Viewpoint

The official journal of the Pensions and Lifetime Savings Association

Issue 2 2016

FOCUS: BUDGET UPDATE

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CHIEF EXECUTIVE'S Viewpoint

Joanne Segars

IN HIS MARCH BUDGET, THE CHANCELLOR OF THE EXCHEQUER ANNOUNCED THAT HE WOULD NOT BE PRESSING AHEAD WITH PROPOSALS FOR RADICAL PENSIONS TAX REFORM – EITHER INTRODUCING A FLAT-RATE SYSTEM OR THE SO-CALLED PENSIONS ISA.

We welcomed that decision as the right choice for schemes, for sponsors, for the economy and above all savers.

In April EIOPA – Europe's pensions regulator – abandoned its quest for an EU-wide solvency standard for pension funds through a new Holistic Balance Sheet. It ended a five-year campaign where we had argued that EIOPA's additional funding requirements would have caused massive increases in deficits and a disruption to pension investment without adding to the security of members' benefits.

Again, I was pleased to hail this as the right decision, and a victory for common sense. These important policy 'wins' take some immediate pressures off pension schemes. The change of stance on the Holistic Balance Sheet has saved DB funds over £500bn, and pension funds (DB and DC) won't be forking out to make costly systems changes to implement damaging tax changes. We estimated costs to be upwards of £50,000 per scheme, incidentally.

Both these changes remind me of the power of persistence. We made strong arguments, backed by clear evidence; we stuck to our guns and made the arguments again...and again.

WE MADE STRONG ARGUMENTS, BACKED BY CLEAR EVIDENCE; WE STUCK TO OUR GUNS AND MADE THE ARGUMENTS AGAIN...AND AGAIN

Of course we were only able to do that because of the fantastic support we get from you, our members. So thank you for all the help – whether that's feeding into our responses, providing us with the data so we can evidence our arguments, or participating in our working groups and Councils.

COMING TOGETHER

These policy wins are also a good reminder that by coming together and by working collectively we can be a stronger and more influential voice than we can be alone. It's what the Pensions and Lifetime Savings Association is all about – the whole industry coming together and working to make a better pensions system.

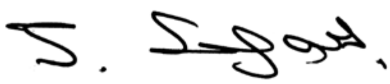
Don't get me wrong – we can't for one minute relax or rest on our laurels.

The Budget didn't bring tax reform, but it did bring us the Lifetime ISA (the LISA). We've said it's a welcome addition to retirement saving. But it's now our job to make sure the LISA works, has good governance and provides value for money for savers. We certainly don't want to see it undermining all the good work that's gone on to deliver auto-enrolment or to deliver better workplace pensions.

In Europe we'll need to head off EIOPA's attempts to keep the door ajar to develop a standardised reporting regime for pensions (at a cost of £167m a year for UK pension funds, by the way). So we'll continue our lobbying in Frankfurt and Brussels alongside our colleagues at PensionsEurope.

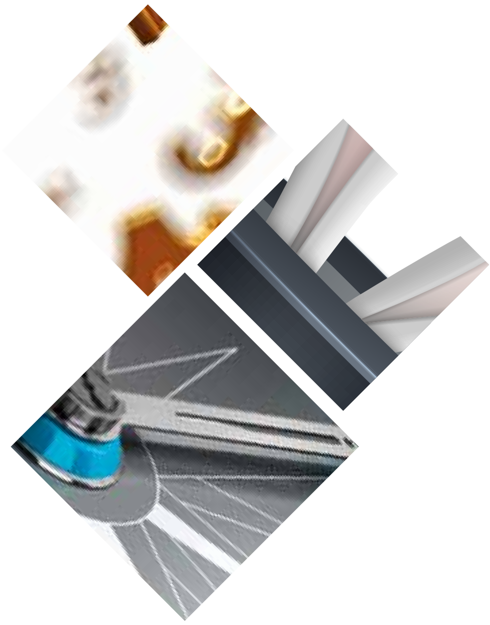
And we'll do that, too, by coming together and using our combined forces to make our case and persisting with that case.

So, I'm going to take this opportunity to thank you in advance for the support I know you'll give us. By working together, we really can make a difference.



CONTENTS

PENSIONS IN ICELAND



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ISSN 1756-9974

Total net average distribution 9,841 copies between 1 July 2014 and 30 June 2015

Published by the Pensions and Lifetime Savings Association a trading name of the National Association of Pension Funds Limited, a company registered in England and Wales. Company number 1130269. Cheapside House, 138 Cheapside, London EC2V 6AE

Viewpoint **UPDATE**

Introducing the Retirement Quality Mark…

SUPPORTING THE PENSIONS REVOLUTION

THIS SUMMER WE ARE LAUNCHING THE RETIREMENT QUALITY MARK (RQM).

This exciting new initiative is designed to help consumers and trustees make decisions that come with the pensions revolution known as freedom and choice.

The RQM builds on the work done by the Pensions and Lifetime Saving Association's Pension Quality Mark. But while the PQM is focused on the accumulation of savings and recognising employers which offer good quality workplace pension schemes, the RQM is for the at-retirement or decumulation phase and will be awarded to individual products rather than pension schemes.

The RQM will:

- Build on current guidance and act as an enabling tool to help consumers make informed decisions;
- Signal to savers that there is an independent assessment of the quality of the product they are buying. This is significant given continuing consumer mistrust of the financial services industry; and
- Help build confidence in pensions and retirement saving.

The RQM Governance standards evaluate products and assess features such as:

- Whether the product is likely to meet the customer need over the product lifetime;
- Default investment options;
- Value for money; and
- The ability to transfer to alternatives.

The RQM Communications standards look for clear communication over the lifetime of the product including at point of sale on:

- Charges;
- Risks;
- Actions;
- How to access further information and advice;
- Factors affecting security; and
- Decisions for the customer.

We'll be bringing you more information soon, but in the meantime if you would like to discuss the RQM please contact **Matthew.Doyle@pensionqualitymark.org.uk**

OUR PICK OF THE BEST HEADLINES AND TWEETS

IT'S NEVER TOO LATE TO SOOTHE AWAY THAT PENSION TENSION

Alan Copps, *The Sunday Times (Your Adviser)*

PENSIONS DASHBOARD REGULATION – A CHICKEN AND EGG CONUNDRUM

Sara Benwell, *Pensions Insight*

DC: IT'S GETTING BETTER ALL THE TIME

Unattributed, *Portfolio Institutional*

HOW YOU CAN HAVE YOUR CAKE AND EAT IT – AND SLEEP SOUNDLY

Don Ezra, *Financial Times*

Pension Geeks! @PensionGeeks
#pensionfreedoms spark both young & old to ask more questions

James Walsh @jwalshPLSA
A good day for pension schemes – EIOPA has ended its work on an EU-wide solvency regime for pensions

Citizens Advice @CitizensAdvice
9 in 10 consumers can't spot the pension scam warning signs. Make sure you can

FOCUS: BUDGET 2016

Senior Policy Adviser **Amy Hennessy** reports on what the Chancellor's latest Budget means for the pensions world.

SET AGAINST THE CONTEXT OF THE IMPENDING EU REFERENDUM, INSTABILITY IN GLOBAL MARKETS AND LOW PRODUCTIVITY, BUDGET 2016 WAS ALWAYS GOING TO BE A BALANCING ACT. IN KEEPING WITH HIS USUAL STYLE, THE CHANCELLOR'S EIGHTH BUDGET CONTAINED SOME SURPRISES, AS WELL AS SOME MORE PEDESTRIAN ITEMS.

In terms of the broad economic picture, growth forecasts were revised down with the Chancellor announcing that GDP growth would be slower than predicted at the previous Autumn Statement. George Osborne received some derision for missing his fiscal targets by announcing that debt as a proportion of GDP would rise this year, as well as breaching his self-imposed welfare cap. Continuing the Government's narrative about the "red lights flashing on the dashboard of the global economy" the Chancellor cautioned against complacency, warning that the UK was "not immune" to any international slowdown despite being forecast to grow faster than any other major Western economy.

TAX RELIEF AND NEW LISAS

Alongside the introduction of an eye-catching sugar tax and changes to business rates, there were some significant announcements for the pensions industry. The decision not to move to a 'pensions ISA' or flat-rate rate of tax relief was warmly welcomed. This represents a major lobbying victory for the Association, which has been consistently arguing for no change to the system of tax relief. We continue to believe that any change would undermine the progress of automatic enrolment and run contrary to the Government's ambition of incentivising long-term saving. However, it is clear that the door has not been closed permanently on this debate and we will continue to highlight the dangers of reforming the current system.

The announcement of a new 'Lifetime ISA' or 'LISA' for those aged between 18 and 40 was an interesting initiative which may well help young people save both for their first home and for retirement. Under the LISA, individuals can save up to £4,000 each year and will receive a 25% bonus from the government on every pound they put in. The fund accumulated can be used to purchase a first property up to the value of £450,000 or be withdrawn from the age of 60 onwards. However, any other withdrawals will see the government bonus returned and a 5% charge applied. While welcoming this policy we believe there are still some unanswered questions about the product, particularly around charges, investment and governance. The Association will be working with

> **THERE IS NO SHORTAGE OF APPETITE FROM UK PENSION SCHEMES TO INVEST IN INFRASTRUCTURE, A FACT REFLECTED IN THE AMBITIOUS POOLING PROPOSALS SUBMITTED TO GOVERNMENT BY OUR LGPS MEMBERS**

policymakers to ensure that these are comparable to workplace pensions, which have well-governed investment strategies and are designed to offer savers good value. Our Chief Executive Joanne Segars highlighted some of these concerns when she appeared in front of the Work and Pensions Select Committee on 23 March. The LISA will be available to savers from April 2017 with final details being set out later this year.

PAYING FOR ADVICE

Alongside the Budget announcements, HM Treasury and the FCA published official responses to their reviews of the financial advice market and public financial guidance. Among the 28 recommendations made in the FCA's response to the Financial Advice Market Review was a recommendation that DC savers should be allowed to access up to £500 of their pension pot tax-free before the age of 55 to redeem against the cost of financial advice, while HM Treasury should explore ways to improve the existing £150 income tax and National Insurance exemption for employer-arranged advice on pensions. Both of these suggestions were picked up by the Government in the Budget, where a commitment was made to consult on the former and to implement the latter by increasing the exemptions to cover the first £500 of advice.

Other recommendations made in the review included the creation of dedicated teams to help firms develop mass-market automated advice models and bring them to market more quickly. Alongside this, the FCA urged the Government to consult on amending the definition of regulated advice so that it would be based on a personal recommendation in future.

Of particular relevance to trustees and employers was the commitment to develop a new factsheet to help trustees and employers support their members in their financial decision-making without facing regulatory redress. The FCA's decision to highlight the availability of affordable, professional advice as one of its seven priorities in its 2016/17 Business Plan indicates that this will continue to be a pressing issue in the coming years.

PUBLIC GUIDANCE

Running alongside these changes to the advice market is a proposed shake-up of public financial guidance in the pensions space. Under the changes announced by HM Treasury in its response to its recent review, Pension Wise and the Pensions Advisory Service will be merged from 2018 to create a single, comprehensive pensions guidance service. As part of

WE NEED FRESH THINKING IF WE ARE TO HELP ALL SAVERS ACHIEVE GOOD OUTCOMES UNDER PENSION FLEXIBILITIES

this, the Money Advice Serve will see its remit narrowed to identifying gaps in the financial guidance market and commissioning targeted debt advice, with a corresponding reduction in resources. By removing duplication and reducing overheads the Government believes this new delivery model will allow resources to be targeted at the front line, while also ensuring the costs of the levy remain proportionate.

While welcoming many of these developments, the Association continues to believe that improved access to advice and guidance will not offer a solution for the majority of savers. Our Understanding Retirement research has shown a marked reluctance among individuals to seek regulated financial advice, so these solutions can only go so far in targeting the root of the problem. We need fresh thinking if we are to help all savers achieve good outcomes under pension flexibilities. Our belief is that this should come from empowering trustees and providers to signpost their members to independently accredited at-retirement products. We will set out how this can be achieved in the coming weeks and months.

In another significant development, the Chancellor announced his intention to ensure that the industry has designed, funded and launched a pensions dashboard by 2019. This would enable individuals to view all of their retirement savings in one place, including state and private provision. While supportive of the concept of a dashboard, the Association has a number of concerns around data protection, governance, cost and the compatibility of any dashboard with DB pensions. We will continue to engage with the various working groups which are focused on designing and delivering a pensions dashboard while liaising with government and regulators about the most practical way to drive this initiative forward.

PENSION FREEDOMS AND MORE

The Budget also contained an update on pension freedoms. According to official projections, the tax take from this policy will be around £200 million higher than initially forecasted, standing at around £900 million for 2015-16. A number of technical changes to the policy were also announced to support its smooth rollout. These included realigning the tax treatment of serious ill-health lump sums with lump sum death benefits so that they can be paid tax-free, legislating to convert dependents' flexi-access drawdown accounts to nominees' accounts when dependents turn 23, and allowing DC pensions already in payment to be paid as a trivial commutation lump sum under certain circumstances. With the FCA expected to launch a review on Retirement Outcomes under pension flexibilities later on in the year it is clear that the regulatory environment will continue to evolve as the reforms bed in.

For public service pensions the decision to change the discount rate used to set employer contributions in unfunded public service pension schemes will be important. This follows the Government's commitment to review the discount rate used to set employer contributions to the unfunded public service pension schemes every five years in order to ensure they remain sustainable. As a result, employer contributions are likely to increase by £2 billion per year from April 2019. However, this has been calculated by applying the new discount rate to the 2012 valuation results and is subject to change based on scheme valuations in 2016. The Association will continue to monitor this change and its impact.

Finally, the Government announced its intention to work with administering authorities to establish a new Local Government Pension Scheme infrastructure investment platform.

It is clear that there is no shortage of appetite from UK pension schemes to invest in infrastructure, a fact reflected in the ambitious pooling proposals submitted to government by our LGPS members. These pools are expected to deliver annual savings of at least £200 million and drive up investment in infrastructure. The Pensions and Lifetime Savings Association's own Pensions Infrastructure Platform recently launched its own multi-strategy infrastructure fund and is well versed in working with local government schemes to deliver at-scale, cost-saving infrastructure investments that Defined Benefit schemes want.

LEADING THE DEBATE

For the pensions industry, Budget 2016 may well be remembered as the Budget that introduced TEE by the backdoor. Or it may represent a turning point in the debate about how to incentivise younger generations to save for the long term in an era of falling home ownership, student debt and low interest rates.

Here at the Association we will continue to be at the forefront of these debates as we work towards our overarching ambition of delivering a better income in retirement for all.

IT IS CLEAR THAT THE REGULATORY ENVIRONMENT WILL CONTINUE TO EVOLVE AS THE REFORMS BED IN

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Integrated Actuarial Solutions

Using Actuarial Software to Reduce Costs and Improve Governance

Easy Internet Access has been a significant disruptive force in many industries.

Improvements in computer software mean that Trustees and Sponsors can now benefit from modern technology to improve the way they manage their actuarial service providers.

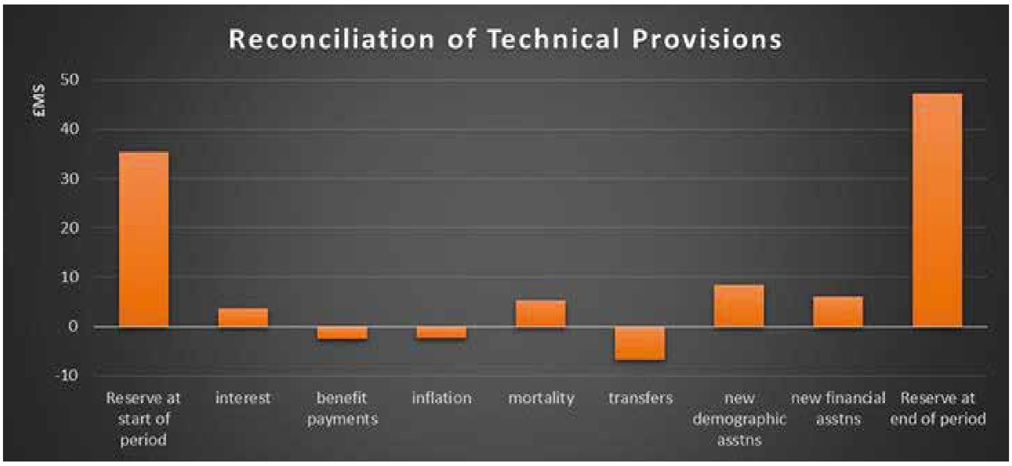
How should actuarial software systems be assessed?

The key metrics for actuarial software are simple: speed and accuracy. Modern software systems are designed to minimise expensive human input and eliminate the opportunities for human error. The system should include:

Transparent calculations for individual members - essential so that the scheme actuary can quickly verify sample calculations at a granular level for formal certification purposes.

Automated reports for standard investigations – automated valuation bi-products include cashflow projections, sensitivity analysis, recovery plan modelling, and collation of results on multiple assumption bases. Compared with older systems, these reports can be produced in seconds, bypassing the need for manual processing and without using separate stand-alone spreadsheets or other software packages.

Automated liability reconciliations – modern systems can access valuation results prepared at different valuation dates and generate detailed reconciliations of individual liability values in seconds. Older systems are notorious for being labour intensive and taking disproportionate amounts of time. Analysis of Surplus is a good example of this.



If you are a scheme or sponsor and would like to find out more about how to maintain the highest levels of governance, while addressing costs, please feel free to contact us to find out more

Insourced routine informal monitoring reports – a significant proportion of routine actuarial reporting information does not require formal certification and is used to help trustees and sponsors monitor volatile funding levels. In most situations, asset and liability values can be estimated approximately by applying simple indexation techniques to recently calculated accurate results. Modern systems give trustees and sponsors the ability to produce their own, accurate, monitoring reports and analysis. Whenever and wherever they choose.

A common platform for all scheme advisers. Access should be controlled, usually through password controls, to give the user the correct level of access. For example, giving the investment consultant permission to generate unlimited liability cashflow data for more complex LDI type analytics.

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INTERVIEW: ASHOK GUPTA

Viewpoint met up with **Ashok Gupta** to find out more about the aims of the DB Scheme Taskforce.

Q:

WHAT ARE THE CHALLENGES, IN YOUR OPINION, THAT DB SCHEMES FACE NOWADAYS?

A:

Pension schemes have been grappling with a wide range of challenges, including scheme funding, changing regulatory requirements, and an uncertain macro-economic environment. Joanne Segars articulated some of these in her speech to the Pensions and Lifetime Savings Association Investment Conference back in March – deficits are high, gilt yields are low and show little chance of recovering in the near future, and there is global economic uncertainty. These pressures, combined with increases in longevity, have led to the fairly rapid closure of DB schemes in the private sector over the last decade.

Now these issues don't impact on all DB schemes, nor do they impact on them in a consistent manner. But some schemes are struggling and it is only right that, with 16 million members in DB schemes, we ask how big and immediate is the challenge and what could be done to help.

Q:

WHAT WILL YOU START BY ADDRESSING IN THE TASKFORCE?

A:

The Taskforce is approaching the project with an open mind. We recognise that solutions to the problems facing DB schemes have been proposed before, but in different times; in particular when schemes were mostly open and economic conditions were more favourable. So we believe the issues are worth looking at afresh. The Taskforce is keen to ensure that we consider all the issues and identify solutions that will make a genuine difference for DB schemes going forward.

A key part of our work will be assessing the size and nature of the problem, expressing the consequences in a more tangible and specific way. We are also keen to understand the size and term of the problem – for example, what is the shape of the liabilities? – as this will help inform which solutions may have the greatest impact.

5,000 SCHEMES ARE IN SIGNIFICANT DEFICIT AND THERE IS A £305BN DEFICIT HOLE TO BE FILLED

Q:

WHAT IS THE SCOPE OF THE TASKFORCE'S WORK?

A:

The DB Taskforce will examine the challenges facing all funded DB schemes to understand their potential impact on members' benefits, the health of sponsoring employers, workplace pensions provision and the wider economy. It will assess solutions to those challenges and listen to DB schemes' judgement of their feasibility, impact and risks.
The aim of this work is to support all DB schemes. However we are aware that there are a number of issues that are sector- or scheme-specific – for example the '25 year deal' in the public sector – and we need to ensure that the work of the Taskforce does not cut across this.

Q:

IS THERE REALLY A DB PROBLEM THAT NEEDS FIXING? WE HAVE DECADES TO PAY THE PENSIONS DUE SO SURELY WE WILL GET THERE WITHOUT ANY FURTHER ACTION?

A:

As Joanne articulated in her speech at Investment Conference DB schemes face a number of challenges, which we cannot ignore in the hope they will simply go away. Five thousand schemes are in significant deficit and there is a £305bn deficit hole to be filled.

At the same time the economic outlook remains uncertain. And we are all living longer. In this climate it is only right that we ask ourselves what more can be done

DB TASKFORCE

THE DB TASKFORCE WAS ESTABLISHED IN MARCH 2016 TO UNDERTAKE A REVIEW OF THE CHALLENGES CURRENTLY FACING DB PENSION SCHEMES, AND MAKE RECOMMENDATIONS TO GOVERNMENT.

The taskforce is led by Ashok Gupta, deputy chair of the Bank of England's enquiry into pro-cyclical investment by pension funds and insurance companies. He is joined by experts from across the industry and academia.

The DB Taskforce will:

- Examine the challenges facing DB schemes and understand their potential impact on members' benefits, the health of sponsoring employers and the wider economy; and
- Assess solutions to those challenges and whether they would work for DB schemes.

The Taskforce will report in October 2016 at the Pensions and Lifetime Savings Association Annual Conference and Exhibition. Its report will set out a series of recommendations which can be used by government, regulators, employers and the industry to help make DB pensions sustainable.

GET INVOLVED

If you are interested in getting involved with the project then please contact **DBTaskforce@plsa.co.uk**. Join the conversation on twitter by telling us the one thing you'd change about DB pensions: tweet your answer at **#DBTaskforce**.

TASKFORCE MEMBERS

Ashok Gupta (Chair)
Duncan Buchanan
Frank Johnson
Paul Johnson
Jackie Peel
Stephen Soper
Paul Trickett
Kevin Wesbroom
Lesley Williams

DBtaskforce@plsa.co.uk

THE TASKFORCE IS KEEN TO ENSURE THAT WE CONSIDER ALL THE ISSUES AND IDENTIFY SOLUTIONS THAT WILL MAKE A GENUINE DIFFERENCE FOR DB SCHEMES GOING FORWARD

Q:

HOW WILL THE TASKFORCE CAPTURE THE VIEWS OF DB SCHEMES?

A:

The Taskforce is keen to hear from schemes and is doing that in a number of ways. We have issued a Call for Evidence inviting schemes to submit evidence and case studies to the Taskforce. We are also conducting research with a representative sample of DB schemes to explore the challenges they are experiencing and their proposed solutions.

Q:

HOW WERE TASKFORCE MEMBERS CHOSEN?

A:

The Taskforce members were chosen to provide expertise and representation from pension schemes, the industry and academia. They have also been chosen for their ability to bring strategic perspective to the issues facing DB.

But the Taskforce will not be working alone. As I mentioned we are seeking evidence and input from DB schemes, government, regulators, scheme advisers, scheme members and a wide range of industry stakeholders.

Q:

WHEN WILL THE TASKFORCE REPORT?

A:

We plan to present our initial findings at the Pensions and Lifetime Savings Association DB Hot Topic Seminar in July. The Taskforce will then report in October 2016 at the Pensions and Lifetime Savings Association Annual Conference and Exhibition. This report will set out a series of recommendations which can be used by government, regulators, employers and the industry to help ensure a sustainable DB pension system.

Q:

HOW CAN OTHER STAKEHOLDERS GET INVOLVED IN THE DEBATE?

A:

People who would like to get involved in the work or share their views should contact the Taskforce at **DBTaskforce@plsa.co.uk**.

Markham Rae

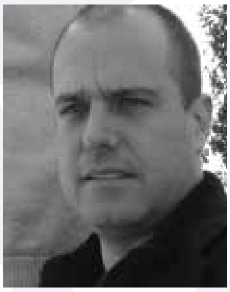
Positive convexity
– an opportunity for volatile times

Many institutional investors are faced with a challenge in the current market environment. Regulation, liability matching and risk management encourages insurance companies and pension schemes to hold a significant proportion of their portfolio in bonds. But the value of those portfolios will fall over the medium term as macroeconomic conditions normalise and interest rates start to rise.

The strength of the market's conviction that interest rates will remain lower for longer can be seen in the falling value of implied volatility. In other words, the market is content to receive lower returns because it thinks there is less risk that the value of these returns will change materially in the future. However should volatility rise higher than the market currently predicts, returns would fail to capture the move.

For these forced bond holders, an investment which can help to offset the loss which will be created in those market conditions would help to improve the overall return profile of the portfolio. Such an opportunity does exist in the form of a long convexity tilt which would provide a more attractive risk/reward trade off.

Markham Rae manages a discretionary macro fixed-income strategy which focuses exclusively on developed market interest rates and developed and selected emerging market currencies, which can help institutional investors in today's challenging current market environment.



"Many of our pension fund clients see this strategy as diversification within their fixed income portfolios, as in times of market stress the strategy is likely to provide attractive returns. Meanwhile, other institutional investors see it as a diversifier to the rest of their hedge fund portfolios."

~ Chris Brandt, CIO Markham Rae

What are the key benefits for Local Authority investors?

- Low correlations to major asset classes
- Diversification away from more traditional fixed income asset classes
- Opportunities are likely to improve with increased volatility

Why is now a good time to invest?

Markham Rae uses a top-down macro approach that uses more optionality than other funds in the same space tend to employ. Nonlinear risk enables us to tailor to our macro view, thus giving us increased exposure if we are correct and less exposure if we are wrong. It also provides us with relatively less sensitivity to timing. We are less concerned about whether the Fed raises rates at its next meeting; we are more interested in the general direction over the medium term. The market view is that there is little chance the rate at which the value of a bond falls could accelerate relative to the increase in interest rates. Predicting when the market will change its mind is notoriously difficult however, so we structure positions which will enable us to make returns from our belief that the market will correct its view without having to predict the exact timing of the change.

Markham Rae is an absolute return manager. We focus on downside protection and aim to deliver positive returns for the long-term investor offering uncorrelated returns and positive convexity. Markham Rae has a dedicated and experienced investment team with an average of twenty years in the investment industry, an eleven-year track record, delivering 9.06% net annualised since 2003.

For more information, please contact: Kerry Duffain, Head of Distribution

Kerry.duffain@markhamrae.com   www.markhamrae.com   in www.linkedin.com/company/markham-rae-llp

Risk Management. Liquidity. Capital Preservation

NEWS FROM TPR

Lesley Titcomb brings us up to date with progress at the regulator.

REGULATING PUBLIC SERVICE PENSIONS

IT'S BEEN JUST OVER A YEAR SINCE THE PENSIONS REGULATOR BEGAN ITS EXPANDED ROLE INTRODUCED BY THE PUBLIC SERVICE PENSIONS ACT 2013 IN RESPECT OF THE GOVERNANCE AND ADMINISTRATION OF PUBLIC SERVICE SCHEMES.

We now give practical guidance and set standards of practice for local government, NHS, teachers, civil service, armed forces, police, firefighters and judicial pension schemes – and, where necessary, take action if legal requirements are not met.

The views and comments that we have heard from those associated with public service schemes have played a valuable role in focussing our work and developing our plans for the year ahead.

SURVEY OF ALL SCHEMES

During our first year of regulating public service schemes we surveyed all schemes to assess how they were meeting their requirements. We also undertook work to develop our regulatory approach and reviewed our risk framework to ensure we focus on risks that pose the largest threat to the effective governance and administration of public service schemes.

Last December we published the survey results, and we found that many schemes were making significant progress in meeting the challenges of delivering the reforms. However, some schemes were slower to take action in key areas such as record-keeping. While nine in every 10 respondent schemes had made progress in establishing a pension board, just under half (44%) had measured themselves against the requirements of the record-keeping regulations.

We urge schemes to take immediate action to identify gaps and put plans in place to resolve issues.

As part of our work we want to support schemes to help them understand and embed the public service code of practice, and we provide specific guidance on this through online education tools and e-learning modules.

ISSUING ANNUAL STATEMENTS

Annual benefit statements are critical in helping scheme members to plan and make key decisions about their retirement. Last year some local government pension schemes had teething problems with issuing annual benefit statements, but we expect to see a vast improvement in 2016. Most schemes will issue annual benefit statements in line with the 2013 Act for the first time this year. To help them plan and prepare, we have published an essential guide to issuing annual benefit statements.

NEXT 12 MONTHS

We have a number of activities planned to provide practical support for schemes and increase our understanding of the challenges they face.

WE URGE SCHEMES TO TAKE IMMEDIATE ACTION TO IDENTIFY GAPS AND PUT PLANS IN PLACE TO RESOLVE ISSUES

Our focus on stakeholder engagement, including government partners, will continue as we seek to tackle risks and drive up standards in public service schemes.

We will carry on with our education work and, where we consider it necessary, will publish guidance on key risk areas. And our casework will be prioritised according to the risks we consider pose the greatest threat to the effective governance and administration of schemes.

In the autumn we plan to publish a self assessment tool to help schemes identify issues and actions to take to improve their governance and administration. Towards the end of the year we plan to conduct another governance and administration survey.

Where we identify serious non-compliance and schemes fail to take steps to improve we will consider the use of our powers. This may include, for example, our formal information-gathering powers or issuing either improvement or third-party notices. It is critical to have robust governance and administration in public service pension schemes. We remain committed to working with public service schemes to ensure they meet their duties and that good outcomes are delivered for members.

PENSIONS SOLVENCY – GOOD NEWS AT LAST

James Walsh, Policy Lead: EU and international, reports on a welcome European climb-down.

FOR AS LONG AS I CAN REMEMBER (WELL, AT LEAST FOR ALL OF MY SEVEN YEARS IN PENSIONS) THE THREAT OF AN EU FUNDING REGIME BASED ON THE INSURANCE INDUSTRY'S SOLVENCY II SYSTEM HAS BEEN ONE OF THE BIGGEST RISKS FOR DEFINED BENEFIT PENSION SCHEMES.

All of a sudden, all that has changed. The solvency concept is now off the table.

Perhaps surprisingly, there was no huge fanfare for what was actually a pretty important announcement. The rather dense report in which the EU's pensions regulator, EIOPA, set out its climb-down hardly made for an enticing read. But make no mistake; this is a key moment in the course of EU pensions policy.

So what has actually happened and why? And what, if anything, happens next? First, a brief recap.

EIOPA'S 'OWN INITIATIVE' WORK

> "The IORP sectors across Europe are very heterogeneous and are experiencing different challenges. EIOPA believes that the introduction of a one-size-fits-all framework with harmonised capital or funding requirements at this point in time will not be effective to meet these challenges."
>
> EIOPA Opinion on a Common Framework for Risk Assessment and Transparency for IORPs, April 2016, p.8

Many readers will remember the scenario: after the European Commission abandoned its plans to mirror the insurance industry's Solvency II regulatory regime with a similar system for pensions, EIOPA decided to pursue the idea on its own initiative. The solvency concept was rebadged as a 'Holistic Balance Sheet' that could be used to assess the financial strength of any pension schemes in any EU Member State.

The 'own initiative' point is crucial; because EIOPA's work was not requested by the European Commission, it ranks only as an 'Opinion', rather than 'Advice', and there is no obligation on the Commission to respond.

EIOPA'S REPORT SHOWS JUST HOW DAMAGING THE FUNDING REGIME COULD HAVE BEEN

THE QUANTITATIVE ASSESSMENT

Last year EIOPA conducted a 'Quantitative Assessment' – a second stab at calculating how pension funding would look if calculated on an HBS basis. Six ways of using the HBS were assessed – from a fully developed funding regime to a reporting system.

Sixty-one UK schemes contributed data to this exercise, covering 33 per cent of UK pension schemes' assets under management, and this strong UK participation helped to ensure that the report included credible figures for the UK.

The resulting report from EIOPA, published in mid-April, effectively throws in the towel. A one-size-fits-all funding regime, the report says, is "not appropriate".

The language might be measured, but, as EU-speak goes, "not appropriate" is a major climb-down. It means EIOPA is now stopping its work on pensions solvency.

EIOPA'S NEW IDEA – THE REPORTING TOOL

> "EIOPA advises that the common framework be used as a tool for risk assessment and transparency based on the approach included in example 6 of the potential supervisory frameworks that were presented in the EIOPA consultation paper on solvency of IORPs."
>
> EIOPA Opinion, Para. 94

Of course, it's never quite so simple. There is some language about the HBS not being appropriate "at this time", which keeps the door ever so slightly ajar. Nevertheless, it's clear that EIOPA's work programme will no longer include a solvency-style funding system.

Instead, EIOPA will now focus on developing the HBS as a tool for "risk assessment and transparency" – in other words, a report to be compiled alongside the existing funding regime.

The UK tried to get even this option stopped on the basis that a reporting regime tomorrow could become a funding regime at some point in the future. Plus there will be costs, estimated by EIOPA at £160 million per year in the UK. But, given where we were, to have EIOPA now working only on the reporting option represents huge progress.

EIOPA's report shows just how damaging the funding regime could have been. If implemented in the UK, a solvency-based system would increase DB deficits to £770 billion, from £253 billion under our current system. The impact on DB schemes would be dramatic.

It must be said that EIOPA's volte-face could be seen as pretty academic, given that the European Commissioner for financial services, Lord Hill, is believed to have no intention of including a solvency-style HBS in his agenda. Now he will not even have to consider it.

A MORE POSITIVE AGENDA

In her comments on EIOPA's announcement, Pensions and Lifetime Savings Association Chief Executive Joanne Segars paid tribute to the input from UK pension schemes; this has played a crucial role in influencing the debate and shaping EIOPA's thinking. She also acknowledged the vital role of the Pensions and Lifetime Savings Association's EU-level federation, PensionsEurope; building alliances across Europe has been the key to success on this issue.

Joanne Segars highlighted the opportunity EIOPA now has to pursue more helpful priorities, including extending workplace retirement saving to the 60 per cent of EU citizens who have no access to it at the moment. There is also an opportunity to put pension schemes at the heart of the European Commission's vision for a 'Capital Markets Union'.

With the solvency threat finally removed from the political agenda, the Pensions and Lifetime Savings Association can focus more attention on these more positive issues. That has to be good news for British pension schemes.

BUILDING ALLIANCES ACROSS EUROPE HAS BEEN THE KEY TO SUCCESS ON THIS ISSUE

CHIEF EXECUTIVE QUESTION TIME

Pensions and Lifetime Savings Association Chief Executive **Joanne Segars** answers questions from members.

DO TRUSTEE BOARDS UNDERSTAND THE REASONS THAT THEY ARE THERE – TO PROVIDE CERTAINTY TO THE MEMBERS THAT THEY WILL GET THEIR BENEFITS ON TIME AND IN FULL?

Skip McMullan
Director, Bank of America Merrill Lynch Pension Scheme

Good question Skip. I've been encouraged by the overall improvement in pension scheme governance over the past decade – it's something The Pensions Regulator has acknowledged too. So I do think trustee boards understand their role is to ensure the members get their benefits on time and in full.

That has a number of dimensions, of course. It means smart investment – and we've certainly seen investment getting smarter (and more complex along the way). And it means sharper administration – the smartest investment in the world will count for nothing if poor administration means you don't know who you're paying the money to, or if trustees can't get the right money out the door to the right person on the right day. Fundamentally, it also means smart communications. It's vital that scheme members know what they can expect and that the communications are delivered in a way that's clear and meaningful to them. There again I see real improvements compared to the communications we used to deliver a few years ago.

I'm not suggesting that we should just pat ourselves on the back and say "job done". We can always improve and must continue to so. But I do think we're on the right track.

Please send your questions to **jane.dawson@plsa.co.uk**.

GIVEN THE INCREASING ROLE OF THE EUROPEAN SECURITIES AND MARKETS AUTHORITY IN UK PENSION SCHEMES, TO WHAT EXTENT IS THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION ENGAGING WITH THE BODY, AND WHAT ARE ITS 'HOT TOPICS'?

Jonathan Ord
Investment Manager, Alternative Assets, London Pension Fund Authority

Thanks for the question, Jonathan. ESMA is obviously an important part of the regulatory landscape, not least through its role in implementing key financial markets legislation such as EMIR and MIFID II. We have engaged with ESMA on a number of levels, from responding to technical consultations on margin requirements for non-cleared derivatives, to meeting ESMA officials in Paris as part of a PensionsEurope team and welcoming ESMA's Chair, Steven Maijoor, as a speaker at our Investment Conference.

Having said that, I feel there is more we could do to strengthen our personal contacts with key ESMA officials, and this is something our External Affairs team will be working on over the next year.

GIVEN THE CURRENT FUNDING ISSUES FACED BY DB PENSIONS, WHAT GIVES YOU THE CONFIDENCE THAT THE INDUSTRY HAS THE ABILITY TO GUIDE SCHEMES THROUGH TO THEIR BUYOUT GOALS IN 10-15 YEARS' TIME?

Ken Harvie, Head of Consultant Relations, Unigestion

Thanks for the question, Ken. We were pleased to see that EIOPA has dropped its proposals for new additional funding requirements for pension schemes. So at least that's one thing that won't be adding to DB schemes' already significant funding pressures. You're right that as an industry we need to be able to manage through to buyout goals. Part of the solution, to my mind, is ensuring we have the right investment 'products' to help schemes, but also that schemes themselves have strong governance frameworks to support the process.

Of course buyout is the ultimate in the so-called 'end game'. But we need to think about other alternatives, too, to support DB. That's just what the DB Taskforce which I launched in March is going to do. I hope you – and other readers – will feed in your views.

WHAT'S YOUR FAVOURITE...

Type of music/musician?
Ella Fitzgerald – fabulous voice

Book?
I'm just about to start The Interpreter – sounds like an interesting thriller/mystery set around the UN

Film?
Hail Caesar – high quality silliness

TV Show?
House of Cards

Gadget?
Canon D70

WOULD YOU CHOOSE...

Diamonds or pearls?
Choice would be a fine thing!

Dogs or cats?
Cats, definitely

Beach or ski slopes?
A bit of both

Sweet or savoury?
Savoury

New shoes or new handbag?
Hard choice – probably shoes

Flowers or chocolates?
Chocolates please!

Cinema or theatre?
Theatre

Lamborghini or Ferrari?
Neither – BMW and bus

INFRASTRUCTURE: COLLABORATION TREND OR ISOLATED ANOMALY?

Pensions Infrastructure Platform Chief Executive **Mike Weston** explores why there is not more collaboration among UK pension schemes.

COLLABORATION AND ITS MORE EXTREME FORM, CONSOLIDATION, ARE CURRENTLY VERY TOPICAL IN THE WORLD OF UK PENSIONS; AND ESPECIALLY SO AMONG ENGLISH LOCAL GOVERNMENT PENSION SCHEMES. BUT WHY ARE THERE SO FEW ACTUAL EXAMPLES OF UK PENSION SCHEMES OPERATIONALLY COLLABORATING WITH EACH OTHER?

IN MATURE INDUSTRIES CONSOLIDATION IS ESSENTIAL TO REDUCE COSTS AND PRESERVE RETURNS

There is no obvious answer. After all, every pension scheme has the same ultimate objective: to pay all of its members' accrued pensions in full, when they fall due, at minimum ongoing cost to the scheme sponsor. These are self-contained objectives. Schemes don't need to compete with each other to achieve them, except perhaps in the very rare cases when there is more demand than supply of particularly attractive investment opportunities.

And it is corporate orthodoxy that in mature industries consolidation is essential to reduce costs and preserve returns.

So why does this not apply in UK DB pensions? The answer is the heterogeneity of the participants. In short, every scheme is different. There are slightly different benefit structures, different investment strategies, different funding positions – and dedicated Trustee Boards uniquely focussed on performing their fiduciary duty for their scheme and their members, nobody else's!

This may explain why schemes don't merge and consolidate, but it doesn't really explain why there isn't more operational collaboration. The answer here is that, in general, there is not perceived to be a compelling need. Most tasks of each scheme can be accomplished individually, from asset allocation, investment management and financial control to regulatory compliance and the purchasing of professional services.

It may be that many schemes still do not have an accurate picture of their total costs, both investment and operational. So the benefits of cost-savings from collaboration are not obvious. Nor is it in the interests of most of the asset management industry to openly promote lower fees for larger, consolidated, mandates.

Interestingly, in the DC world, where charges levied on AE members are tightly capped, we're seeing the emergence of fewer, larger players – as economic theory would predict. The case is similar for pension buyout providers: price-driven competition and economies of operational scale have resulted in a small number of very large players.

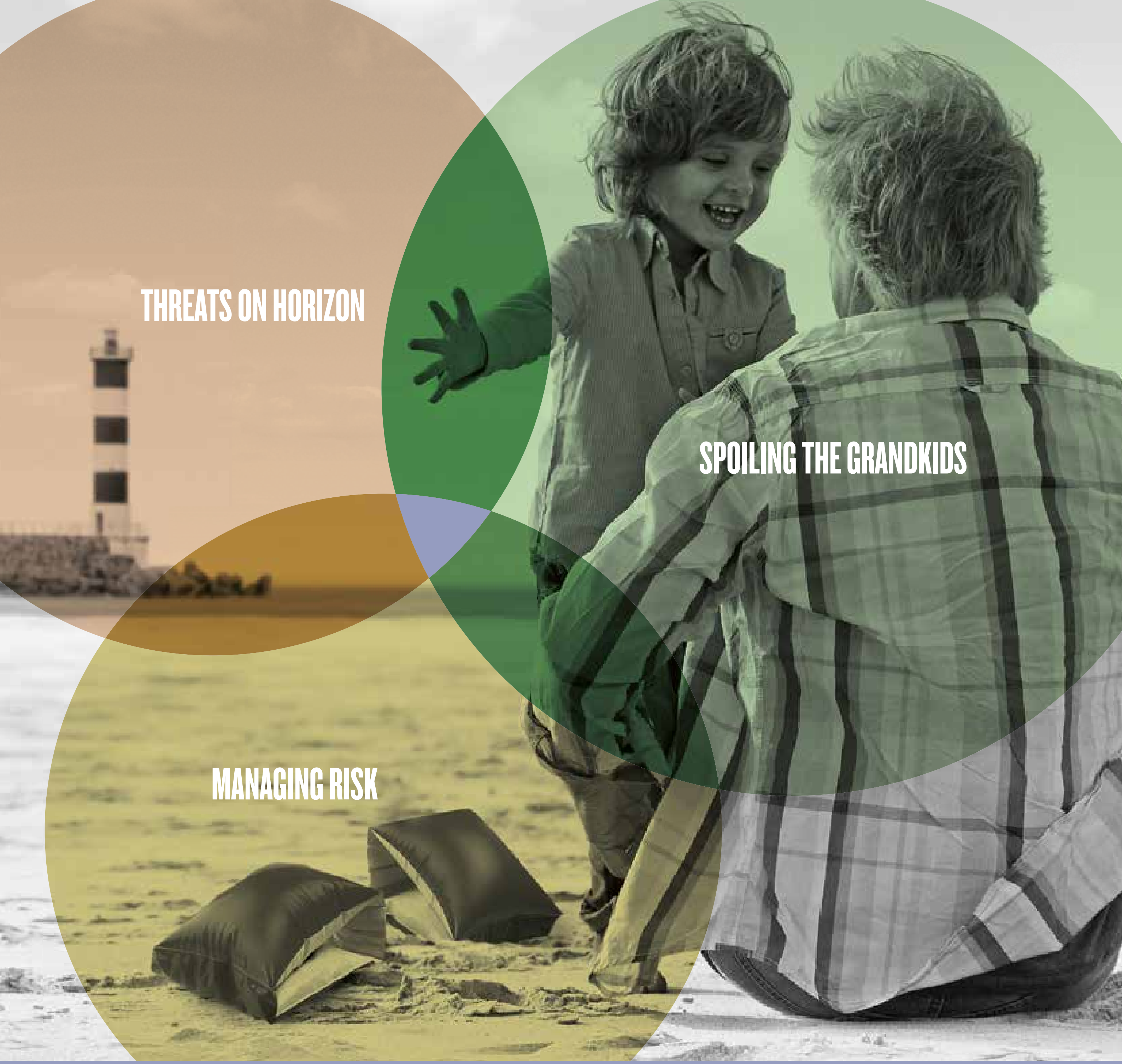
So in the current UK DB world, infrastructure investing is clearly an anomaly. The terms of externally available infrastructure funds have been misaligned and unattractive. There are clear disincentives for all but the largest schemes to establishing an internal investment capability. And there are real benefits of scale for investors. As a result, in the UK at least, a potentially attractive asset class for many schemes has not been widely adopted.

There is a compelling benefit within infrastructure investing for those schemes that are prepared to collaborate with their peers. By working together, schemes can achieve the scale needed to be effective players. The benefits of this scale can be captured for all the participants, and the supply of infrastructure is sufficiently large that no collaborator loses out by joining in.

The genesis of PiP illustrates that even where there is a compelling rationale for collaboration it is not easy to achieve. Trust has to be built between collaborators, common objectives agreed upon and commitment demonstrated to the cause. This takes time and much effort – but, as PiP is now demonstrating, it is possible. There is light at the end of the metaphorical tunnel.

Pension schemes are no different to other businesses, or for that matter individuals. We all find it easier to work alongside peers we trust, respect and enjoy being with, and where ultimately we know we are better off in the group than standing alone. For most areas of DB pensions this is not yet the case. Infrastructure is one area where it is.

BY WORKING TOGETHER, SCHEMES CAN ACHIEVE THE SCALE NEEDED TO BE EFFECTIVE PLAYERS


THREATS ON HORIZON
SPOILING THE GRANDKIDS
MANAGING RISK

UNDERSTANDING ETHICAL INVESTMENT

Luke Hildyard, Policy Lead: Stewardship and Corporate Governance, argues that new research points to a need for better financial education among savers.

TO WHAT EXTENT SHOULD PENSION FUNDS CONSIDER ETHICAL FACTORS WHEN MAKING INVESTMENT DECISIONS? THE LAW COMMISSION'S 2014 VERDICT THAT TRUSTEES AND THEIR ADVISERS MAY TAKE FINANCIALLY MATERIAL ETHICAL OR ENVIRONMENTAL, SOCIAL AND GOVERNANCE FACTORS INTO ACCOUNT PROVIDES HELPFUL GUIDANCE FOR ANYONE WRESTLING WITH THIS QUESTION; AND HIGHLIGHTS THE FACT THAT A POOR RECORD ON POLLUTION OR EMPLOYEE RELATIONS, FOR EXAMPLE, CAN OFTEN LEAD TO POOR FINANCIAL PERFORMANCE.

However, the Commission's recommendation that trustees may also consider (subordinate) non-financial factors, if they have good reason to think that members share their concerns and that there is no significant financial detriment to the fund, still presents a challenge for funds. How are they to judge whether or not their members might share a particular ethical concern? Transparency and dialogue with members are good practices. For example, some funds disclose their most significant investments on their website or in their annual report. In 2014, the Legal and General master trust became the first in the sector to hold an AGM for its members.

It is fair to say that these initiatives haven't led to a stampede of pension fund members desperate to shift their fund's investments into more ethical companies or vehicles. But new research from Price Bailey LLP suggests that interest in ethical investing may be stronger and deeper than many funds think.

INTEREST IN ETHICAL INVESTING MAY BE STRONGER AND DEEPER THAN MANY FUNDS THINK

MOST SCHEME MEMBERS SIMPLY FAIL TO UNDERSTAND THE INVESTMENT SECTOR OR THE CONSEQUENCES OF HOW THEIR OWN SAVINGS ARE INVESTED

Price Bailey's survey, conducted by Ipsos Mori, found that 68% of respondents felt that a scheme which invests ethically was fairly or very important, when thinking about their own pension arrangements. This was lower than either the 88% saying that a pension scheme that is well-run and managed or the 86% saying that the overall return on investment were fairly or very important, but nonetheless it is still a significant percentage.

Furthermore, 42% of those surveyed either somewhat agreed or strongly agreed with the proposition that they would avoid investing in a company that conflicted with their ethical views, even if this meant accepting lower returns. Just 14% strongly or somewhat disagreed.

The polling reflects the Association's research in 2014, which found that in the 18-34-year-old age bracket, scheme members felt that a company's treatment of its workers was as important as its financial performance when thinking about where they would like their own pension savings to be invested.

Such evidence provides a basis for funds to incorporate an ethical dimension into investment decisions, as it suggests members want them to do so; and this has been further facilitated by the Law Commission's conclusions on fiduciary duty.

How though do we reconcile this evidence with the seeming lack of member interest in the ethics – or any other aspect – of their investment strategy? The Price Bailey polling offers a clue. Barely a third of respondents reported a very clear or fairly clear understanding of where their pension funds are invested, compared to over half who said they had a fairly or very unclear understanding.

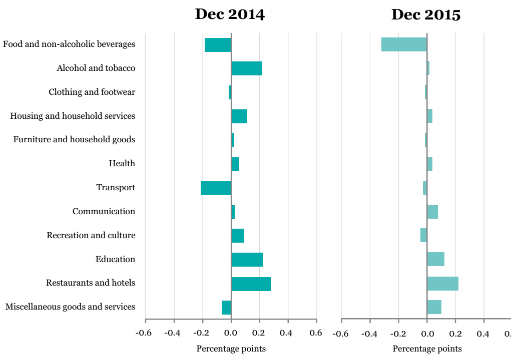
These figures suggest that rather than actively not caring about where their pension is invested, most scheme members simply fail to understand the investment sector or the consequences of how their own savings are invested. This is regrettable, and shows that better financial education ought to be a priority for policymakers and regulators.

In the meantime, pension funds should have confidence that holding asset managers and investee companies to account over ethical issues reflects members' concerns and values – even without a critical mass of financially literate savers beating down their door to demand that their savings are used to build the new Jerusalem.

A full copy of the *Workplace Pensions: The Members' Perspective* research, with more detailed analysis, is available at **www.pricebailey.co.uk/pensions-report**

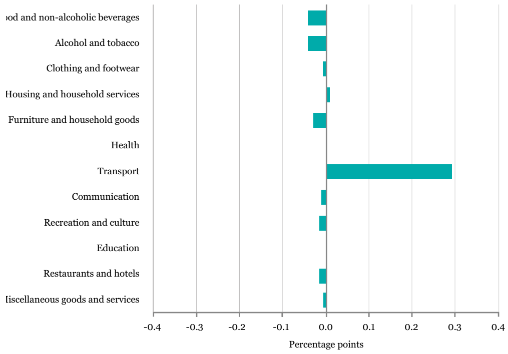
ECONOMIC INDICATORS

CONTRIBUTIONS TO THE CPI 12-MONTH RATE: DECEMBER 2014 AND DECEMBER 2015



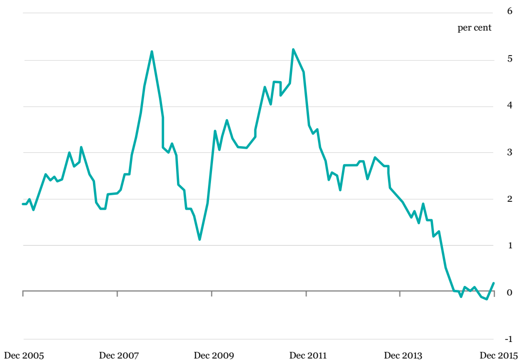
Note: Individual contributions may not sum to the total due to rounding.
Source: Office for National Statistics.

CONTRIBUTIONS TO THE CHANGE IN THE CPI 12-MONTH RATE: DECEMBER 2015



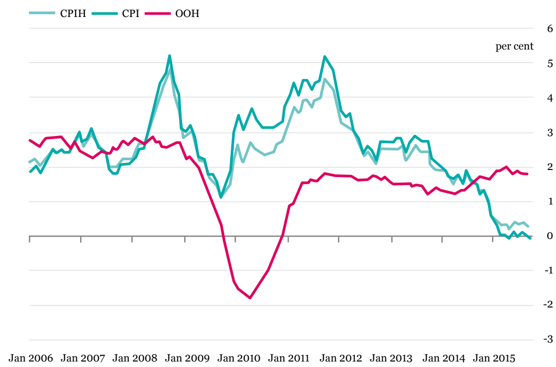
Note: Individual contributions may not sum to the total due to rounding.
Source: Office for National Statistics.

CPI 12-MONTH INFLATION RATE FOR THE LAST 10 YEARS: DECEMBER 2005 TO DECEMBER 2015



Source: Office for National Statistics.

CPIH, OOH COMPONENT AND CPI 12-MONTH RATES SINCE JANUARY 2006



Note: The National Statistics status of CPIH has been discontinued.
Source: Office for National Statistics.

CPI INDEX VALUES, 1-MONTH AND 12-MONTH RATES: DECEMBER 2014 TO DECEMBER 2015

		Index[1] (UK, 2005 = 100)	1-month rate	12-month rate
2014	Dec	128.2	0.0	0.5
2015	Jan	127.1	-0.9	0.3
	Feb	127.4	0.3	0.0
	Mar	127.6	0.2	0.0
	Apr	128.0	0.2	-0.1
	May	128.2	0.2	0.1
	Jun	128.2	0.0	0.0
	Jul	128.0	-0.2	0.1
	Aug	128.4	0.2	0.0
	Sep	128.2	-0.1	-0.1
	Oct	128.4	0.1	-0.1
	Nov	128.3	0.0	0.1
	Dec	128.5	0.1	0.2

Key: - zero or negligible
1. All Items Consumer Prices Index

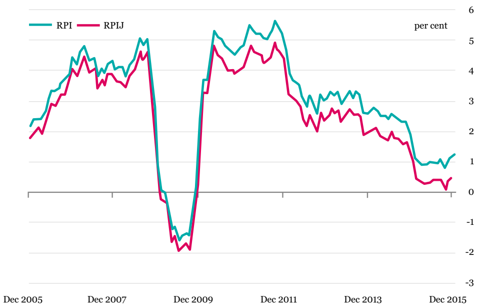
CPIH AND OOH COMPONENT INDEX VALUES, 1-MONTH AND 12-MONTH RATES: DECEMBER 2014 TO DECEMBER 2015

		CPIH[1] Index1 (UK, 2005 = 100)	OOH Index[1] (UK, 2005 = 100)	CPIH 1-month[1] rate	OOH 1-month[1] rate	CPIH 12-month[1] rate	OOH 12-month[1] rate
2014	Dec	125.9	115.6	0.0	0.2	0.7	1.7
2015	Jan	125.0	115.9	-0.7	0.2	0.5	1.9
	Feb	125.3	116.0	0.2	0.1	0.3	1.9
	Mar	125.5	116.1	0.2	0.1	0.3	2.0
	Apr	125.8	116.3	0.2	0.1	0.2	1.9
	May	126.0	116.4	0.2	0.2	0.4	1.8
	Jun	126.1	116.6	0.1	0.1	0.3	1.9
	Jul	126.0	116.8	-0.1	0.1	0.4	1.8
	Aug	126.3	117.0	0.2	0.2	0.3	1.8
	Sep	126.2	117.2	-0.1	0.1	0.2	1.8
	Oct	126.4	117.3	0.1	0.2	0.2	1.8
	Nov	126.4	117.6	0.0	0.3	0.4	1.9
	Dec	117.8	117.8	0.1	0.2	0.5	1.9

Key: - zero or negligible

1. The National Statistics status of CPIH has been discontinued pending work by ONS to investigate and improve the method for measuring owner occupiers' housing costs in this index. The improvements from the resulting development work are being introduced as part of this release with the historical back series revised back to 2005.

RPI AND RPIJ 12-MONTH RATES FOR THE LAST 10 YEARS: DECEMBER 2005 TO DECEMBER 2015



Note: The RPI has been de-designated as a National Statistic.
Source: Office for National Statistics.

RPI AND RPIJ INDEX VALUES, 1-MONTH AND 12-MONTH RATES: DECEMBER 2014 TO DECEMBER 2015

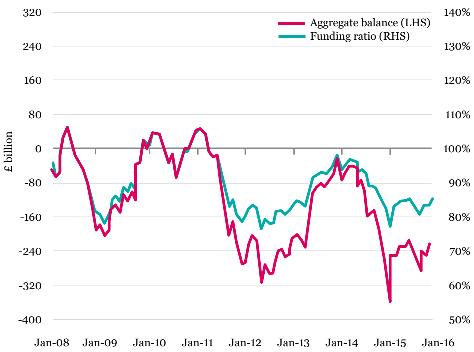
		RPI[1] Index1 (UK, 1987 = 100)	RPIJ Index (UK, 1987 = 100)	RPI 1-month[1] rate	RPIJ 1-month rate	RPI 12-month[1] rate	RPIJ 12-month rate
2014	Dec	257.5	238.6	0.2	0.1	1.6	1.0
2015	Jan	255.4	236.5	-0.8	-0.9	1.1	0.5
	Feb	256.7	237.2	0.5	0.3	1.0	0.4
	Mar	257.1	237.4	0.2	0.1	0.9	0.3
	Apr	258.0	238.0	0.4	0.3	0.9	0.3
	May	258.5	238.5	0.2	0.2	1.0	0.4
	Jun	258.9	238.7	0.2	0.1	1.0	0.4
	Jul	258.6	238.4	-0.1	-0.1	1.0	0.4
	Aug	259.8	239.4	0.5	0.4	1.1	0.5
	Sep	259.6	239.1	-0.1	-0.1	0.8	0.1
	Oct	259.5	238.9	0.0	-0.1	0.7	0.0
	Nov	259.8	239.1	0.1	0.1	1.1	0.3
	Dec	260.6	239.8	0.3	0.3	1.2	0.5

1. In accordance with the Statistics and Registration Service Act 2007, the Retail Prices Index and its derivatives have been assessed against the Code of Practice for Official Statistics and found not to meet the required standards for designation as National Statistics. A full report can be found at: http://www.statisticsauthority.gov.uk/

Note: The RPI has been de-designated as a National Statistic.
Source: Office for National Statistics.

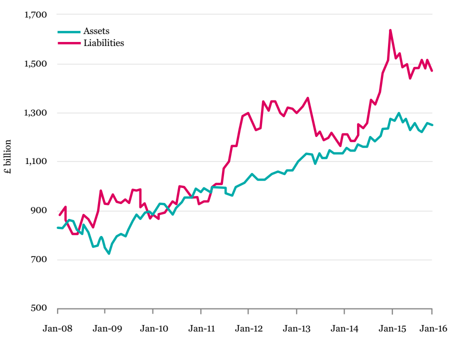
PPF 7800 INDEX DECEMBER UPDATE

Historical aggregate balance (assets less s179 liabilities) and funding ratio of schemes in the PPF universe.



Source: Pension Protection Fund.

Historical aggregate assets and s179 liabilities



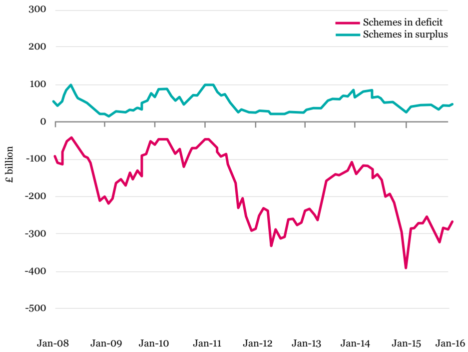
Source: Pension Protection Fund.

FUNDING COMPARISONS

	December 2014	November 2015	December 2015
Aggregate balance	-£266.3bn	-£249.4bn	-£222.4bn
Funding ratio	82.3%	83.4%	84.9%
Aggregate assets	£1,236.6bn	£1,253.8bn	£1,247.5bn
Aggregate liabilities	£1,502.9bn	£1,503.2bn	£1,469.8bn

Source: Pension Protection Fund.

Historical percentage s179 basis (surplus) for schemes in deficit (surplus)



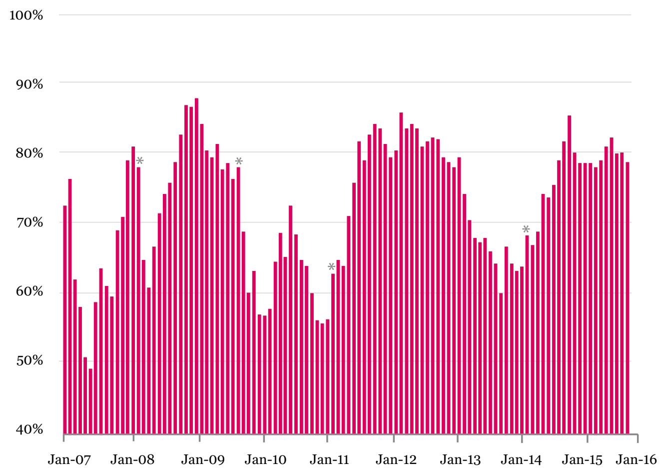
Source: Pension Protection Fund.

SCHEMES IN DEFICIT (SURPLUS)

	December 2014	November 2015	December 2015
Number of schemes in deficit	4,936	4,715	4,679
Deficit of schemes in deficit	£300.7bn	£289.5bn	£265.8bn
Number of schemes in surplus	1,121	1,194	1,266
Surplus of schemes in surplus	£34.3bn	£40.1bn	£43.4bn
Number of schemes in universe	6,057	5,945	5,945

Source: Pension Protection Fund.

Historical percentage of schemes in deficit on a s179 basis



Note: the changes to assumptions in March 2008, October 2009 and April 2011 reduced the number of schemes in deficit by 473, 714 and 253 respectively, while the changes to assumptions in May 2014 raised the number of schemes in deficit by 259.
Source: Pension Protection Fund.

LGPS: EYES WIDE OPEN

Having a proper understanding of the Local Government Pension Scheme is essential for all its members, says Senior Policy Adviser **Sarah Woodfield**.

OVER 13,000 EMPLOYERS OF ALL SHAPES AND SIZES HELP TO DELIVER PUBLIC SERVICES, AND, IN DOING SO, MANY BECOME MEMBERS OF THE LOCAL GOVERNMENT PENSION SCHEME (LGPS) AS 'ADMITTED BODIES'. THESE EMPLOYERS RANGE FROM BUSINESSES (SUCH AS G4S DELIVERING LOGISTICS FOR THE 2012 OLYMPICS) TO CHARITIES (SUCH AS SHELTER SUPPORTING LOCAL COUNCILS WITH HOMELESS REHABILITATION PROGRAMMES) TO HOUSING ASSOCIATIONS HELPING COUNCILS REHOME VULNERABLE INDIVIDUALS.

Alongside admitted bodies a number of 'scheduled bodies', such as post-92 universities, are required to participate in the LGPS. The number of scheduled bodies has further expanded in recent years with the creation of school academies – and the full 'academisation' of schools announced in the Government's 2016 Budget is expected to triple the volume of participating employers in future.

The LGPS provides a positive benefit for its members. However, participation in the scheme comes with substantial financial commitments as well as a range of administrative obligations, including:

- Making regular contributions on behalf of employees and making additional contributions if the scheme is in deficit;
- Facilitating communications with scheme members;
- Setting up administrative processes for making payments; and
- Responding to data requests made by the scheme.

Unfortunately, not all employers are alert to these obligations before entering into the LGPS as an admitted body. At best this means that they have to hurry to implement payroll processes when staff are transferred over to them. At worst this means they face liabilities with respect to the scheme that threaten their financial position.

There are a number of drivers behind this:

- Admitted bodies are experiencing an increasingly competitive contracting environment. This means that where the organisation does not have a robust checks and governance process in place it is too easy for them to end up in a situation where a junior bidding officer, under pressure to secure income for the organisation, signs a service agreement with their local authority without any understanding of the additional pension obligations associated with it.
- This is exacerbated by the fact that it is easy for admitted bodies to confuse the respective roles and responsibilities of the authority they are attempting to contract with and the administering authority which they are liaising with over the terms under which they will be an employer in the pension fund. Since both entities are wearing a local government hat, it is understandable that organisations assume that both will engage with them on an equal basis. In actual fact while they sit under the same umbrella they have distinct objectives which are not always aligned.
- Each administering authority has a certain amount of discretion over the way in which they engage with admitted bodies in the fund. What this means is that an admitted body won't necessarily find the same processes in their engagement from one local authority to the next. This can lead to an inconsistency of treatment that admitted bodies are not prepared for.

LOOKING FORWARDS

The LGPS has undergone significant change in recent years. The funds are in the process of pooling their investments into a small number of pooled vehicles, and a national scheme advisory board has been set up to assist individual funds and the secretary of state to achieve their objectives. Meanwhile, the LGPS in England and Wales is currently undergoing its 2016 valuation, where a fuller picture of its assets and liabilities will emerge (Scotland will undergo its valuation in 2017).

THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION IS WORKING TO SUPPORT EMPLOYERS PARTICIPATING IN THE SCHEME

As for all funded defined benefit pension schemes the last decade has seen an increasingly challenging environment for the LGPS, with a number of factors – such as increasing longevity and low gilt yields – contributing to a weakening of the scheme's funding position, and a rising deficit.

In 2013 the market value of the fund's assets under management stood at approximately £180bn. Its liabilities on the other hand stood at £227bn, resulting in a funding position of 79% and a deficit of £47bn.

The result of all these changes and mounting financial pressures is that many funds' attention is primarily focused on managing their funding position. This can leave little room for engaging with their admitted bodies and supporting them through the process of entering and participating in the scheme.

The Pensions and Lifetime Savings Association is working to support employers participating in the scheme by helping them to:

- Identify the pension risks associated with taking on local government contracts;
- Understand how a robust governance and checks process is essential to ensure contracts are entered into with a full understanding of the associated responsibilities; and
- Understand their obligations as an employer participating in the LGPS, and manage ongoing relationships with the scheme.

Any members interested in engaging in this work are very welcome to get in contact with Sarah Woodfield on **Sarah.Woodfield@plsa.co.uk**

WHAT DO YOU DO IN THE REAL WORLD?

Paul Craven, a behavioural science public speaker and 30-year pensions industry veteran, reveals his passion for magic...

I WAS ONE OF 20 MILLION PEOPLE WHO USED TO REGULARLY WATCH PAUL DANIELS ON TELEVISION ON SATURDAY NIGHT IN THE 1980S. BUT MY INTEREST IN MAGIC DIDN'T REALLY TAKE OFF UNTIL THE LATE 1990S, AND I HAVE THE NAPF – NOW OF COURSE THE PENSIONS AND LIFETIME SAVINGS ASSOCIATION – PARTIALLY TO THANK!

I was leading the Schroders sales team at the time, and we had a magician on our stand at the Assocation's Annual Conference & Exhibition. By good fortune we hired Peter Mehtab, and watching him over three days I became completely hooked, from different perspectives: firstly by the magic itself, and second, the effect it had on those watching.

Over the course of the next few months, Peter became not just a very dear friend, but also my mentor in magic. I practised long and hard, and one day Peter surprised me by saying he wanted to propose me for membership of the exclusive Magic Circle, the premier magic society in the world. The rest, as they say, is history – I passed the necessary exam (including a 12-minute routine in front of some of the world's best magicians). Performing magic became my main interest outside traditional working hours.

With three sons, I always had a ready-made audience on whom I could try out new material, and I had no shortage of people wanting me to perform at their functions or parties. In those days I used to focus on what is called 'close-up' – ideal for cocktail and dinner parties – although in recent years I have graduated to parlour magic and appearing on stage, particularly with a type of psychological magic called 'mentalism' which incorporates everything from influence to persuasion to the reading of minds.

TO BE ABLE TO HELP CREATE SMILES, LAUGHTER OR OPEN-MOUTHED WONDER IS GENUINELY REWARDING AND FULFILLING, ESPECIALLY AMONG A GROUP OF OTHERWISE CYNICAL ADULTS!

What can I say about the benefits of magic personally for me? Well firstly it does wonders for one's confidence and self-esteem, and whereas most people hate the idea of going on a stage or speaking in front of a large audience, I now relish the opportunity.

Secondly, and most importantly, it helps 'connect' to people – a good magician should be able to forge a powerful and emotional bond with the audience. Indeed, I like to think that whenever I am performing magic, rather than have an audience, I have participants who will participate in not just my, but their show.

Finally, it is such fun: to be able to help create smiles, laughter or open-mouthed wonder is genuinely rewarding and fulfilling, especially among a group of otherwise cynical adults! As magician David Devant once explained, it is best "all done by kindness."

And now I'm a public speaker and consultant on behavioural science, decision-making and sales, 'tricks of the mind' are fantastically relevant. Allow me to show you some time...

MEMBER NEWS

WELCOME TO NEW MEMBERS

SCORPEO
Services for Corporate Event Optimisation

SCORPEO

SCORPEO is an FCA regulated financial technology company based in London and Boston.

We provide specialist services to pension funds and asset managers to capture the intrinsic value embedded in corporate actions. Corporate actions are becoming increasingly numerous and complex. Managing them effectively and eliminating sub-optimal decisions is not easy for investment managers but it is important in terms of performance and aligning fiduciary responsibilities for investors. SCORPEO's technology and expertise offers the solution: SCORPEO Value Analysis™ calculates missed value across portfolios. SCORPEO Value Capture Programme™ provides the "safety net" to capture missed value for investors.

Contact: Chris Barrow
E: chris.barrow@scorpeo.com
T: +44 (0)2035983787
www.scorpeo.com

ALTERNATIVESOFT

AlternativeSoft is an award winning leading provider in Asset Selection, Portfolio Construction and Fund Reporting software, based in the UK and Switzerland. Our robust and proven software has enabled clients to thoroughly research and select alternative funds (hedge funds, ETFs and private equity funds) and the more traditional funds (mutual funds, index funds and other long only vehicles).

Contact: Akshay Lad
E: akshay@alternativesoft.com
T: +44 (0)2075102003
www.alternativesoft.com

CLEARMACRO

ClearMacro is an innovative cloud-based technology platform tool that supports institutional investors to gather, process and visualise complex data and portfolio opportunities across multi asset class and sectors as a high quality, robust input for global asset allocation decision making. ClearMacro subscribers access and visualise the forward looking opportunity set across multiple time horizons and frameworks delivered in a simple, intuitive user-interface.

Contact: Giles Adu
E: giles.adu@clearmacro.com
T: +44 (0)700 329551
www.clearmacro.com

TWELVE CAPITAL (UK)

Twelve Capital is an asset manager focusing on investment opportunities across the insurance space – Cat Bonds, ILS, equity, bonds, private debt, multi-asset credit ("best ideas") – for institutional clients (pooled funds, segregated mandates). Majority-owned by its managing partners, it employs over 40 professionals, with offices in Zürich and London.

Contact: James Ray
E: james.ray@twelvecapital.com
T: +44 (0)20 3856 6760
www.twelvecapital.com

We are also delighted to welcome the following organisations into our fund membership:

The Football Association, **University of Aberdeen**, **National Autistic Society**, **CMI**, **Thomas Miller**, **Unigestion**, **Advance Construction Scotland** and **Veridus Pension Trust**.

NEW MADE SIMPLE GUIDES AVAILABLE

WE HAVE LAUNCHED TWO NEW GUIDES IN OUR MADE SIMPLE SERIES

MULTI-ASSET CREDIT MADE SIMPLE

A concise and informative overview of multi-asset credit (MAC), designed to help pension funds address many of the concerns that they have around accessing global credit markets. The guide outlines all the necessary elements that schemes need to consider, putting them in a strong position to select a MAC manager with the right skills and strategy to fit with their needs.

The guide is kindly sponsored by **Eaton Vance**.

SYSTEMATIC INVESTING MADE SIMPLE

This guide examines one of the most extensive applications of systematic investing – the systematic macro style of hedge fund. The guide explains what systematic investing is, how it works, how it has performed, how an allocation can be beneficial to a pension scheme's wider portfolio, and what to consider when investing in such a fund.

The guide is kindly sponsored by **Winton**.

PDF versions of the guides can be downloaded from our website and hard copies can be purchased from our online shop at **www.plsa.co.uk**.

AUTOMATIC ENROLMENT GUIDE FOR SMALL BUSINESSES

PENSION SOLUTION HELPS SMALL BUSINESSES GET SET UP WITH AUTOMATIC ENROLMENT, AND OFFERS A RANGE OF BENEFITS. THIS STEP-BY-STEP GUIDE COVERS THE FOLLOWING KEY TASKS:

- **Plan** – Introduction to Automatic Enrolment and its processes
- **Research** – Review of current pension procedures and changes needed to comply
- **Forecast** – Factors to consider when estimating the financial impact
- **Which Pension Scheme?** – Choices in selecting a pension provider
- **Assess** – How to formally assess the workforce, ready for Automatic Enrolment
- **Explain** – Communicating to the workforce, which is a legal requirement
- **Enrol** – Enrolling each category of worker
- **Contributions** – Details of pension contributions for your workforce
- **Post-Staging Obligations** – Keeping up-to-date with workforce changes and being prepared for re-enrolment

It also provides an impartial guide to pension providers in the market. Busy small business owners can easily compare one provider against another by the features of the scheme, and it includes ratings from other employers who have used the provider.

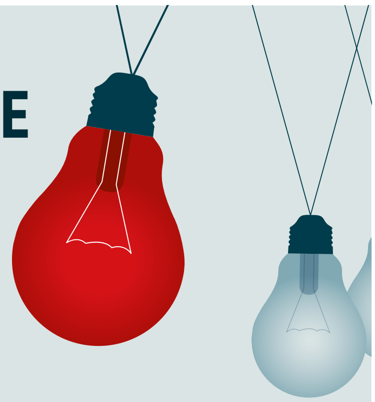
The useful resources section provides handy communication templates and videos, and also offers a free half-day training course for Pension Solution members, providing all the basics needed to implement automatic enrolment.

EXCELLENT COURSE – DETAILED, USER FRIENDLY AND VERY KNOWLEDGEABLE SPEAKERS

Membership costs just £49+vat for one year.

To find out more and join visit **www.pensionsolution.co.uk**.

ANNUAL CONFERENCE & EXHIBITION 2016



19-21 October, ACC Liverpool

IT'S OPEN FOR BOOKINGS! PLANNING IS WELL UNDERWAY FOR OUR BIGGEST EVENT OF THE YEAR. IT'S FREE FOR PENSIONS AND LIFETIME SAVINGS ASSOCIATION FUND MEMBERS TO ATTEND, AND YOU CAN REGISTER NOW.

We also have a range of exhibition and sponsorship opportunities available to suit all needs, but they are selling fast.

To find out more please contact our Business Development team, Varsha Gowda on 020 7601 1740 or email **varsha.gowda@plsa.co.uk** or Claire Simmons on 020 7601 1735 or email **claire.simmons@plsa.co.uk**.

Book your place at **www.plsa.co.uk/Conferences_and_Seminars**

OUR 2016 CHARITY

WE'RE DELIGHTED TO LET YOU KNOW THAT OUR CHARITY FOR 2016 IS FRIENDS OF THE ELDERLY.

If you're attending one of our Conferences this year, please do complete your appraisal form – the information helps us shape our future events and we donate £5 for each form we receive. A big thank you to everyone who returned an Investment Conference appraisal form as you raised £285 for Friends of the Elderly.

For more information about Friends of the Elderly please visit **www.fote.org.uk**.

PRACTICAL LAW COMPANY®

LEGAL UPDATE

Loreto Miranda, Head of Thomson Reuters' Practical Law Pensions service.

A NUMBER OF LEGISLATIVE AMENDMENTS CAME INTO EFFECT ON 6 APRIL.

THE ABOLITION OF DB CONTRACTING-OUT

Alongside the introduction of the new single-tier state pension, DB contracting-out has been abolished[1] with a host of consequential changes including:

- A new 'connected employer' test in respect of the bulk transfer of accrued rights without member consent;
- A statutory modification power allowing schemes to amend their rules to reflect the new position regarding fixed-rate GMP revaluation; and
- Continuation of provisions allowing scheme administrators to undertake any necessary activity for periods of contracted-out employment before 6 April 2016.

TECHNICAL CHANGES TO STATUTORY AUTO-ENROLMENT

Two new statutory exceptions mean that the employer auto-enrolment duty has become a discretion for certain company directors and members of limited liability partnerships. There is also a transitional easement for formerly contracted-out schemes to continue to meet the statutory quality test, and a simplified process for employers to bring forward their staging dates[2].

CHANGES TO DC GOVERNANCE REQUIREMENTS

Amending regulations[3] tweaked governance requirements for occupational DC schemes, including:

- Narrowing the definition of a "relevant multi-employer scheme" to exclude group companies;
- Allowing a deputy chair to sign the chair's annual statement if there is no chair in place; and
- A statutory override for relevant multi-employer schemes if a scheme's rules conflict with requirements for the majority of trustees to be non-affiliated and for there to be at least three trustees.

Providers of workplace DC schemes are also prohibited from levying differential charges for different categories of members (such as active member discounts) in qualifying schemes used for auto-enrolment, and a ban on member-borne commission has started to be phased in.

For more information on Thomson Reuters' Practical Law knowhow service for pensions professionals visit **http://uk.practicallaw.com/practice/uk-pensions** or contact **loreto.miranda@thomsonreuters.com**.

1. *Pensions Act 2014 and various regulations.*
2. *Occupational and Personal Pension Schemes (Automatic Enrolment) (Miscellaneous Amendment) Regulations 2016 (SI 2016/311).*
3. *Occupational Pension Schemes (Scheme Administration) (Amendment) Regulations 2016 (SI 2016/427) and Occupational Pension Schemes (Charges and Governance) Regulations 2015 (SI 2015/879) as amended.*

PENSIONS AND LIFETIME SAVINGS ACADEMY

Educational Development Manager **Frances Corbett** highlights a pair of new offerings

THE ACADEMY HAS INTRODUCED TWO NEW INITIATIVES IN 2016. THE FIRST OF THESE HAS BEEN DESIGNED FOR LOCAL GOVERNMENT PENSION BOARD MEMBERS IN THE FORM OF A ONE-DAY INFORMATION SEMINAR. IF YOU WERE NOT ABLE TO ATTEND THE SEMINAR IN APRIL THE NEXT SESSION IS ON 15 JUNE 2016.

We recognise that many employers would like to support employees who are considering accessing their retirement savings, but are often unsure of the facts they should and can provide. In response to this – and also to member feedback we've received – we have restructured our retirement guidance seminars.

Now lasting two hours, the seminar has been designed to inform employers about the issues their employees should review if they are considering retirement or gaining access to their retirement savings. The seminars are free for Pensions and Lifetime Savings Academy members, so please book early to ensure your place.

The next seminar is on 10 June 2016. And for employers who would like help delivering retirement guidance for a number of their employees, we are happy to discuss planning tailored sessions. Please do get in touch if this is something which interests you.

TEACH-INS ARE TOPS!

Out teach-in sessions continue to be exceptionally popular (you can view videos of previous teach-ins on our website). Since the last edition of Viewpoint we have introduced three new sessions.

Budget special

A special teach-in was held the day after the budget. While many were expecting tax changes to be on the agenda, the Chancellor instead announced the introduction of the Lifetime ISA. Led by our Chief Executive Joanne Segars and Chair Lesley Williams, this thought-provoking session created a lively debate.

Leadership in Pensions

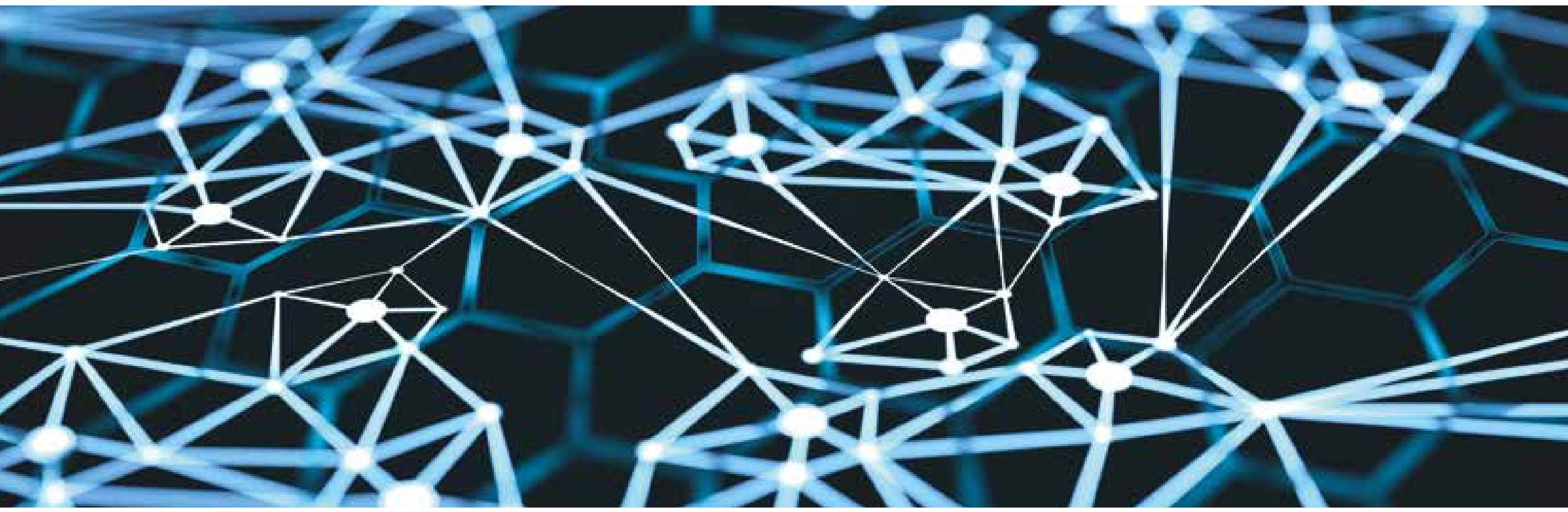
Along with our other Leadership events, our Leadership in Pensions teach-in highlighted why pensions practitioners should create their own personal power platform.

Coming up

We continue with our varied teach-in topics with Reconciling your scheme's contracted-out membership & GMP liabilities, sponsored by EQUINITI. This was a 2015 teach-in, and is being repeated due to demand on 28 April 2016

This is followed on 10 May by a teach-in sponsored by Adveq concentrating on private equity and how pension schemes might best deal with this type of investment.

We will continue to add to our suite of programmes throughout 2016. I do hope you are able to take advantage of our Academy learning opportunities.



PENSIONS CONNECTION

PENSIONSCONNECTION UPDATE

Steven Dignall, Membership Communications Manager, looks forward to the next pair of meetings for PensionsConnection members

AS WE ENTER INTO THE SUMMER MONTHS, WE HAVE A NUMBER OF EXCELLENT MEETINGS LINED UP FOR OUR PENSIONSCONNECTION SUBSCRIBERS.

The first will be a breakfast seminar taking place on 11 May in London for our Finance Directors. The meeting is kindly sponsored by Goldman Sachs Asset Management and will explore the trends in pension funding and investment strategy. Each scheme is unique – the size of the scheme, its funding level, the sponsor, the risk tolerance – and yet trends emerge.

Our speakers Carolyn Tavares, Executive Director and David Curtis, Head of UK Institutional Business from Goldman Sachs, will showcase the latest findings from the firm's annual research on the defined benefit pension schemes of companies in the FTSE 350 index. The research looks at funding levels, asset allocation and investment strategy, and identifies new trends in liability and asset risk management.

We will also consider the similarities and differences in the challenges schemes face, and the strategies trustees have developed to address them.

The following meeting is a Trustee-focussed session and will address the private rented sector. There are several qualities that are being suggested as the investment case for this sector, including diversification benefits, low correlation, attractive rental growth prospects, and demographic and political support. Join us on 9 June to take part in the discussion.

Full details of these meetings and more can be found on the PensionsConnection website at **www.plsa.co.uk/pensionsconnection**. And if you have topics you would like to see on the agendas at sessions, please get in touch at **steven.dignall@plsa.co.uk**

WE HAVE A NUMBER OF EXCELLENT MEETINGS LINED UP FOR OUR PENSIONSCONNECTION SUBSCRIBERS

PENSION QUALITY MARK

PENSION QUALITY MARK UPDATE

Tracey Dawson makes the case for communication...

GOOD COMMUNICATION MATTERS, AND IT'S A CENTRAL PART OF WHAT THE PQM IS ABOUT. IN THIS BRAVE NEW WORLD OF PENSION FREEDOMS, IT MATTERS MORE THAN EVER, SINCE MANY PEOPLE DON'T UNDERSTAND THEIR PENSION ARRANGEMENTS.

TISA has recently produced research to show that those making withdrawals from drawdown funds at younger ages tend to draw unsustainable amounts, with 55-year-olds taking an average of 14% from their funds – but are they thinking ahead to the consequences that a depleted fund may have on the potential income for their spouse?

In fact, research by Prudential has found that more than half of those over 40 have not even checked that their partner will receive an income in the event of their death. Less than 5% have discussed the difference between a single and joint life annuity.

Taxation is another potentially problematic area. Whereas once members could usually withdraw a quarter of their pension savings as a tax-free lump sum, now they can potentially withdraw everything – but this could result in some of their lump sum attracting income tax, or even a higher rate of tax than they usually pay.

Are you communicating with your members as well as you could be? The PQM team might be able to help.

New PQM members since 25 January 2016

Abbott Retirement Saver (2015)

St Mary's University Pension Plan and Group Life Assurance Scheme

Aegon- Self-Invested Personal Pension Plan

DCWW Group Personal Pension Plan

Hymans Robertson Pension Plan

PENSION REINVENTION

Simon Shelley, Head of Industry News at ITN, introduces the next instalment in our joint programming partnership.

SAVINGS AND INVESTMENTS REQUIRE A LONG-TERM VIEW. AND THAT'S EXACTLY THE MIND-SET WE'VE TAKEN WITH THE ITN & PENSIONS AND LIFETIME SAVINGS ASSOCIATION NEWS PROGRAMMING PARTNERSHIP.

The monumental changes across the pensions landscape made for a compelling news-style programme on which the Pensions and Lifetime Savings Association (the NAPF at that stage) were keen to partner with ITN Productions. 'Pension Revolution' seemed an apt name as we set about developing news items on 'Lamborghini incidents' or the effect auto enrolment had on a pub in East Sussex; grabbing interviews with leaders in the sector including Baroness Ros Altman; and creating editorial profiles with the likes of HSBC, Legal & General Investment Management, LV=, BDO and the National Federation of Occupational Pensioners.

I had an opportunity to have an intriguing chat with the outgoing chair of the Pensions and Lifetime Savings Association, Ruston Smith, at the Annual Conference & Exhibition in Manchester last year where the programme was premiered. While the way in which people are now engaging with savings and considering how they pay for retirement progressed dramatically during his tenure, Ruston insisted there is still much to be done in the way we now communicate changes, and how we maintain that interest.

In our discussions with key players across the sector we found that people are interested in their pensions, and have a desire to acquire more knowledge about the subject and improve the way they save. But what we also concluded was that there's an inevitable complexity in having greater choice. While the changes might be good for savers, significant signposting and guidance is required to ensure they know all of the options, and understand what outcomes they should be striving for.

Auto enrolment is another example of policy change that can have a positive effect, and in a relatively short time period. But again there are complexities involved, particularly for employers doing this for the first time.

A NEW PROGRAMME

2016 is a vital year for supporting businesses and individuals alike to navigate the 'pension revolution', and benefit from the changes. And that's why we're producing a new programme – 'Pension Reinvention'.

We'll be keen to tell the story of those we've worked with one year on. We also want to provide a fresh view, exploring the plight of many who simply aren't saving enough. Are more policy initiatives required to ensure we're saving enough, and does the makeup of the way we save have to change? Where can the sector come together to intervene, and do employers now have a duty to guide their employees where they can?

> WHILE THE CHANGES MIGHT BE GOOD FOR SAVERS, SIGNIFICANT SIGNPOSTING AND GUIDANCE IS REQUIRED

We're passionate about video storytelling, and we're constantly reminded that the foundation of any industry or profession is the people in it. We had the good fortune to work with some incredibly passionate pension providers and advisers – the likes of Pramerica, Xafinity, Pension Insurance Corporation, Northern Trust, Winton, AXA, and Deloitte – and their input has been invaluable.

First stop was the Pensions and Lifetime Savings Association Investment Conference. You'll see what we learned when we took the time (and some cameras!) into the world of those shaping the sector and striving to provide a better savings environment for generations to come.

> THE MONUMENTAL CHANGES ACROSS THE PENSIONS LANDSCAPE MADE FOR A COMPELLING NEWS-STYLE PROGRAMME

You can see a summary of Pension Revolution at **www.plsa.co.uk/PressCentre/Pension-Revolution.aspx**

PENSIONS IN ICELAND

Thorey S Thordardottir reports on the main features of her island's system.

THE MAIN CHARACTERISTIC OF THE ICELANDIC PENSION SYSTEM IS THE RELATIVELY LARGE ROLE OF MANDATORY AUTONOMOUS OCCUPATIONAL PRIVATE PENSION FUNDS, WITH AN ESTIMATED 87% COVERAGE RATIO OF THE WORKING AGE POPULATION (16-67 YEARS). THEY ARE CURRENTLY PROJECTED TO PAY 67% OF FUTURE OLD-AGE PENSIONS, WITH 23% COMING FROM THE SOCIAL SECURITY SYSTEM AND 10% FROM PERSONAL PENSION SAVINGS.

By law, all wage-earners and self-employed persons aged 16 to 69 must contribute to an occupational pension fund – in most cases, a fund predetermined by collective agreement. A contribution equalling a minimum of 12% of salary must be paid, 4% by the employee and 8% by the employer. Public sector employers actually pay 11.5% or 12%.

The normal retirement age is 67 for private sector employees and 65 for public sector employees. Icelanders work longer than most Europeans: the average Icelandic male retires at 68.2 years of age and the average female at 67.2.

THE SOCIAL SECURITY SYSTEM

Full benefits require a residency of at least 40 years between the ages of 16 and 67, with partial benefits calculated pro rata from 3 to 40 years.

The system provides a base old-age pension to all from the age of 67; and, if needed, supplementary pensions, fully income-tested. The system is financed directly out of taxes, without contributions.

ABOUT ICELAND

Population: 332,529

Area: 103,000 km² (40,000 sq miles)

Capital: Reykjavík

Currency: Icelandic króna (ISK)
Average net monthly salary
ISK 292,894 (c£1,622)

Main industries: Fish processing, aluminium smelting, ferrosilicon production, geothermal power, hydropower, tourism.

MANDATORY OCCUPATIONAL PENSION FUNDS

There are currently 26 occupational pension funds in the system, offering a retirement pension until death (lifelong annuity), a disability pension, and a survivors' pension. Intermediaries offering annuities do not exist.

The occupational pension funds fall into two categories:

Eight funds with employer guarantees (only in the public sector) are defined benefit (DB) schemes. They have a replacement rate of 76% of average wages over a 40-year period.

Eighteen private-sector occupational funds are defined contribution (DC) schemes. Although the accruals must meet a 56% replacement goal stipulated by law, the eventual benefits depend mainly on the investment returns and, to a lesser extent, on the costs of disability and survivors' pensions, as benefits are regulated by the financial position of the fund.

The number of pension funds in Iceland has decreased over the last 30 years, driven mainly by a desire to seek benefits of scale.

At year-end 2015, the total net assets of the 26 occupational pension funds were close to 150% of GDP.

Accumulated pension rights are indexed to the consumer price index.

AT YEAR-END 2015, THE TOTAL NET ASSETS OF THE 26 OCCUPATIONAL PENSION FUNDS WERE CLOSE TO 150% OF GDP

VOLUNTARY PERSONAL PENSION SAVINGS

Maximum tax-deductible contributions by the employee are 4% of total salaries. In addition, according to collective agreements, employers match those contributions up to 2%. The total contribution can therefore be 6%.

The personal pension savings are available as a lump sum or by programmed withdrawal from age 60 (earlier in case of disability), and are fully inheritable. These pension savings schemes are classified as defined contribution (DC).

Thorey S Thordardottir is Managing Director of the Icelandic Pension Funds Association

CALENDAR OF EVENTS 2016

MAY		
05	**Stewardship Accountability Forum**	London
11	**Finance Director PensionsConnection**	London
11	**DC PensionsConnection**	London
16-18	**Local Authority Conference**	Cotswold Water Park
JUNE		
09	**Trustee PensionsConnection**	London
09	**HR PensionsConnection**	London
JULY		
06	**Hot Topic Seminar**	London
SEPTEMBER		
14	**Hot Topic Seminar**	London
OCTOBER		
04	**Finance Director PensionsConnection**	London
04	**DC PensionsConnection**	London
19-21	**Annual Conference & Exhibition**	ACC Liverpool
NOVEMBER		
01	**Trustee PensionsConnection**	London
01	**HR PensionsConnection**	London
24	**Hot Topic Seminar**	London
29	**Corporate Governance PensionsConnection**	London
DECEMBER		
Early	**Trustee Conference**	London

For more details and Academy training dates, please visit **www.plsa.co.uk**

ADVERTORIAL

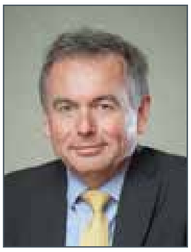
Infracapital

Greenfield infrastructure

Finding a sweet spot in infrastructure

Europe needs vast amounts of new infrastructure in order to sustain solid economic growth over the coming decades. In the not too distant past, most of this development would have been financed by governments. But the scale of expected investment needs means the private sector will increasingly be called on to fill funding gaps and steer projects to completion.

This, in turn, opens the door to attractive opportunities for institutional investors able to mobilise large amounts of capital, like pension schemes and sovereign wealth funds.



By Andy Matthews, Head of Greenfield Infrastructure, Infracapital

Rebuilding Europe

The Organisation for Economic Development estimates that its 34, mostly European, member states will need to invest a total of $30 trillion in infrastructure by 2030. The European Commission's Juncker infrastructure investment plan has targeted €315 billion over just the three years to 2017.

This vast expected expansion of infrastructure at a time of general fiscal austerity has left governments casting around for alternative sources of funding. For instance, the UK government's infrastructure plan assumes private financing will make up nearly two-thirds of the country's £411 billion infrastructure pipeline over the next five years. Yet British private sector infrastructure investment averaged just £4.6 billion a year between 2000 and 2010.

Brownfield or greenfield?

Rather confusingly, when infrastructure investors talk about brownfield and greenfield stages of a project, they don't necessarily use the terms in the sense that some people know them. While in other areas the definition of greenfield is of an undeveloped site, usually either farmland or other form of greenbelt, in infrastructure investment, greenfield refers to the development stages of a project's lifespan. Once it becomes operational, it's known as brownfield. So a greenfield infrastructure investment will often refer to a project that's being built on a previously developed, or brownfield, site.

The distinctions around type of 'Greenfield' for infrastructure investors is important. Capital employed at a project's earliest 'Development Stages,' usually within the first couple of years, is most at risk but also potentially posts the highest returns. As planning and other permissions are granted and financing is organised and construction begins, the 'Late Development/Construction Stage,' the average expected return for new investors declines at each point until, finally, the project goes live. From this point, most infrastructure projects then have an operating lifespan lasting from a decade to a quarter of a century.

Pension funds have tended to invest in brownfield infrastructure. The very early stages, during which planning and other approvals are being sought, tend to be the preserve of specialist investors such as developers. But there's a sweet spot during the later development period, soon before or during construction, that offers investors early access to these attractive, predictable infrastructure assets at better expected annual average returns than were they to enter at the brownfield stage, yet with less volatility and more manageable risks than during the early development stages.

Expecting returns and risks

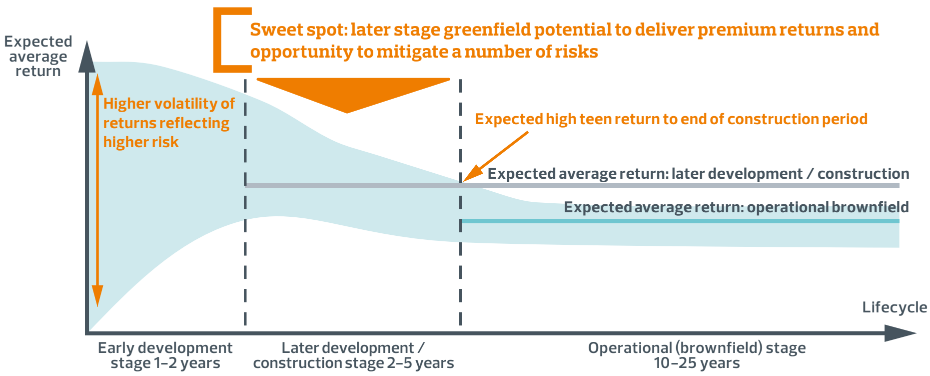
A manager that participates in project structuring prior to construction of assets (typically a year) will usually expect an internal rate of return in the mid to high teens, depending on project life, while coming in at construction phase could result in returns in the region of a few hundred basis points lower than this. Both would deliver a return well in excess of that expected on an equivalent brownfield portfolio.

For investors, the challenge to investing in projects at a greenfield stage is mitigating construction and associated risks. But even before they sign up to a project, greenfield fund managers need to have a good understanding of its regulatory and political background. Because of their scale, longevity and significance to local communities and economies more generally, infrastructure projects are politically sensitive.

Another way to mitigate greenfield risk is to diversify portfolios. Different infrastructure sectors have different characteristics and varying degrees of risk. For instance, utility infrastructure assets often have resilient income streams and low correlation with economic growth. On the other hand, transport is more correlated with the wider economy and can deliver higher growth. A diversified portfolio that combines assets from various sectors and geographies is important in creating a balanced risk profile.

As Europe rebuilds over the coming years, private investors will increasingly be called on to fill a funding gap. As they do, they will look for the best risk-adjusted returns--investment sweet spots like greenfield infrastructure.

Indicative returns throughout the project lifecycle



Source: Infracapital, proprietary Infracapital transaction information. As at 25 January 2016. Target returns have been estimated by Infracapital using assumptions based on market conditions and anticipated investment opportunities. One or more of these assumptions may prove to be inaccurate. Consequently, such target returns are not indicative of future results and there can be no assurance that the fund will achieve comparable results.

www.infracapital.co.uk