lock it down enough to make sure that it is.

Lastly, one sector of small schemes that needs special consideration are those in the not-for-profit area, because many of those haven't got the governance structures that help the executives running those small not-for-profit entities to get their minds round any of this.

Swynnerton: We're also seeing, in trustee meetings, discussions around surplus for the first time in a long time and they're both on the employer's side and the trustee side, i.e. trustees who are considering de-risking transactions. They are considering what is actually the best thing for their members. Their ultimate duty is to act in the members' best interests, which is normally interpreted as meaning their best financial interests, and when it comes to de-risking, that means removing risk and weighing up the security provided through insurer capital solvency requirements and the FSCS versus the employer and group covenant so that there is an increased likelihood of those benefits being paid on time and in full. That's the end game and that's what anyone considering de-risking should have in their minds.

Again, maybe spurred on by the cost-of-living crisis, some trustees are really weighing up whether a de-risking transaction is the best thing or whether they should they be looking at run-off, which may enable discretionary practices, such as pension increases, to remain within the trustees' control.

In relation to surplus discussions, we're starting to see employers concerned about trapped surplus, how can they get it; and trustees wondering what to do with this surplus and, as has been said, that will largely be determined by the winding up priority order and how the scheme rules are drafted.

Another important point is that it's very easy for trustees to get swept along by the momentum of a de-risking transaction when it happens. The deal

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pressure can be quite exciting, a lot needs to happen in a short period of time and it's very easy for them to forget what the ultimate aim of de-risking is and that there are other alternatives to a full buy-in or buyout. That's not to say that buy-in or buyout isn't necessarily the best option, but to do their job, trustees need to weigh up all the options and decide which one is in their members' best interests.

Another thing that sometimes gets forgotten and not looked at until the end of a transaction is risk analysis for the trustee board. Where do your risks lie? What cover have you got through indemnification, through the rules of the scheme, through insurance and what are the gaps? We would recommend that is done alongside the benefit spec stage, so you can have that discussion with the employer at an early stage.

Capacity constraints

Chair: Is there capacity in the bulk annuity market to meet demand?

O'Shea: Capacity is definitely a problem – there is lots of hiring going on across the board. You even see consultants having capacity issues, being selective on which schemes they want to advise. As a result, there will be more selective quoting going on, especially from insurers as they target certain deals.

Another trend I wanted to highlight is that there are more insurers now who are quoting on deferreds. If you look back even two years ago, Rothesay would have been one of maybe two that would look at a 90 per cent deferred transaction, but now you see three or four quoting for very heavy deferred transactions. So that drives competitive pricing as well.

However, I do think the demand is purely driven from the schemes and if they can afford a buyout, why would they do anything else, or how could they justify doing anything else? That comes to the buyout versus run-off point that Matthew *[Swynnerton]* was making – it's a very hard decision but, if you can afford a buyout and you don't do it, you need to be able to justify that in the future.

Mechem: Recruitment has been critical for the past two or three years, particularly with people that have DB experience, and that will continue in order to meet the supply. Processes have also massively improved in efficiency in recent years, with streamlined contracts etc, particularly at the smaller end.

We're also seeing more 'one round' processes now, at sub £50 million, and that's a very useful move. We are also seeing the more pragmatic advisers getting the work and working with insurers on process much earlier that makes the process easier. Experienced advisers that have done transactions quickly and efficiently will be prioritised, and especially if they are pragmatic. Administration is also key – understanding who the administrator is, and their capacity to support the whole process.

Mistry: Whenever we talk about capacity in the market, there's a short-term piece and there's a longer term piece. In the short term, as has been said, the capacity issues are linked to people, and the strain is being felt on all sides. For schemes, there are administrators, trustees, advisers and lawyers. Then, on the insurer side, the pricing team, reinsurance team, asset team, back office and a different administration team.

Looking further ahead at the challenges of supporting £1 trillion, some market commentators expect to look to secure buy-ins and buyouts over the coming 10 to 15 years, but other factors come into play.

For example, availability of reinsurance as a tool for insurers to manage longevity risk, as we compete with others such as the growing US pensions risk transfer market. Availability of capital may also play a part, although this hasn't been an issue to date and indeed a number of solutions are looking to provide an avenue for capital to support pension schemes.

And finally, there's the ability of insurers to source the right assets at these levels to support attractive pricing. As insurers we're required to asset source in a very particular way, with Solvency II placing stringent requirements on factors such as cashflow matching. We then overlay our own sustainability requirements, which narrows further the pool of assets and investment opportunities which can support buy-ins and buyouts.

Swynnerton: For advisers and service providers it's a busy time; there's a lot going on in the pensions world and there has been for the past 20 years. Pensions is a highly politicised and regulated area of law that successive governments constantly tinker with, adding layer upon layer of regulation which makes it increasingly complex and as a result creates capacity issues at advisers, service providers and also on trustee boards.

It can be a challenge for trustees managing business as usual and also giving serious consideration to de-risking transactions, given the pace at which they move.

We‘ve talked about preparedness and that getting things that aren't necessarily time sensitive (like benefit specs) sorted sooner rather than later is key. All trustees should be looking at that now, but many of them aren't. This runs the risk that when the timing is right to do a transaction, there is a significant additional piece of work to be done, which make the transaction less likely to happen. Trustees should consider whether this is in their members' best interests. Anything that trustees can do to get those non-urgent but essential items like benefit specs dealt with ahead of time, including getting their governance structures in place, will help.

Mechem: That surprises me because, whatever your end game is, benefit specification and data are still critically important. So many reports have gone out on preparing for bulk annuities or preparing for the end game, so it's surprising that some schemes still aren't doing it.

Harrold: Someone's got to pay for it!

Swynnerton: It's an expensive process – it can be a huge job depending on the age of the scheme, the complexity of the historic documents and the capacity of administrators, so encouraging employers to do it in advance is sometimes challenging from a costs perspective but it is important to do it sooner rather than later, especially now that some schemes are getting closer to their end game more quickly than they thought they might.

GMP equalisation might help here (and that's not an expression you hear often), because benefit specs are having to be created for GMP equalisation projects for most schemes and that may be a spur because a lot of the heavy lifting is being done in that context.

Mistry: That's a great reason to get people reviewing and clearly writing down their benefits! Though if going through the expense and effort of that exercise and you're ultimately targeting buyout, it's worth making sure you are doing it in a way that makes it fit for purpose when you are ready to approach the insurance market. Writing a benefit spec for GMP equalisation might look very different to one that you would want to send out to an insurer.

Pickering: I've been an advocate for trustee diversity since before it became trendy, and there is a role for people like me who's day job it is to do a compare and contrast and to try and remove the fear from my fellow trustees.

But ideally my fellow trustees will have day job skills that they can leverage in the trustee room. That is more important today than ever, in that trustee boards that have project management skills, marketing skills, HR or finance are stronger.

We've missed a trick when it comes to trustee training, in trying to teach trustees how to conjugate GMP when you can sub-contract that to somebody who enjoys doing it and can do it for a living. But having trustee boards that have day job skills that can be leveraged means that we can cope with a crisis in a better way than we would have done otherwise. I've always argued that trusteeship was a 24/7 job, in that you should always be watching the news and thinking, 'what effect does that have on my trusteeship?' But now trusteeship is not just a 24/7 awareness, it's a 24/7 function.

I've been impressed, for example, in recent weeks that I am having meetings at 7:30am or 7:30pm – people have really

stepped up to the plate and been able to get their minds around some of these topics because of their day job skills and make the thing operationally efficient from the trustee end.

We shouldn't, as trustees, have the operational logjams that the professionals have, because we should be thinking of it 24/7. A meeting at 7:30am means that paperwork can be signed at 8:30am and it's been a real privilege to see that working.

Harrold: What I was quite surprised about, in relation to several small full scheme buy-ins I have been working on this year, was how proactive I have had to be. I have talked about getting benefit specs ready and so on, but it's very much been me as the trustee saying, 'we need to do this'. It's not been the advisers suggesting it. This could be because they are small schemes.

Thomas: On the point of trustee capacity, at Law Debenture, we have seen an increase in the number of requests for proposals for independent trustee services that refer to end game planning/buyouts, that's been quite marked. So a recognition there that having some expertise, somebody who has seen it before and is able to gently steer the trustee board on the sorts of things that we've been talking about, is important.

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Also, some even quite large schemes are concluding that this is all getting too difficult for lay trustees or they don't want their staff, often senior staff, tied up doing stuff that they're not experts in. So we have seen increasing interest in the corporate sole trustee proposition.

Having listened to the conversation today, it's important that trustees and their advisers think carefully about where they are, because they might be ready, or think they are ready, from a funding point of view, but actually is that, say, two years now realistic? Are they really going to go for that and commit the resources and the time to that, with a recognition that, if the market really is as busy as it sounds, it could be that pricing is likely to become keener, and the ability to get multiple quotes and get competition in the process, may be harder.

Neale: Trustee capacity is expanding quite rapidly with the professionalisation of the trustee industry and the increasing prevalence of professional trustees. In a specific context of technical projects like buyouts or buy-ins, where there are pitfalls to look out for and the experience of having done it before can actually pay you dividends, that will continue. That is one part of the process where the capacity is being built to support the trusteeship.

The other challenge that we're collectively going to have to manage are the capacity constraints on an individual scheme basis. Everyone will want to de-risk when they want to do it and they won't be bothered about other people's timeframes. So there is going to be a big challenge across the industry around who does get to go first.

ESG

Chair: How are ESG considerations developing in the de-risking space?

Mechem: From an insurance perspective, it's always been part of our thought process. Today it's much more a focus from the trustees' perspective. Five years ago, ESG was never mentioned at a pitch. Two or three years ago, it took up maybe a couple of minutes of a 45 minute pitch. Now we're starting to see a much bigger dynamic of actually drilling into what we mean by ESG, and how the process works and so on.

Pickering: I believe ESG is more a state of mind than a product. If it becomes a product it's designed by the sales people rather than the investment people. I also think the 'G' is the most important letter. Yes, it's important to talk to those to whom you're handing your members' security over to, how they behave as corporate citizens, but I don't really want to define now what ESG means, because it will mean something quite different next year.

One of the problems with some of the democratisation of ESG is that somebody will watch *Panorama* tonight and get a one dimensional view of a multi-faceted aspect. So to me it's just an extension of yes, you're all strictly regulated, which is good because it reduces some of the due diligence that we have to do, but then just to talk to you about how you are and how you intend to be good corporate citizens.

Neale: ESG is often talked about in isolation in forums like this, but you can't think about it in isolation as a trustee. For a de-risking transaction typically you may be sat there, choosing between a few providers and it might be one of the factors. But if you sat there with one you prefer on ESG, or one who's cheaper which will allow you to offer discretionary increases to your members, you've got a very difficult thing as trustees to weigh up.

So it's undoubtedly important, and you've got to consider it but it's one of many factors to consider.

Swynnerton: From a legal perspective we'd say to trustees who are entering into any kind of de-risking transaction, a good rule of thumb is, would you be comfortable explaining your decision to your members? ESG is an increasingly important factor for scheme members, so I would expect trustees to want to be able to have an answer to questions such as, 'what did you ask the insurers about ESG and what are their policies in relation to ESG?' and to interrogate that data and to make sure it's not simply greenwashing.

Mistry: Standard Life is part of Phoenix Group. As a group, we have around £270 billion of assets under management, and it's really important for us as an institution that we're putting that money to good use. As a result, sustainability considerations are embedded in everything we do.

Going forward there's an expectation of a tremendous amount of buy-ins and buyouts occurring, passing over pension scheme assets to insurers to manage. It's therefore right that ESG has made its way up trustees' agendas when selecting a partner for their buy-in or buyout.

The other thing we're seeing particularly with larger schemes is the need to support their reporting requirements in relation to ESG and climate risk.

O'Shea: From our perspective, it's always been there, insurers have always considered how they invest their money and what they do with it. But the new thing is the reporting that's now going around it and we're just trying to be very transparent in what we do around ESG.

Thomas: The trustee has a one-time opportunity to influence the insurer's ESG, or any other characteristic of its investment or approach, and that's at the point of executing the transaction. It's part of that good governance around selection. After you're in as a trustee, we have to accept that's now the business of the insurer and not our business.

The future

Chair: What other opportunities/trends might there be in the future?

O'Shea: The future looks busy for everybody. The demand for full buyouts will continue and we will see much larger schemes looking to the bulk annuity space for de-risking solutions.

Mistry: Recent experiences will drive a lot of schemes closer to buyout affordability while focusing minds on the risks being run, meaning many look to secure a buyout and lock down risk. Some schemes will also be taking a look at their liquidity and plans for illiquid asset holdings, both in light of recent LDI experience and as they get closer to buyout.

Swynnerton: There are several things that have the potential to change over the mid-term – one is the changes to the Solvency II regime.

Another is the general threat of corporate insolvencies that the current looming recession brings and how that might focus trustee minds on de-risking transactions and improving security through buy-ins and buyouts that reduce reliance on sponsor covenant.

Also, changes brought about by the Funding Code and the Funding and Investment Strategy Regulations currently being consulted on could be significant. We will have a new Pensions Minister, and it remains to be seen what their focuses will be. Finally, hopefully there will be increased development and use of innovative de-risking products.

Neale: Continuing on the innovation theme, it will be interesting to see whether there are alternatives to buy-ins and buyouts that are brought to market. We've seen superfunds and consolidators, but could there be other risk sharing or risk transfer products brought to market, which perhaps don't go quite as far as a full buy-in or a buyout, but allow better use of maybe some of the reinsurance options. Maybe longevity hedging being made available in formats that work for smaller schemes and those kinds of things?

Mechem: I agree there are going to be a lot more buyouts, and that's going to be market driven as we've seen over the past two or three years. With that comes a focus on member outcomes, and it's going to be interesting to see how transfer values have been affected because of rising yields. Wariness of scams is also a big thing that most people need to start thinking about, both on the trustee and provider side. There will also likely be some innovation on efficient processes – particularly for smaller schemes.

Thomas: I'd say all trustee boards are trying to do the same thing, which is secure the benefits of their members. But every situation is different and there's no substitute for thinking carefully about what we're trying to do, how to go about doing it and importantly maintaining flexibility. The one thing I've learned in more than 20 years of being a pension trustee is that stuff happens!

Harrold: We as an industry are

getting better at doing more efficient buy-in processes and that progress will continue. Of course you can't fully standardise everything but there's still more standardisation that can happen. This is not necessarily in relation to the actual transaction itself, but all the associated activity around it, the preparation work for example.

Also, I don't feel there is enough focus on what happens after the transaction has been signed, the process through to a scheme getting wound up. This can get neglected after all the flurry of contracting. It would be good to have more focus on that from earlier in the process – having eyes wide open about the second half of the process that has to follow in order to complete the buy-in, and move to buyout and wind up.

Pickering: From me, two things really, both of which are hopefully positive.

In terms of DB risk transfer, the more we can focus on PPF+ at one end of the spectrum and engaging with private equity at the other, to help private equity deal sensitively with the pension liabilities that they don't really want to inherit, the better.

But one of the biggest advantages of moving DB to a more secure place is that we can then release all this wonderful brainpower to the benefit of DC members, because they are the ones who really need our help.

Communicating in challenging times

Following the recent findings that a quarter of savers would access their pension savings earlier than planned to cover the cost-of-living crisis, *Pensions Age* asks: What comms messages should pension schemes be delivering to members during these challenging economic times?

For many workers, pension savings are their second biggest asset after their house. As the cost-of-living crisis bites, it is tempting for many over-50 year olds to dip into their pension pots to make ends meet.

Accessing a pension is a very personal decision and will depend on a person's individual circumstances at the time. For many the immediate need for money may outweigh the need for long-term retirement income several years in the future. The key fact to communicate is that pension savings can only be used once.

Pension schemes should be helping members think these decisions through by signposting to help and guidance services such as PensionWise, Citizens Advice, and Step Change. If members can't access this type of help, there is a risk they spend pension money now when other alternatives might be available. TPT provides a free 45-minute guidance session to all members thinking about accessing their pension, which is clearly signposted when a member asks for retirement.

TPT Retirement Solutions DC director, Philip Smith

As an industry, we need to acknowledge that the rising cost of living is clearly bearing down hard on members. Many may be forced into making tough financial choices such as reducing their pension contributions, which could mean they miss out on the long-term benefits of investing for their future.

The problem is particularly acute for financially vulnerable groups such as low-income earners. According to recent research we conducted, nearly seven in 10 lower earners who are in a workplace pension say they cannot currently afford to make contributions, due to the cost-of-living crisis.

We need to be sensitive to these circumstances, recognising that for some, paying anything at all into a pension is currently out of the question. For those who can contribute, we need to make it as easy as possible for them to get into the habit of saving even small amounts, as early and regularly as they can.

Education needs to be the focus – making members aware of the impact that even short breaks in contributions can have on long-term retirement outcomes.

It's worth saying that we have not yet seen higher opt-out rates across L&G's 4.7 million DC members, compared with the historical average. This is promising, but we can't be complacent – schemes and providers need to give members the tools they require to make informed financial decisions, balancing the short and long-term considerations.

Legal & General Investment Management co-head of defined contribution, Stuart Murphy

Trustees want to 'do the right thing' when communicating with members. However, this is against a backdrop of ensuring that their communications are not straying into the realms of regulated financial advice. A good starting point would be to highlight the importance of making informed decisions and an awareness of scammers and the warning signs to look out for. Areas to cover in communications could therefore include the following:

• Withdrawing benefits from pension savings early may impact income in retirement and trigger the Money Purchase Annual Allowance that limits future pension contributions;

• The rules of some pension schemes may allow members to temporarily reduce their contribution rates (subject to auto-enrolment requirements). If this is an option under the scheme rules and auto-enrolment contribution levels, any communication should highlight the consequences of doing so;

• A clear steer towards Scamsmart, which covers the steps they can take to avoid scammers and hints and tips for spotting potential scammers;

• Highlight the importance of seeking appropriate financial advice. It can be very difficult for members to find appropriate financial advice - trustees may have the resource to facilitate this by undertaking due diligence and then partnering with a firm of IFAs, which might also include preferential fees for members.

PMI president, Sara Cook

The messages to members should be, as always, clear and accessible and should signpost to where members can find help and they should complement the messages provided by their employers and highlighting other benefits that might be in place, perhaps the support of an EAP. And whilst the messages should talk about the benefits of long-term savings and the impact of short-term decisions to reduce, stop or cashing in savings, they should inform on the benefits of employer matching, tax relief and call out the increasing number of scams as the unscrupulous look to exploit members under stress – if it looks too good to be true, it probably is.

SEI defined contribution client director, Nicola Benstead

Helping employees prepare for their future with healthy retirement savings has always been important. The consequences of ignoring their pension could, for some, lead to poverty in retirement, or an ageing workforce as people cannot afford to retire. Balancing that need with the latest cost of living challenges is a tough ask for employers right now.

A pension fund is the basis for most people's retirement and the standard of living they might enjoy after work, so it's important that people remain calm and informed about any action that they take. Providing people with a longer-term context for short-term market volatility and information on the value of maintaining contributions, if possible, can help to both to reassure and to make sure that any decisions are made with a better understanding of the context and consequences.

Ensuring that pension savers know where to access reliable information and guidance on their pension, and the options available to them, has also never been more important. The cost-of-living challenges could make people more vulnerable to potential scammers, which can have a devastating impact on the financial and mental wellbeing of victims. Aviva has robust processes in place to help prevent scams, but we would encourage people to remain vigilant when it comes to their pension – if it looks too good to be true, it probably is.

Aviva director of workplace, Emma Douglas

Pensions history

Inefficient women…

Pensions tend to loom in the public consciousness if expectations are disappointed, legal or regulatory constraints misunderstood, or because there is not enough money. All featured when females' state pension age was increased from age 60 to age 65 in stages up to November 2018. Protests, lobbying and a court challenge were the result. Change had been driven both by the cost of increasing longevity and to comply with equal treatment legislation.

It is sometimes difficult to remember how great the changes in attitudes and wider society have been in living memory. Although early state pensions were payable at the same date for men and women, when modern contributory pensions were introduced in 1948 few questioned the lower female pension age. Women were generally reckoned to be about five years younger than their husbands and would naturally wish to retire at the same time. A fascinating talk by George Ross Goobey at an NAPF conference in 1969 discussed the way in which company schemes could accommodate women with irregular career patterns. Thoughtful and ahead of his time in many of his ideas, it is nonetheless startling to read that a female retirement age of 60 was partly justified because it was "a fact that a large number of women become relatively inefficient in their middle or late 50s and the question of whether they make a useful contribution to their employer has to be considered".

www: pensionsarchive.org.uk/our-collections

The Pensions Archive Trust director, Jane Marshall

Fun and games

Wordsearch

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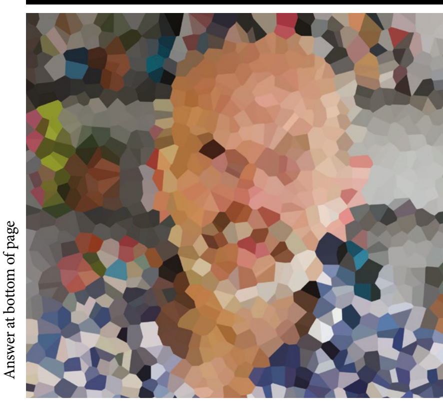
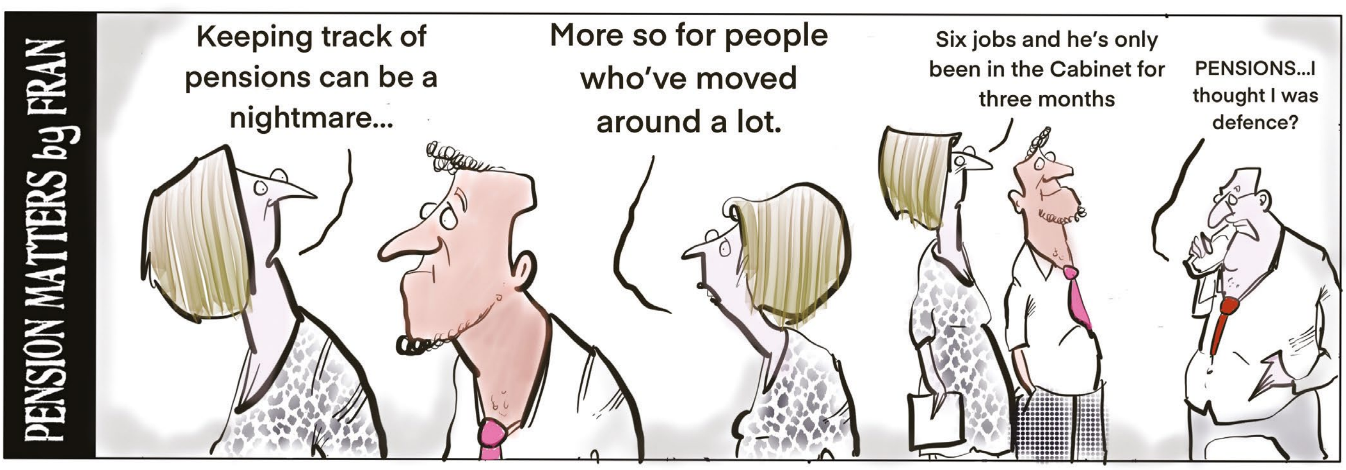
Q	V	I	S	L	P	R	A	R	U	R	E	N
U	U	M	I	N	I	R	X	P	S	A	R	C
R	S	C	R	Y	T	T	T	U	N	F	H	E
S	T	O	P	M	T	L	J	U	I	I	E	R

CONFLICT
CRISIS
GUIDANCE
INSURERS
LDI
LIQUIDITY
NEWS
POOLING
RESOURCES
SUPERFUNDS

I know that face…

Answer at bottom of page





I know that face... Answer: Quietroom co-founder, Vincent Franklin

sammons PENSIONS RECRUITMENT

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Leading recruiter for Pensions Professionals

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01277 268 988 / 020 7293 7022

Client Manager
Work from home/Offices Countrywide **to £65000 per annum**
Join a market leader and be the go-to client contact for a diverse portfolio of pensions schemes. Ref: 1377450 BC

Pensions Governance Manager
Hybrid/2-3 days London office **to £65000 per annum**
Are you ready to take your next step in-house working on a £multi-billion pension fund? Ref: 1378138 JW

Operations Manager
Home-based **£in line with experience**
Join a growing admin practice and make a real difference in terms of delivery, oversee structure and ensure growth plans are met.
Ref: 137778 BC

Senior Trust Officer
London/hybrid **£competitive**
Exciting opportunity to take your career forward within the Trustee area within a growing specialist consultancy. Ref: 994000 BC

In-house Pensions Investment Accountant 12 mth. FTC
Hybrid/2-3 days London **£competitive**
Varied and interesting in-house opportunity working on a £multi-billion pension fund. Ref: 1377382 SB

Pensions Calculations Analyst
Home-based/London **to £55000 per annum**
High-profile role will suit someone with a keen eye for detail and the ability to work across multiple projects at a time. Ref: 1378066 JW

Pensions Benefits Analyst
Surrey/hybrid **to £45000 per annum**
Exciting time to be joining this family-feel consultancy at a time of growth! Ref: 1378033 NMJ

Senior Pensions Technician
Work from home **£excellent**
Work in a designated team covering a variety of scheme events and projects. GMP experience required. Ref: 1376541 NMJ

Pensions Associate Consultant
Hampshire/hybrid **£competitive**
Ensure the smooth running of administration for the pension schemes of several clients of this leading consultancy. Ref: 1261201 NMJ

Senior Pensions Administrator
Remote working **£in line with experience**
Role offering good scope for progression and an opportunity to join an established and client-focused pension's administration team.
Ref: 1377336 NMJ

Senior Project Data Analyst
Nationwide **£in line with experience**
Develop and enjoy a rewarding role at a leading consultancy as you deliver high quality pension administration projects. Ref: 1377655 NMJ

Pensions Analyst
Hemel Hempstead/hybrid **£in line with experience**
Develop a career within pensions whilst providing first class pensions services. Ref: 1371295 JB

Pensions Cash Management Administrator
Glasgow/hybrid **to £26000 per annum**
Exciting opportunity to join this leading consultancy, with emphasis on a strong team culture and supportive atmosphere. Ref: 1378139 JB

Graduate Pensions Administrator
Kent/hybrid **£in line with experience**
Excellent opportunity for a school leaver or graduates to pursue a role within pensions, with full study support. Ref: 1378114 JB

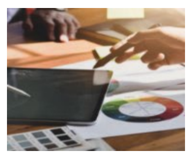
Sammons Pensions Annual Salary Survey, we need your help

Your contribution is invaluable. All respondents receive a copy of the survey published early 2023 and entry into a prize draw. Access the survey via www.sammonspensions.co.uk

Contact us for more information or to discuss previous years' findings.

In-house Pensions & Investment Governance Director
Hybrid/2 days London office **£excellent**
Exceptional opportunity to work with a highly collaborative and supportive team, whilst broadening your experience and exposure. Ref: 1377662 SB

Client Director Trustee Executive
UK/hybrid **£6 figure package**
Senior appointment with an award-winning independent pensions specialist, support ongoing business growth whilst taking on a highly-varied client portfolio. Ref: 1376117 SB



Pensions & Benefits Manager
London/hybrid **£6 figure package**
Exceptional varied opportunity driving strategy for DB, DC, benefits and international plans, working with a highly collaborative team. Ref: 1366416 SB

In-house Financial Controller
Hybrid/2-3 days London office **£excellent**
Outstanding senior appointment with a highly skilled in-house team supporting a £multi-billion Pension Fund. Ref: 1378137 SB

Professional Trustee
Remote/travel as required **£6 figure package**
Fantastic time to join this small, but growing independent trustee specialist, hiring due to ongoing business wins. Ref: 1377795 SB

Senior DC Client Manager
Work from home/Offices Countrywide **£excellent**
Outstanding opportunity to work on an exciting DC area of growth within a well-respected pensions consultancy. Ref: 1378136 BC

Pensions Manager (DB)
Hybrid/2-3 days London office **£6 figure package**
Highly varied, progressive career move, joining a collaborative and supportive corporate-facing in-house team, supporting a £multi-billion pension fund.
Ref: 1378134 SB

Project Manager
Work from home/Offices Countrywide **£in line with experience**
Excellent opportunities for experienced PM's with data led expertise, strong DB knowledge essential, Prince2 desirable. Ref: 1375347 BC

In-House Senior Pensions Accountant
Hybrid/North West **c. £65000 per annum**
Great opportunity for an experienced Pensions Accountant or Auditor to join a collaborative in-house pension team supporting a £bn pension fund.
Ref: 1378016 SB

Assistant Pensions Secretary to the Trustees
London/hybrid **up to £70,000 per annum + Car**
Our client is looking for a high impact, delivery focused individual with strong DB and DC experience in the pension governance space. Ref: 1378042 JW

Actuarial Communications
London/Scotland/West Midlands **£superb**
Unique opportunity within a leading consultancy for a pensions professional with keen interest in communications! Ref: 1378148 BC