Viewpoint

UNTYING THE GORDIAN KNOT

The official journal of the Pensions and Lifetime Savings Association

Issue 4 2016

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

CHIEF EXECUTIVE Viewpoint

The only thing we know for certain is that 2017 will be a busy year, says **Joanne Segars**.

BREXIT. PRIME MINISTER MAY. PRESIDENT TRUMP. I WONDER WHAT ODDS YOU'D HAVE GOT AT LADBROKES FOR THAT OUTCOME AT THE START OF THE YEAR? 2016 HAS CERTAINLY BEEN A YEAR OF SURPRISES (AND WELL DONE TO YOU IF YOU DID HAVE A TENNER ON THAT LOT).

It's hard to remember that back in January we were in the middle of a fight with the Government on changes to pensions tax relief – one where we finally won the day. And we were just learning what freedom and choice meant in practice for scheme members. (Short answer: no Lamborghinis, but quite a lot of confusion.)

2016 HAS CERTAINLY BEEN A YEAR OF SURPRISES

So what about 2017? Well, I'm not about to make any predictions. If this year's taught us anything, it's taught us that that would be either brave or foolhardy.

One thing's for certain though – it will be a busy year.

The Pension Schemes Bill currently winding its way through Parliament, aimed at protecting members of master trusts, will become an Act. Conclusions will be reached on the review of the state pension age (SPA). If you haven't lost your shirt betting on the outcome of this year's political events, it would be a fairly safe bet that the SPA will go up. The only questions are how far, and whether there might be different SPAs for different socio-economic groups.

And – it being 2017 – the 2017 review of auto-enrolment will get underway. It will assess the efficacy of auto-enrolment (easy – with opt-out rates under 10%, it's very effective in getting people to save), and where auto-enrolment goes next (less easy – to increase contributions or not, if so how and how fast, and what to do about those like the self-employed who are missing out?).

WHAT WE NEED NOW IS A PERIOD OF STABILITY FOR PENSIONS AND LIFETIME SAVINGS, NOT MORE UPHEAVAL

Our new report on adequacy, published on 24 November, starts to shine a light on some of these issues. It looks at the extent to which auto-enrolment is delivering for different groups and the likelihood of people retiring on an adequate pension with current mandatory contribution rates.

FURTHER UNCERTAINTY

Growing economic uncertainty may also mean that we might see this Chancellor do what others before him have, and turn to pensions as a way of filling the gap in the public finances. That, of course, would be a mistake. What we need now is a period of stability for pensions and lifetime savings, not more upheaval.

By the end of March the trigger for Article 50 will be pulled. We all know that "Brexit means Brexit", but fewer of us are any clearer what that means than when the term was first coined back in the summer. We're working on what a good Brexit looks like for pensions.

I'd be interested to hear from you what the impact of Brexit has been on your schemes, or what you think it might mean longer term. The backdrop of elections in the Netherlands, France and Germany will add an extra dimension – and possible further uncertainty.

So it will be a busy year for us at the PLSA, and a busy year for our members. I look forward to working with all of you to tackle the challenges – and to grab the opportunities – that come to us next year.

But in the meantime, if it isn't too unspeakably early, let me wish you season's greetings and a healthy prosperous new year from all of the team here at the Pensions and Lifetime Savings Association.

J. Segars.

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Viewpoint UPDATE

AN ADEQUATE RETIREMENT

THE PLSA'S NEW ANALYSIS OF ADEQUACY IN RETIREMENT SUGGESTS THAT AUTOMATIC ENROLMENT WILL DELIVER A REAL IMPROVEMENT TO THE RETIREMENT OUTCOMES OF MILLIONS OF WORKERS IN BRITAIN, BUT THERE IS STILL MUCH MORE TO DO TO ENSURE THEY RECEIVE AN ADEQUATE RETIREMENT INCOME.

Our research, modelling segmented data from the Wealth and Assets survey[1] using the Hymans Robertson's Guided Outcomes methodology, projected the likely retirement incomes for over 700 stylised individuals. We then examined the probability of these individuals achieving both the Pensions Commission's target replacement rates and the Joseph Rowntree Foundation's minimum income standard.

The analysis shows that, of the 25.5 million people in employment, 1.6 million are still at high risk of falling short of a minimum income standard in retirement[2]; and 13.6 million are still at risk of not meeting their target replacement rate[3]. Of those who do not reach their target replacement rate, automatic enrolment will still make a significant difference over and above the income they would otherwise have had.

There is a clear generational divide here. Those closest to retirement who are dependent on DC saving are among the least likely to reach their target replacement rate. Similarly, those in Generation X (35-54) who are dependent on DC saving are also not likely to reach their target replacement rate.

This is predominantly about past pension-saving. Automatic enrolment will not be able to undo the consequences of historic uneven patterns of pension-saving. Not enough people had access to DB and not enough people saved voluntarily through initiatives like stakeholder pensions.

Millennials (22-34) are also not likely to reach their target replacement rate with statutory minimum contributions at 8%. But, with a 12% contribution rate and later working, the majority of this age cohort become much more likely to attain their target replacement rate in retirement.

Higher contributions make a difference to everyone irrespective of whether the model shows them as likely to hit a target replacement rate. For this reason, we believe that Government should institute a new pensions commission, to report after automatic enrolment is fully operational. It should review existing measures of adequacy and make recommendations for a national standard, or standards, which reflect the changing nature of retirement. It should make recommendations for increasing minimum contribution levels to at least 12% of qualifying earnings. And it should make additional recommendations to improve the situation of older savers who have less time to benefit from an increase in contribution rates.

There is a real opportunity to ensure automatic enrolment reaches its potential – and it is one we believe Government, the pensions industry and employers can commit to.

1 Wealth and Assets Survey, 2012-2014, Office for National Statistics: http://webarchive.nationalarchives.gov.uk/20160105160709/http://www.ons.gov.uk/ons/rel/was/wealth-in-great-britain-wave-4/2012-2014/index.html
2 Defined as the Joseph Rowntree Foundation minimum income standard – currently £9,500.
3 We used the Pensions Commission replacement rates outlined in the second report of the Pensions Commission.

OUR PICK OF THE BEST HEADLINES AND TWEETS

PENSIONS STILL A GREAT WAY TO SAVE FOR RETIREMENT

Kyle Caldwell, *Money Observer*

ENGAGEMENT IS A TWO-WAY PROCESS

Unattributed, *Pensions Insight*

PENSIONS FREEDOM IS GREAT – JUST BE CAREFUL HOW YOU USE IT

Merryn Somerset Webb, *Money Week*

One United @georgejones1603 I want a Porsche but will have to wait a few years till I get my pensions cashed

@relenglishnews
JEFF PRESTRIDGE: Our pensions don't need any more tinkering

@PensionsAge
PLSA 2016: 'Humour key to effective pensions comms' – Sir Lenny Henry

UNTYING THE GORDIAN KNOT

Ashok Gupta, Chair of the DB Taskforce, presents the Taskforce's Interim Report findings on the challenges facing DB schemes and debates the potential impact of these challenges on members' benefits, the health of sponsoring employers, workplace pension provision and the wider economy. Inaction is not an option...

DB HAS BEEN DESCRIBED AS THE GORDIAN KNOT OF PENSIONS. THE MOST COMMON MEANING OF THE TERM IS GIVEN AS 'A COMPLEX OR UNSOLVABLE PROBLEM'. I PREFER THE VERSION THAT DEFINES IT AS 'A PROBLEM SOLVABLE ONLY BY BOLD ACTION'. WHILE WE MAY NOT HAVE ALEXANDER THE GREAT AND HIS SWORD ON THE TEAM WE ARE FORTUNATE TO HAVE A GROUP OF TALENTED PEOPLE ON THE TASKFORCE WHO ARE DETERMINED TO FACE THE PROBLEM HEAD ON.

There are 27.3 million people in the UK who are benefiting, or will benefit, from a DB scheme; and these schemes are of huge importance to the UK economy. The assets of private sector DB schemes sit at around £1.5tn[1] and the Local Government Pension Scheme at £233bn[2]. Together that's almost the equivalent of UK GDP (£1.8tn[3]).

But DB schemes are under pressure. A combination of social, political and economic issues has had a significant effect on funding levels. The DB Taskforce has spent the past eight months gathering evidence and views on these issues to inform our diagnosis.

Our evidence-gathering has resulted in the publication of the DB Taskforce Interim Report. In the report we identify a number of long-term structural weaknesses in the make-up of the sector, including the diversity of size, scale and governance of schemes, the disjointed value chain and the broader legislative and regulatory framework.

RISKS TO MEMBERS' BENEFITS

To understand the DB problem, the Taskforce believes you have to start from understanding the risk to members' benefits. There is a significant risk to members' benefits for all but the most strongly funded schemes. The Pension Protection Fund (PPF) helps mitigate these risks but members still bear the risk the PPF does not cover. For many members the risk is they will lose 15-20% of their benefits. To give that even greater context, employers responsible for approximately 50% of DB liabilities are unlikely to survive sufficiently long to get their schemes to the point of being able to provide full benefits.

£1.5tn

The assets of private sector DB schemes sit at around ***£1.5tn[1]***

WE NEED TO UNDERSTAND AND BUILD A GREATER FOCUS ON THE RISK TO MEMBER BENEFITS

1 *Purple Book – DB Pensions Universe Risk Profile, The 2Pensions Regulator and Pension Protection Fund, December 2015.*
2 Figure derived from LGPS England and Wales Annual Report (2015) & An Overview of Local Government in Scotland (2016)
3 United Kingdom National Accounts, the Bluebook:2015 edition, ONS, 2015.

27 million

There are *27.3 million* people in the UK who are benefiting, or will benefit, from a DB scheme

Of the 6,000 DB schemes in the UK only a handful enjoy economy of scale. Hundreds of small and thousands of very small schemes result in a fragmented system. It's a system with too many schemes being managed by too many people with the help of too many outsourced providers each with a profit to earn – some, as the FCA has concluded, with limited alignment of interest with their clients. Indeed, there are questions about whether the increased intermediation in the value chain has added significant value or has in fact created 'value leakage' at the expense of beneficiaries and sponsors. Research has also shown that smaller schemes in particular are forced by cost considerations to be selective in terms of the advice they commission, suggesting that either their limited resources or bargaining power are hindering their access to the necessary advice.

At present nearly all smaller schemes fund their own running costs, and operate their governance, administration and investment management systems on an individual basis. This cannot be the most effective and efficient way to mitigate risk, optimise investment returns and attain the quality of governance needed to achieve the best outcomes for members and sponsors. It therefore makes sense to investigate the potential for the consolidation of these smaller schemes. More economically viable schemes mean better value to scheme members and their sponsors. And that can only be a good thing.

50%

Employers responsible for approximately *50%* of DB liabilities are unlikely to survive sufficiently long to get their schemes to the point of being able to provide full benefits.

NEXT STEPS

Over the past eight months we've heard four recurring themes where we must improve. These four areas will form the foundation of the next phase of the Taskforce's work:

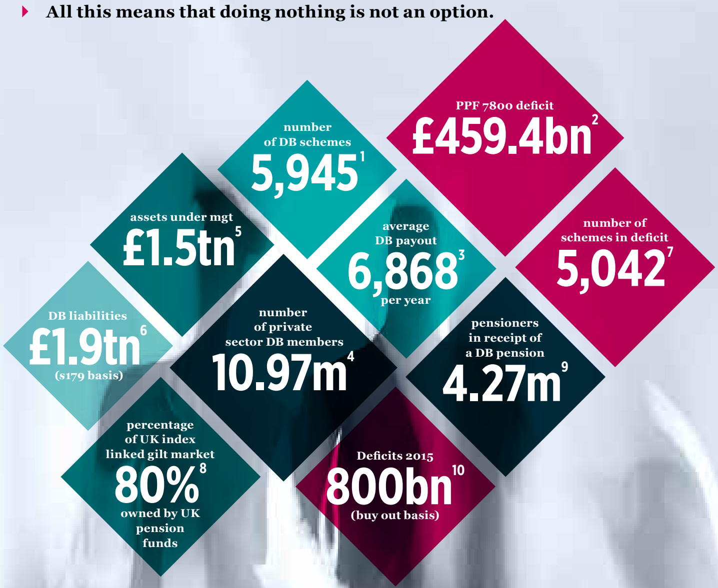
- Our current system is too fragmented. We need to investigate the scope for scheme consolidation. We need to understand how a smaller number of better-governed schemes could help deliver better value to scheme members and leave schemes and sponsors with lower risk.
- Our approach to scheme resolution is insufficiently flexible. We need to understand how we could open the door to flexibility and innovation and by doing so reduce pressure on sponsors and mitigate the risk to members.
- There is too much rigidity in benefit design. We need to analyse whether a more flexible approach could ensure that risks and costs were better shared between members and across generations.
- We need to manage risk better. There are clear inefficiencies in sponsor capital allocation. Schemes, at an aggregate level, may be capable of bearing more investment risk.

Most importantly, there is simply too little attention paid to the most important risk of all – we need to understand and build a greater focus on the risk to member benefits.

MORE ECONOMICALLY VIABLE SCHEMES MEAN BETTER VALUE TO SCHEME MEMBERS AND THEIR SPONSORS

UNDER PRESSURE – DB TODAY

- **DB matters to millions of people who are relying on DB benefits to support them in retirement.**
- **DB also matters to the UK economy – £1.5tn invested in DB schemes supporting all parts of the UK economy.**
- **But the current system is fragmented, attempting to de-risk and requiring ever-increasing amounts of capital from corporate sponsors.**
- **Not only are DB scheme problems being made worse by the current economic climate, they are also contributing to economic weakness.**
- **So there are lots of risks and costs in the system that place strain on scheme sponsors and the economy – but also have an impact on scheme members and future generations of pensioners.**
- **All this means that doing nothing is not an option.**



1 *Purple Book – DB Pensions Universe Risk Profile,* The Pensions Regulator and Pension Protection Fund, December 2015
2 *PPF 7800 Index Update (August 2016),* PPF, September 2016.
3 *Annual Survey,* PLSA, 2015.
4 *Purple Book – DB Pensions Universe Risk Profile,* The Pensions Regulator and Pension Protection Fund, December 2015.
5 *PPF 7800 Index Update (August 2016)*, PPF, September 2016.
6 *PPF 7800 Index Update (August 2016)*, PPF, September 2016.
7 *PPF 7800 Index Update (August 2016),* PPF, September 2016.
8 *Pension Funds and Index-linked Gilts: a supply/ demand mis-match made in hell,* Schroders, June 2016.
9 *Purple Book – DB Pensions Universe Risk Profile*, The Pensions Regulator and Pension Protection Fund, December 2015.
10 *Purple Book – DB Pensions Universe Risk Profile*, The Pensions Regulator and Pension Protection Fund, December 2015.

The Taskforce is determined to help improve the health of the DB sector and enable it to be the force for social and economic good we know it can be. We are also determined to reduce the risk to members' benefits, improve the allocation of capital within the economy and to free employers to utilise their scarce capital resources more efficiently. We need to do all this and we need to do it now because the cost of inaction is too great. As schemes hurtle towards maturity the opportunity to make a meaningful difference is diminishing.

Our work has started with the publication of our Interim Report and our task now is to further examine all the challenges, develop proposals and build consensus across the industry around solutions that could help to ensure the sustainability of DB schemes. Our final report will be published at the PLSA's Investment Conference in Edinburgh next March.

DB TASKFORCE INTERIM REPORT

Visit **www.plsa.co.uk/PolicyandResearch** to view and download the full report.

GET INVOLVED

If you're 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

THE BIG INTERVIEW: RICHARD HARRINGTON, MP

Viewpoint caught up with the Undersecretary of State for Pensions to ask him what priorities he sees for the future of the sector...

IT'S CLEAR WE HAVE HELPED SHAPE THE RETIREMENT LANDSCAPE FOR GENERATIONS TO COME

Q:

NOW YOU'VE SETTLED IN TO YOUR ROLE, WHAT IS YOUR EMERGING VISION FOR PENSIONS?

A:

In the past few years we have started a pensions revolution with the introduction of the new state pension, the rollout of automatic enrolment, and delivering pension freedoms.

I see my role as Pensions Minister as taking these successes and driving them forward towards the finish line. We've brought in a huge amount of change under this government, and I want to deliver a new pension system that works for everyone and helps people enjoy the financial security they deserve in retirement.

It's a big responsibility, but one I'm excited about.

As for my vision for pensions, an important part is to get people more involved with their savings. This is where I believe pension providers can be doing more, and I challenge them to increase the transparency for their customers.

We have seen a great appetite from people to get more information on their finances, demonstrated by the expansion of online banking. This is a huge opportunity for providers to give their members better tools to quickly interact with their savings. I'd like to see how pension providers can meet this demand.

Q:

HOW CAN WE GET PEOPLE TO SAVE MORE?

A:

We've already seen the huge impact of automatic enrolment in getting more people to save into workplace pensions. Between 2012 and 2015, the membership of workplace pensions increased by 4.6 million, and estimates by the Institute for Fiscal Studies suggest that 95% of this increase was the result of automatic enrolment.

With almost 7 million people already benefiting from the success of automatic enrolment, it's clear we have helped shape the retirement landscape for generations to come.

What is particularly encouraging is to see gaps narrowing. Groups of people who were less likely to participate in workplace pensions prior to automatic enrolment, especially eligible employees aged 22 to 29 and lower earners, are now having the largest increases in workplace pension participation.

We're in a great position but there is still a lot of work to do to help get even more people saving.

Currently compliance rates from employers are high, and we need to ensure that continues. Thousands of small or micro employers have already automatically enrolled their staff, but over a million will also need to do so before March 2018. This is a big task and not one to be underestimated.

The minimum contribution rates will be increasing, to 5% in April 2018 and 8% in April 2019. By changing the timing and linking to new tax years, we have made these planned increases more manageable for employers, and any impact on an individual's pay packet will likely be offset from higher income tax allowances and wage rises. However, we need to get the messaging right so that people understand the value of pension saving and we can keep them on board for the long term.

Next year I'll be reviewing automatic enrolment so we can build on the success to date. I want to ensure that it delivers the right results for the right individuals, and there are legitimate questions about what more we can do to support the self-employed and people with multiple jobs. I look forward to working with the PLSA and other groups on this.

By 2018, we expect around 10 million workers will either be newly saving or saving more into a workplace pension, generating around £17 billion in additional workplace pension saving per year by 2020. With this in mind, the hard work continues.

Q:

WHAT IS MOST IMPORTANT ABOUT THE PENSIONS BILL?

A:

The new Pension Schemes Bill is a crucial piece of legislation which will bring important protections for consumers. This includes introducing new regulations on master trusts and strengthening existing legislation on charges. Both are equally important and will help increase the confidence people have in their savings.

10 million

We expect around 10 million workers will either be newly saving or saving more into a workplace pension.

WE'VE BROUGHT IN A HUGE AMOUNT OF CHANGE UNDER THIS GOVERNMENT, AND I WANT TO DELIVER A NEW PENSION SYSTEM

Master trusts can offer great value for members and employers, but we want to make sure that they are appropriately regulated. The Bill will therefore require master trusts to demonstrate to the Pensions Regulator that they meet key criteria, not only before they can enter the market but also throughout the lifetime of the scheme, with greater powers for the Pensions Regulator to act. Existing master trusts will also be brought into the regime and required to meet the new criteria.

The Bill will also make a necessary change in relation to the existing legislation on charges, helping to introduce a cap to prevent excessive early exit charges. The cap will be set at 1% for existing members of occupational pension schemes and 0% for any new members, removing barriers for those wanting to access their savings early through pension freedoms.

Q:

WHAT SHOULD WE EXPECT FROM THE GREEN PAPER ON DB?

A:

I'm aware that some parts of the DB pension sector are feeling under pressure, so the green paper is an opportunity for us to assess some of the key issues affecting DB pensions and sponsoring employers.

The exact scope of the consultation is yet to be defined and we're working closely with industry to start a wider discussion – does the Regulator need to operate differently? Does the system work as efficiently as possible?

We'll consider our next steps very carefully against the need to ensure appropriate protection for members, the impact on business, and the needs of the wider economy.

CHIEF EXECUTIVE'S QUESTION TIME

Chief Executive **Joanne Segars** answers members' questions on the goal of the PLSA, among other matters.

Q:

AT THE PLSA ANNUAL CONFERENCE WE HAD TWO TEAMS OF YOUNG PEOPLE FROM OUTSIDE OF THE WORLD OF PENSIONS AND SAVINGS PRODUCING THEIR IDEAS TO ENCOURAGE PEOPLE TO SAVE MORE FOR BETTER RETIREMENT OUTCOMES.

IT WOULD SEEM A SHAME TO LOSE THEM. WHAT WILL THE PLSA BE DOING TO PURSUE WHETHER AND HOW TO TAKE FORWARD THEIR SIX SUGGESTIONS?

JAMES CHURCHER
PENSIONS MANAGER, ABBOTT LABORATORIES

A:

Jim, I'm glad you enjoyed the Conference Challenge. I thought it was great. All the participants said they'd learned a lot about pensions. But, as I said at the conference, I think we learned a lot from them too – I know I certainly did. It was great to have such innovative ideas, and such enthusiasm.

You're dead right, of course, that it would be a shame to waste all those great ideas and that energy. At the conference I committed the PLSA to taking forward the ideas. (Between you and me, I was actually just going to say we'd take forward one of the ideas. But they were all so good I didn't want to waste any.) So we will work on the ideas throughout the year and bring back ideas, proposals and solutions at next year's Annual Conference – and I hope we can welcome some of our conference challengers back onto the stage. We really do need to keep hearing from people outside our world to keep challenging ourselves.

• To read about the Conference Challenge turn to page 21

Q:

ONE OF THE THINGS WE HAVE DISCUSSED WITH YOUR ORGANISATION IS CONFLICTS OF INTEREST IN TERMS OF REPRESENTING BOTH EMPLOYERS AND TRUSTEES. I CAN SEE HOW THIS RELATES BACK TO THE STATEMENT AROUND THE OBJECTIVE OF ACHIEVING BETTER INCOMES IN RETIREMENT, BUT CONCERNS STILL REMAIN.

MY QUESTION WOULD THEREFORE BE HOW DOES THE ORGANISATION BALANCE THE NEEDS OF EMPLOYERS AND TRUSTEES WHERE CONFLICTS EXIST?

JIM ROBSON
HEAD OF PENSIONS, ALLIANCE HEALTHCARE & BOOTS PENSIONS

A:

Thank you for the question Jim. Our mission as the Pensions and Lifetime Savings Association is to "help everyone achieve a better income in retirement". That statement really goes to the heart of what we – and our members – are about. I think one (of many) great strengths of our organisation is that our members, from wherever they're drawn, can get behind that statement.

The day-to-day challenges of running pension schemes – especially DB schemes – can put strain on the relationships between sponsors and trustees. These can be made worse by the current regulatory framework which can exacerbate issues by forcing a binary outcome for struggling schemes and employers. That's why, in our DB Taskforce Interim Report, we said a new approach was needed.

Q:

WHAT STEPS DOES THE PLSA TAKE IN DISCUSSIONS WITH REGULATORS TO PUSH BACK AGAINST EXCESSIVE REGULATION, AND IN PARTICULAR FOR THE FCA , TPR AND PPF TO FOLLOW THE CURRENT UK GOVERNMENT POLICY OF OITO – ONE IN THREE OUT? – IN RELATION TO RULES?

ROBIN ELLISON
PARTNER, PINSENT MASONS

A:

One of the issues we've identified in the DB Taskforce report (and for many years before) is the growing burden and cost of regulation. We counted 850 pieces of new regulation passed since 1995 alone. We have regular discussions – if not daily, then certainly on a weekly basis – with government and regulators to ensure that regulation is fair, fit-for-purpose and proportionate. And through our discussions and lobbying there's lots of legislation that never gets to see the light of day. The government's forthcoming green paper on DB pensions should provide an opportunity to reduce the burden of regulation.

Of course, there are some areas where we want to see new legislation – such as the measures in the new Pension Schemes Bill – which will help to protect savers in failing master trusts. But that has to be proportionate.

Q:

WHAT IS THE PLSA'S VIEW ON USING BEHAVIOURAL INTERVENTIONS – SUCH AS REFRAMING TAX RELIEF AS A SAVER'S BONUS, PUBLICISING EXAMPLES OF POSITIVE SAVINGS BEHAVIOUR TO CREATE A SOCIAL NORM AND EMPLOYING THE AUTOMATIC ESCALATION OF CONTRIBUTIONS – TO BOOST RETIREMENT?

CHRIS WAGSTAFF
HEAD OF PENSIONS AND INVESTMENT EDUCATION, COLUMBIA THREADNEEDLE INVESTMENTS

A:

There can be no doubt that behavioural nudges work. Look no further than auto-enrolment for evidence: over 6 million new savers, and only around 10% of opt-outs. Many of our funds are already using behavioural techniques to encourage higher levels of saving – from employer matches to auto-escalation and engagement tools.

We've taken a rather different view on reframing tax relief as a savers' bonus, not least because it could act as a disincentive to many. The 2017 review will be a good opportunity to look in depth at what works, and what will help savers reach the kind of adequate levels of retirement income Adair Turner talked about. Auto-escalation has proved successful where it has worked. But we need to focus on the main job at hand right now – that's got to be about getting up to the steady state of 8% without seeing big levels of opt outs.

Q:

IS THERE A CASE FOR REVIEWING THE DISCOUNT RATE USED FOR VALUING PENSION FUND LIABILITIES, AS THE CURRENT REQUIREMENT TO USE THE 10-YEAR GILT YIELD RESULTS IN MANY SCHEMES HAVING LARGE DEFICITS? MOST PENSIONS WILL BE PAID FOR A PERIOD OF BETWEEN 10 AND 20 YEARS SO IT COULD BE ARGUED THAT LOOKING AT A LONGER TERM GILT RATE IS MORE APPROPRIATE. THE PRESENT SCENARIO WITH COMPANY SCHEMES HAVING LARGE DEFICITS HAS CAUSED MANY SCHEMES TO CLOSE EITHER TO NEW OR EXISTING MEMBERS. THE DEFICITS ALSO TEND TO CAUSE A REDUCTION IN DIVIDENDS WHICH WILL FEEDBACK TO REDUCE THE ASSET VALUE OF SCHEMES THEREBY COMPOUNDING THE EFFECT OF WHAT COULD BE CONSIDERED AS SHORT TERM LOW GILT RATES.

ROGER USHERWOOD
CHAIRMAN RUSSELL-HURST TRUSTEES

A:

Roger, that's a great question that gets to the heart of some of the issues trustees are dealing with right now. The question of whether pension scheme funding levels have been exaggerated by valuation methodologies and discount rates has been subject to a lot of debate recently, in part due to the large and fluctuating levels reported in the PPF 7800 Index (other indexes are available). It was an issue that many respondents also cited as a problem in response to the DB Taskforce's Call for Evidence earlier this year.

While prudence is undoubtedly baked into the current requirements, it is worth looking closely at what is permissible. The Regulator's guidance states that 'when considering discount rate prudence a medium- to long-term assessment is possible, recognising that scheme funding is a long-term activity; however, trustees should understand that it is difficult to be certain of employer covenant strength over that longer term,' so clearly we don't operate in a one-size-fits-all model. That said, there are clearly issues, in particular that an over-reliance on short-term valuation results can mean schemes make sub-optimal decisions about the amount of investment risk they can carry, or inefficient calls upon sponsors for funding – all of which can ultimately weaken their long-term health.

Q:

THE DB TASKFORCE INTERIM REPORT RAISED AN ISSUE. FOR HYBRID PLANS, THERE ARE CURRENT DC ACTIVE EMPLOYEES WHO EXPERIENCE DISPROPORTIONATE CORPORATE CAPITAL DIVERTED TO SUPPORT HISTORICAL DB OBLIGATIONS, AT THE EXPENSE OF FUTURE IMPROVEMENTS IN THEIR OWN EMPLOYER CONTRIBUTIONS. ARE WE STORING UP OUR NEXT GREAT PROBLEM?

KAUSHIK SHAH
PENSIONS TRUSTEE AND REAL ESTATE CONSULTANT

A:

Thanks for the question Kaushik. You raise some important points. The Taskforce Report identified that the average employer contribution to DC schemes is 2.5%, and 16% to DB schemes. And the cost of making good existing DB obligations through deficit repair contributions can be much more than this. So, this is an issue we can't dodge. We're focussing on both sides of the problem. We're using the DB Taskforce to improve efficiency and reduce the cost of DB; and using our recent research on adequacy to highlight the need for the younger generation to be getting – at the very least – 12% contributions paid into their pension pots.

PENSIONS IN GERMANY

Verena Menne of **aba** (Arbeitsgemeinschaft für betriebliche Altersversorgung e.V., the German Association for Occupational Pensions) gives an overview of the retirement provision system in Europe's most populous nation.

THE GERMAN SYSTEM FOR RETIREMENT PROVISION RELIES ON A THREE-PILLAR-MODEL: AS THE FIRST PILLAR, STATE PENSIONS ARE MANDATORY FOR ALL EMPLOYEES WHO ARE SUBJECT TO SOCIAL INSURANCE CONTRIBUTIONS, THEY ARE EARNINGS-RELATED AND PRIMARILY FINANCED ON A PAY-AS-YOU-GO BASIS.

Second pillar occupational pensions are voluntary or by tariff agreement. They are mostly funded and benefit from a tax framework under which contributions and returns are exempt from tax, while pensions are taxed when paid out. Finally, voluntary personal pensions make up the third pillar, with take-up being encouraged by financial incentives (direct subsidies and an EET tax framework, known as "Riester").

STATE PENSION

The state pension makes up the lion's share of the income of today's pensioners – on average just under two-thirds. While this is likely to remain the case in the near future, reforms adopted at the beginning of the millennium are slowly adjusting the state pension system to the demographic changes, which means a higher legal retirement age (67 by 2029) and a lower replacement rate.

SUPPLEMENTARY PENSIONS

As in many other countries, supplementary pensions are to some extent expected to make up the shortfall resulting from reforms in the first pillar. To this end, a new pension promise, an additional vehicle and a new taxframework were introduced for occupational pensions; and the Riester incentive was created for the third pillar in the wake of the state pension reforms. Today, there are 16 million Riester contracts, and while that is a success, it is widely accepted that they will not make up for the shortfall in first-pillar provision.

OCCUPATIONAL PENSIONS

In 2013 around 60% (17.8 million) of German employees who pay social insurance contributions had an occupational pension. This is positive when compared to the EU average of 40%, but there is still room for improvement. At the time of writing, a draft law on strengthening occupational pensions was expected: while so far defined benefit has been a bedrock of German occupational pensions, the reforms will allow pure defined contribution schemes to be operated under certain circumstances. They have to be collective, and unions have to be involved in the decision-making and administration. The reform also includes a number of other provisions for occupational pensions, relating to the tax framework (more flexible and slightly more generous), support for those on low incomes, and to an allowance for income from supplementary pensions when receiving minimum income benefits provided by the state.

ABOUT GERMANY

Population:
82.2 million *(Dec. 2015, largest population in the EU)*

Working population:
43.5 million *(Q1 2016)*

Area:
357,375,62 km²

Average monthly salary:
€3,612 *(before tax, 2015)*

Employees covered by tariff agreements:
45% *(2014)*

GDP per capita:
€37,130 *(2015)*

[all data taken from Destatis]

PENSIONS IN GERMANY

Legal retirement age:
increasing from 65 to 67 between 2012 and 2029

Life expectancy at birth (years):
78.1 for boys, 83.0 for girls

Life expectancy at age 65 (years):
17.7 for men, 20.9 for women

Pensions can be delivered through five different vehicles:
Pensionskasse, Pensionsfonds, direct promise (book reserve schemes), support funds (Unterstützungskasse) and direct insurance

Number of institutions for occupational retirement provision (IORPs):
173 Pensionskassen and Pensionsfonds

Number of employers delivering occupational pensions through direct promises and support funds:
80,000

Insolvency protection:
The Pensions-Sicherungs-Verein is the statutory agency providing insolvency protection for occupational pension schemes

WHAT DO YOU DO?

Right on cue, **Jamie Jenkins**, Head of Pensions Strategy at Standard Life, is here to tell us about his passion for billiards...

'BOWIE FAN, BLOGGER, BILLIARDS PLAYER' IS THE DESCRIPTION FOR MY @PENSIONSGUY TWITTER PERSONA. IF ONLY PENSIONS HAD BEGUN WITH A 'B' THEN MY BRIEF, ALLITERATIVE LIFE DESCRIPTION WOULD HAVE BEEN COMPLETE.

The last of these – billiards player – is easily the pastime that gives me most satisfaction. But when the subject comes up, most people have little more than a vague idea of what it's all about – so here's a brief description.

> **I'VE MANAGED TO AMASS ENOUGH WINS TO GET ME TO NUMBER 50 IN THE WORLD RANKINGS**

Usually played on a standard 12-foot snooker table, it features a white, a yellow and a red, and both the white and yellow have red spots. The coloured spots were added to make the movement of the balls more easily visible on television, but billiards is rarely televised and few people would watch it if it was. It features heavily on YouTube, however, which is arguably the discerning millennial's personal TV channel.

There are numerous rules in the game for referees to contend with, but the basic method of play is very simple. Each player has their own cue ball (either the white or the yellow) and you score by potting or going in off the red (3 points), potting or going in off your opponent's ball (2 points), or hitting your own cue ball against each of the two others to form a 'cannon' (2 points). Like snooker, you continue your break as long as you keep scoring, after which the turn falls to your opponent. You can play the game on a timed basis, or up to a certain mark.

The notion that you can score a huge break by trapping the two other balls in a corner pocket is a myth, certainly on today's tables.

A SPORT FOR LIFE

Like many young boys, I dabbled in snooker during a misspent youth, and ultimately played for the local team in Edinburgh. I was OK, and have a stack of (minor) tournament medals and a hand-made cue – which I won as a prize in 1988 – to show for it. The league also featured billiards and I was talked into trying it by one of its great local players of the day. I loved it from the off.

I'm now a longstanding billiards league and competition player, and I haven't played a frame of snooker in years. For my efforts, I was appointed chair of the Edinburgh snooker and billiards league, a position I've held now for over a decade.

> **THERE ARE MANY GREAT OCTOGENARIANS STILL COMPETING IN THE MAJOR TOURNAMENTS. IF I LIVE THAT LONG, I'LL BE ONE OF THEM**

I play in the major tournaments whenever possible and I've managed to amass enough wins to get me to number 50 in the world rankings. But believe me, there's a gulf between me and the top 20 or so players in the world. I made it to the last 32 in the most recent World Championships in Leeds, and was abruptly reminded of this gulf when I played the world no.2 in the next round!

Billiards is far more about your knowledge of the shots to play than the pure technical ability to play them. As such, age is far less of a hindrance and indeed there are many great octogenarians still competing in the major tournaments. If I live that long, I'll be one of them.

That's where the connection lies with my day job, I guess. You can play billiards well into retirement; well into the years when you collect your pension.

Or 'bension', perhaps.

CONSUMER VIEWPOINT

At the PLSA Annual Conference & Exhibition in October, 10 recently auto-enrolled employees between the age of 24 and 34 were asked for fresh ideas on how their generation could save more for retirement. **David Rowley** reports on the process they went through, and the six ideas they came up with...

ON DAY ONE OF THE CHALLENGE THE CONTESTANTS HAPPILY REVEALED, OFTEN AT LENGTH, THEIR GUILTY SHOPPING PLEASURES. BUT WHEN ASKED ABOUT HOW THEY WERE SAVING FOR THEIR FINANCIAL FUTURE, THE SMILES WERE ERASED AND THEIR ANXIETIES WERE REVEALED.

The contestants were mentored by Steve Webb, former Pensions Minister and Director of Policy and External Communications at Royal London, and Greg McClymont, Head of Retirement Savings at Aberdeen Asset Management.

Both had revealed their hopes for the project.

McClymont wanted to learn. "We need a sense of how people live their lives and work around that, not saying it is my way or the highway." Steve Webb said indoctrinating or telling them off would not work and he spoke of "harnessing" what the contestants were excited about.

THE CHALLENGE

The first stage of the challenge was a 2.5 hour pensions training session. This illustrated the levels of savings the contestants would have to make to live a comfortable life in retirement. Much to their shock they were told how a £600,000 retirement pot would only provide £18,000 a year. It was also explained how much longer they would live compared to their parents' and grandparents' generations.

Reactions to this information were uniformly downbeat.

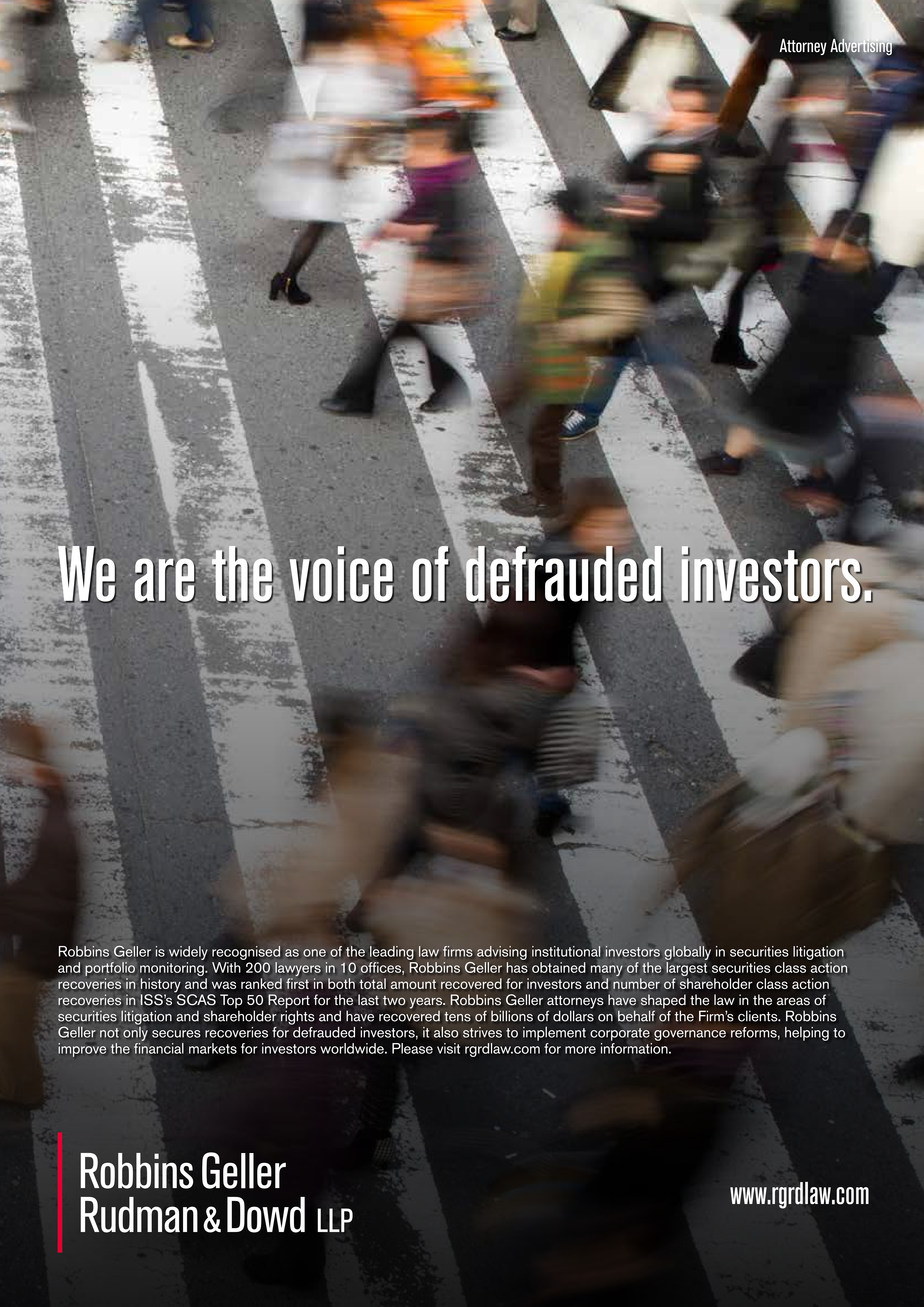
"Being able to afford anything at the moment is near enough impossible so I dread to think what it will be like when I retire," said Lloyd, a call centre worker; while there was gallows humour from Meg who works for a distribution firm in Liverpool: "I might as well invest my whole salary now," she said.

There was also outrage that the Government was not doing more to push the message of saving. "It's the Government's role to tell people about this. It is their job to educate people," said Kate, a technical coordinator at the National Theatre.

Lauren, who works in events and who was the youngest contestant, said: "Why did no one tell us this?"

There was a realisation from the group that they may not all be able to retire when they had expected. "My mother is 60 and she is not ready to retire, I hope I am like that," said Collette.

WHY DID NO ONE TELL US THIS?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THE IDEAS

On the second day of the challenge the two teams produced three ideas each on how to tackle the mountain they needed to climb.

The percentage figure by each idea indicated their popularity with the audience at the conference, who were asked to vote for their favourite idea.

11.7%

Stop using the word 'pension'

The feedback from Greg's team was unanimous: the word 'pension' poses a mental block for younger people. One described the word as "negative, old and outdated". Another spoke of it even segregating people; while one called it a "scary" word that was "not in the here and now – you do not relate it to your current life."

The answer, said the team, was to use the phrase 'lifetime savings' to show it was for young and old. The latter phrase was cited as one that could connect with children in schools and be made part of the national curriculum. Darren, who works at PwC, spoke of how it could inspire competition in young people to see who could save the most.

18.3%

Plain English education

Communication was also picked up by Steve's team of contestants. Pensions should be taught at three key milestones in everyone's life, was their proposal: when someone leaves education, when they start their first job, and when they get married. At each point individuals would be told how much they need to save for the rest of their life.

11.7%

Compulsory for first six months

Steve's team came up with a softer form of compulsion, a six-month period when all had to save, but were given the option to opt out thereafter.

This was likened to the deals offered by gyms. Lloyd said that it would encourage the more hesitant to experience and become accustomed to savings.

WE NEED A SENSE OF HOW PEOPLE LIVE THEIR LIVES AND WORK AROUND THAT

30%

Compulsory pensions

A much more blunt idea was that no one employee would get left behind on pensions. Colette on Greg's team said that pension saving should be compulsory as soon as individuals start work, at a minimum contribution rate of 10 per cent shared between employer and employee. She reasoned that employees would get used to this quickly in the same way they are accustomed to national insurance and tax.

16.7%

Points makes pensions

This was a combination of two ideas. Reward cards such as Nectar could convert points earned into pension contributions. The obvious question was what would be in this for supermarkets that use such reward cards? A related idea was a push notification, where for each new level of pension savings young people would be given a cash incentive on reaching it.

BEING ABLE TO AFFORD ANYTHING AT THE MOMENT IS NEAR ENOUGH IMPOSSIBLE SO I DREAD TO THINK WHAT IT WILL BE LIKE WHEN I RETIRE

11.7%

Tap and go

This idea anticipates the pensions dashboard. Greg's team felt that it should be easier to see all of one's pension pots on an App where they could easily be consolidated. The advantage of this system was, said one, that it would avoid "pages and pages of forms" and allow consolidation "without hassle or cost".

PLSA ANNUAL CONFERENCE & EXHIBITION 2016

As we set up for this year's event the wind howled, the rain poured, and taking the ferry across the Mersey was not for the fainthearted. But the following morning delegates and exhibitors brought the sunshine with them as they streamed into Liverpool ACC for the UK's biggest pensions event of the year...

PLSA Chair Lesley Williams setting out the aims and expectations of Annual Conference & Exhibition.

"We need an end to short-term, knee-jerk pension policy decision-making that's got an eye for a headline"

PLSA Chief Executive, Joanne Segars

On Brexit: "Like getting an egg out of an omelette"

Pascal Lamy, former Director General of the World Trade Organisation

82 EXHIBITORS

228 PENSION SCHEMES

"I don't think it is unusual to have a minister without a background in the field"

Undersecretary of State for Pensions, Richard Harrington

"We are in an era of intervention"

Kamal Ahmed, BBC Economics Editor

1,592 ATTENDEES

PENGUINS, LIONS, SEALS AND ACROBATS:

"People remember things when they are funny because it engages with the brain"

Sir Lenny Henry closes the show

Many plenary sessions and more are available to view on YouTube at **www.youtube.com/c/PlsaUk**

And while you're there, why not subscribe to our channel to be automatically notified when we add more videos?

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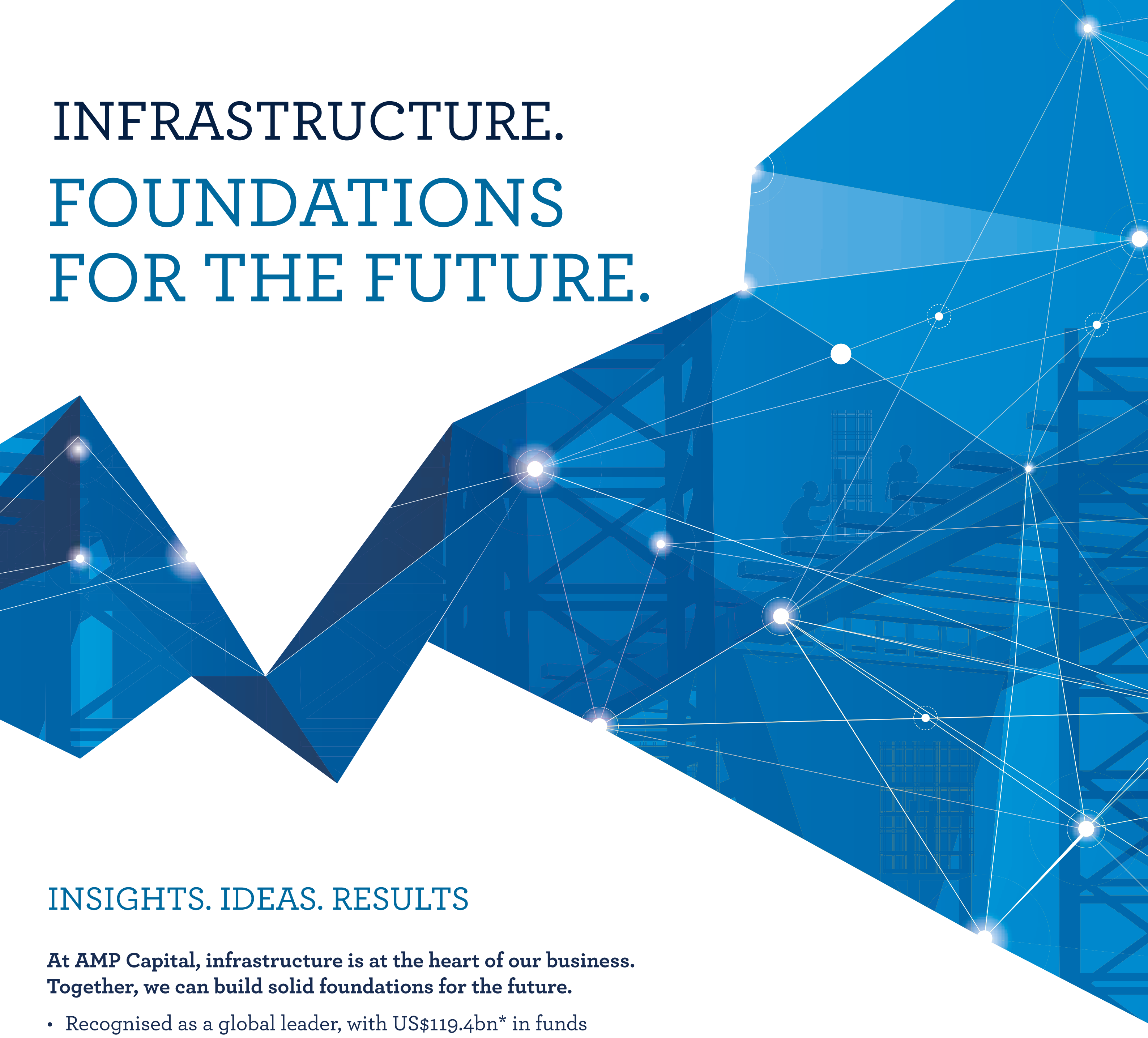

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PRIVATE DEBT IS A SAFE ASSET CLASS; OR IS IT?

AMP Capital Infrastructure Debt Principal, Emma Haight-Cheng demystifies mezzanine lending.

The private debt market has emerged as an alternative source of value for investors globally in recent years. The continued regulatory development has affected bank lending practices in the aftermath of the global financial crisis, building opportunities for institutional lenders to play a larger role in the private debt space[1]. As an asset class, private debt can offer a credible diversification tool, strong risk adjusted returns, enhanced structural protections, and an illiquidity premium. Within private debt, however, risk profiles can vary significantly.

Infrastructure distinguishes itself as a low risk asset class through lack of correlation with GDP, providing a macroeconomic hedge. This performance independence stems from the definition of "core" infrastructure, as distinct from "core plus". Core infrastructure comprises defensive, non-cyclical real assets that constitute critical infrastructure, providing essential services, thus benefiting from high barriers to entry and limited competition. Cash flow generation is generally stable and predictable from defensive earning streams and robust operating platforms.

Complexity and illiquidity premia are highest in assets involving construction, or high levels of complexity to operate and maintain; but both are often misrepresented. The art of project finance lies in using contractual protections to pass all risk to the party ultimately controlling that risk, leaving the SPV, to which you are ultimately lending, taking on no risk which it does not have the power to control. A desalination plant, for example, cannot influence price or volume demand for the water it produces. As such, the plant should seek to put in place fixed price, 100% offtake, take or pay contracts, indemnifying itself from water price and demand fluctuations.

Within the low risk backdrop offered by the infrastructure asset class, mezzanine debt can be introduced to provide investors with higher returns, but without materially increasing the risk profile to which the mezzanine investor is subject. This is as distinct from other sectors of private debt.

Key Characteristics Comparison

The difference between typical infrastructure assets and corporate assets has a direct effect on the nature of each type of debt:

Asset Characteristic	Infrastructure Debt	Corporate Debt
Long term contracted cash flows	Yes	No
Regulated environment	Yes	Variable
Barriers to entry	High	Variable
Correlation with traditional asset classes	Low	High
Inflation hedging	Yes	Variable
Asset / liability matching profile	High	Medium

Infrastructure mezzanine debt, such as that offered by **AMP Capital Infrastructure Debt Fund III "(IDF III")** with target returns between 8 and 10%, offers a superior risk adjusted return profile. While corporate mezzanine debt can offer higher returns in the 10% - 20%+ range, this is due to a vastly different risk profile.

Whilst corporate mezzanine debt is typically fixed rate, infrastructure mezzanine can be offered in a range of loan and bond formats and can be structured as fixed or floating depending on investor requirements. Further, with infrastructure mezzanine debt, instruments are typically structured as cash pay with a limited number of PIKs available over loan life. Many corporate mezzanine debt instruments are PIK only, as they are effectively high yield or quasi equity.

Security profiles also differ. Infrastructure mezzanine debt is provided on a ring-fenced basis and secured against a specific individual asset or portfolio of assets, rather than against the ultimate shareholders of those assets. Equity receives distributions from the business only after all other obligations within the vehicle are met. Infrastructure mezzanine investments invariably involve security over shares in the ring-fenced structure, which affords lenders the right to seize equity in the ring-fenced company or companies and deal in that equity (i.e. restructure, sell etc). Corporate mezzanine debt, on the other hand, is typically unsecured and ranks only above common shares at the corporate level. This is a key differential for the risk profile of the debt.

"Infrastructure mezzanine debt offers a superior risk adjusted return profile."

The interplay of sector focus and security structure impacts upon default and recovery rates. To illustrate this, Moody's research on rated infrastructure debt securities (which will include both senior and mezzanine issues) indicates that over a 10-year period, the average cumulative default rate is 1.1% for infrastructure debt versus 14.9% for non-financial corporate borrowers[2]. Mezzanine debt is likely to be rated one notch below investment grade. At the Ba level, the 10 year cumulative default rate for infrastructure debt is 7.7% versus 19.6% for non-financial corporate borrowers[2].

Recovery rates on default are also higher. The average recovery rate for rated infrastructure debt securities that are senior secured is 75% for infrastructure versus 53% for non-financial corporate borrowers[2].

As debt investors, we believe avoidance of loss is paramount and we have demonstrated this through our own track record where AMP Capital's infrastructure debt strategy has sustained only 1.4% of principal losses during the last 25 years.

All asset classes are not created equal, and private debt is no exception.

1. Prequin Special Report: Private Debt: the New Alternative? July 2014, https://www.preqin.com/docs/reports/Preqin_Special_Report_Private_Debt_Jul_14.pdf
2. Moody's Investor Service – 'Infrastructure Default and Recovery Rates, 1983 – 2014', March 9, 2015

MEMBER NEWS

WELCOME TO NEW MEMBERS

ARMSTRONG INVESTMENT MANAGERS

Founded in 2008 as a UK manager, our flagship UCITS Multi-Asset fund now has a seven-year track record. CIO Ana Armstrong previously launched the first UK-based Multi-Asset UCITS fund in 2004. Our investment team operates dynamic portfolio management, applying systematic models with critical discretionary overlay within a strict risk framework.

Contact: Ana Armstrong
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T: +44 (0)20 3409 6468
www.armstrongim.com

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Contact: Jeanette Makings
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T: +44 (0) 800 028 0208
www.closebrothersam.com

SELECTAPENSION

Selectapension Limited is a specialist software company that provides a range of online, easy-to-use financial planning and investment tools for those working in the financial advice sector. In September 2016, Selectapension launched www.pensionmonster.com, an online retirement guidance tool for consumers which helps advisers provide a cost-effective service to those with smaller pension provision or less complex needs.

Contact: Keith Hinkley
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T: +44 (0)1892 601518
www.selectapension.com | www.pensionmonster.com

FIRST RETIREMENT QUALITY MARK AWARDS

THE INAUGURAL RETIREMENT QUALITY MARKS (RQM) WERE PRESENTED AT THE PLSA ANNUAL CONFERENCE & EXHIBITION BY RICHARD HARRINGTON, MP, UNDERSECRETARY OF STATE FOR PENSIONS. ACCEPTING THE AWARDS WERE (LEFT TO RIGHT) EMMA DOUGLAS FOR LEGAL AND GENERAL WORKSAVE MASTERTRUST; KEN ANDERSON FOR NATIONAL PENSIONS TRUST; AND ALICE EVANS FOR LIFESIGHT.

The RQM is an independent accreditation developed by the Pension Quality Mark Ltd. It allows trustees and employers to signpost members to good quality at-retirement products with confidence.

Visit **www.retirementqualitymark.org.uk** for more information.

OBITUARY

We are sad to report that former NAPF Chair (1985-1987) Colin Lever passed away on Saturday 5 November.

Also a past Vice President of the NAPF, Colin was a retired actuary and until 1999 a Partner in the firm of Bacon and Woodrow, where he was the Senior Partner for 12 years. He had been a trustee of the Thalidomide Trust since 1993 and was also an author and lecturer on pension fund investment.

PENSIONS AND LIFETIME SAVINGS ACADEMY

ABOUT THE ACADEMY

PENSIONS PROFESSIONALS ARE GENERALLY ABLE TO DEVELOP THEIR EXPERTISE IN ALL THINGS PENSIONS; THERE IS MUCH TO LEARN, MAINTAIN AND SPECIALISE WHATEVER THEIR ROLE. TO ENSURE THE PENSIONS INDUSTRY CONTINUES TO DEVELOP AND THE RIGHT MESSAGES REACH AND ENCOURAGE THE CONSUMER, OUR LEADERS ALSO NEED TO DEMONSTRATE THEIR ABILITY TO LEAD.

PROFESSIONAL DIVERSITY

There is much diversity and specialism within the pensions industry. Its leaders do not simply come from the pensions administration and management stable. Thought leaders operate across a range of different and emerging disciplines, for example investment, human resources, actuarial, accountancy and legal services, to name but a few.

Leaders need the skills and expertise both to inspire direct reports, who in turn can encourage the consumer, and to lead across a variety of disciplines. The pension industry's leaders of tomorrow will be selected from a range of different disciplines and collectively need to demonstrate a level of vision and imaginative thinking capable of sustaining retirement saving in the 21st century and beyond.

Pension freedoms have now been around for 18 months and continue to offer greater flexibility to individuals. Ensuring people are informed and make the right decisions places responsibility on the whole industry and drives innovation both in terms of products and leadership initiatives. Consumers and practitioners will expect much greater input and guidance from their industry leaders.

LEADING THE WAY

Here at the PLSA Academy we consider it essential to equip our leaders not only with technical expertise but also with the skills to lead. The Academy offers leadership training for those who aspire to become leaders in the future. Automatic enrolment has brought many more employees into the retirement savings arena and it's now more common for HR professionals to be responsible for pensions and reward strategies. Investment, actuarial and legal professionals also need to be equipped to take their organisations forward and to manage colleagues who participate in a wide range of pension-related activities.

DEVELOPING INDUSTRY LEADERS

Working in partnership with McCarron Heal Ltd, an experienced provider of leadership programmes in both the private and public sector, our Leadership for Managers programme provides pensions practitioners from a range of sectors and specialisms with the tools and skills to develop their industry profiles and their leadership expertise.

Beginning in January 2017, programme participants will benefit from sharing experiences with each other and from senior pensions professionals who are able to highlight specific leadership issues they have faced during their careers in pensions.

Whatever your industry sector or specialism, if you aspire to enhance your pensions industry career, or you manage a rising star, why not make 2017 the year in which you or your direct reports begin to shine?

Visit **www.plsa.co.uk/Training** to find out more.

WHAT DO YOU THINK?

We'd love to hear what you think about the magazine. Which features do you find interesting? Is there anything that's not so good? Is there something you'd like to see that we don't currently include? How does it compare to other pensions publications? It's your member magazine so please do let us know.

Email **jane.dawson@plsa.co.uk** with your comments.

NEW MADE SIMPLE GUIDES

THREE NEW GUIDES ARE AVAILABLE IN OUR *MADE SIMPLE* SERIES

In today's compressed return environment, a growing number of pension schemes are looking to generate additional income by investing in private market assets. As a first step we would encourage trustees to get more familiar with the asset class. This guide has been written with that aim in mind, discussing the different sources of alternative income and the practical aspects trustees should be aware of. It should be a useful tool to initiate discussions both within the trustee board and with advisers and managers.

The guide is kindly sponsored by Blackrock

Pension funds and consultants are starting to use ETFs for both strategic and tactical purposes because of the transparent and liquid access that ETFs can offer to a broad range of asset classes. Pension schemes and their stakeholders could benefit from exploring how the index investing landscape has evolved and the potential opportunities that arise to add value to an investment strategy. We hope that this Made Simple Guide will help trustees in discussions with scheme advisers on what instruments to use.

The guide is kindly sponsored by iShares by Blackrock

This Made Simple guide aims to explain what low volatility investing is, what practical implementation considerations schemes should take into account, and how it can fit within both defined benefit and defined contribution pension plans. Low-volatility equity strategies can be a good fit for a DC pension plan throughout a member's savings journey and through retirement. They can also be appropriate for DB schemes, as an equity allocation giving access to assets which deliver higher-than-average returns necessary for offsetting longevity risk, and for preserving some allocation to assets that are not expected to underperform when inflation is high.

The guide is kindly sponsored by Acadian Asset Management

Each membership organisation has been sent a copy of these guides, and PDF versions are available to download FREE from the PLSA website at **www.plsa.co.uk/PolicyandResearch/DB/Made-Simple-Guides**

If you would like to buy additional hard copies of the guides please visit our online shop and take advantage of the discounted member price.

If there are topics you would like to see covered in our Made Simple guide series, please contact **jane.dawson@plsa.co.uk**.

THOMSON REUTERS

PRACTICAL LAW™

LEGAL UPDATE

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

THE PENSION SCHEMES BILL 2016-17 HAD ITS FIRST READING IN THE HOUSE OF LORDS ON 19 OCTOBER 2016. IT CONTAINS SEVERAL PROPOSED CHANGES TO PROTECT DC PENSION SAVERS, COVERING MASTER TRUST AUTHORISATION AND FURTHER CHARGES CONTROLS. OF KEY INTEREST ARE THE NEW CRITERIA FOR MASTER TRUSTS, APPLICABLE ALSO TO EXISTING ARRANGEMENTS – THEY'LL NEED TO ENSURE THAT:

- The persons involved in the scheme are fit and proper;
- The scheme is financially sustainable;
- The scheme funder meets certain requirements in order to provide assurance about their financial situation;
- The scheme's systems and process requirements, relating to the governance and administration of the scheme, are 'sufficient' to ensure that it is run effectively; and
- That the scheme has an adequate continuity strategy.

Of course DB pensions are under scrutiny separately in the wake of the Work and Pensions Committee's enquiries into BHS. We shall wait and see if this leads to legislative changes.

RECENT LESSONS TO LEARN FROM THE COURTS, PENSIONS OMBUDSMAN AND PENSIONS REGULATOR

Trustees need to consider promptly any action to recover overpayments, or risk a reduction of the repayment amount. The High Court ruled that a member had a limitation defence barring the recovery of any overpayments made more than six years before a 'cut-off date'. The trustees had been seeking recovery of overpayments (starting in 2002/3) since 2009, but this did not stop time running. The cut-off date was set by the scheme's response to the member's Pension Ombudsman's complaint, in 2011[1].

A bankrupt is not required to draw down a pension for income payments order. The Court of Appeal provided much needed clarity for insolvency and pension practitioners, and savers, following conflicting lower decisions. Savers with DC pension schemes and occupational pension schemes know their undrawn funds remain out of reach for income payment order (IPO) purposes if they are made bankrupt[2]. For non-bankrupts, there is an important caveat: *Blight v Brewster [2012] EWHC 165 (Ch)*. The High Court effectively forced an individual to withdraw his lump sum, which was then immediately subject to a third party debt order to a creditor. Note: this concerned a personal pension (occupational pension schemes are protected by section 91 of the Pensions Act 1995) and is not uncontroversial.

Small schemes should consider correcting mistakes through Pension Regulator powers. The Regulator exercised its powers under section 67G of the Pensions Act 1995 to declare a deed of amendment mistakenly purporting to change a scheme's benefits from DB to DC void. It's a rarely used power. The Regulator stated it will take into account various factors, particularly "the potential impact upon member benefits". The Regulator also noted that applying to court for rectification would have been "disproportionate". This was a small scheme with only 11 members and no ongoing sponsoring employer – rectification would have put additional cost on the PPF.

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. Webber v Department for Education and another [2016] EWHC 2519 (Ch)
2. Horton v Henry [2016] EWCA Civ 989

PENSIONS AND LIFETIME SAVINGS ACADEMY UPDATE

Frances Corbett, Educational Development Manager.

WAVING GOODBYE TO ANNUAL CONFERENCE AND EXHIBITION 2016 – WITH RECORD ATTENDANCE AT THE TRUSTEE LEARNING ZONE, AND SELFIES WITH LENNY HENRY IN THE LEARNING HUB – THE ACADEMY HAS TURNED ITS ATTENTION TO 2017.

Next year we'll not only see old favourites returning, but there will also be webinars covering topics ranging from investment to new regulation, DB funding, DC governance and much more. We recognise that not everyone can take part in our educational sessions here at Cheapside House, so these webinars – and some new web-based training programmes – will provide you with wider learning opportunities.

We'll continue to offer a series of teach-ins for pension practitioners during 2017, building on the success of the 2016 series which has been attended so far by 376 professionals. The most recent session – 'Asset-backed securities – a logical choice,' sponsored by HSBC Global Asset Management. The session attracted full support and positive feedback from attendees.

At the time of writing the development of our final teach-in of 2016, sponsored by Sackers, is receiving its final touches. The session, to be held on 6 December, will discuss 'Contingent assets'. As usual, if you can't make it on the day, the highlights will be presented in a post-teach-in video.

Early December also sees the culmination of this year's 'Leadership for managers' programme, with a further six delegates gaining their certificates. If you think this programme might help your career progression, the next intake starts on 18 January 2017.

"Learning never exhausts the mind."
Leonardo da Vinci

For more information, visit **www.plsa.co.uk/training**

...because one size doesn't fit all.

Supporting employees with their retirement income options

With so many retirement income options available for employees, we know that a 'one size fits all' approach to retirement planning doesn't work. Therefore, we created our Retirement Income Options service to implement and manage retirement planning for employees and to determine the best course of action based on their personal circumstances.

In order to protect employees from poor decisions, our complete service ensures employees/members receive the help they need to understand all of their options at-retirement.

The service consists of:

- **Financial education and guidance:** provided in a number of formats to ensure retirement income options and tax issues are understood
- **Regulated advice:** as every situation is different, this is designed to ensure everyone has a personalised plan
- **Implementation of options:** this allows a holistic solution to be implemented and managed throughout retirement
- **Ongoing support:** continuous guidance, advice, and management of income throughout retirement

This service is available now to pension schemes, trustees and employers, so whatever retirement income plan is needed by employees and scheme members, they can access it through our fully integrated service.

To find out more about how we can help your employees make the right retirement income decisions, please call **0800 234 6880**, email **info@wealthatwork.co.uk** or visit **www.wealthatwork.co.uk**

RETIREMENT INCOME OPTIONS **SERVICE**

WEALTH at work

KNOWLEDGE | EXPERIENCE | OPPORTUNITY

PENSIONSCONNECTION UPDATE

Steven Dignall, Membership Communications Manager.

AS 2016 DRAWS TO A CLOSE, WE PROVIDED OUR TRUSTEE AND HR SUBSCRIBERS WITH A FINAL OPPORTUNITY TO CATCH UP ON EXTRA CPD AND NETWORK WITH FELLOW MEMBERS AT TWO BREAKFAST MEETINGS IN LONDON.

The Trustee session took place on 1 November and looked at life after LISA and re-thinking retirement. Changes to taxation and working patterns have changed everything. The current low level of the annual allowance when combined with the access to Lifetime ISAs for the under 40s mean that pension provision can be viewed by some as an inefficient tool for rewarding employees.

Retirement savings are only a small part of an individual's wealth accumulation but they are a significant part of employee remuneration.

Marcus Hurd and John Yates of Xerox HR Services argued that the market must move fast to ensure that employee engagement matches the level of employee benefit spend.

Our HR forum came together on 29 November to discuss guidance versus advice. Since the pension changes came into force, employees need additional support when planning for their retirement as they are now more vulnerable to falling for headline-grabbing scams, paying unnecessary tax, using the wrong assets for income in retirement, and ultimately not making the right decisions.

Jonathan Watts-Lay of Wealth at Work explained why it's important for employers and employees to understand the difference between guidance and advice and the effectiveness of each option; and talked of a three-step approach to pension flexibility.

I would like to thank our sponsors Xerox HR Services and Wealth at Work for sponsoring our Trustee and HR PensionsConnection services respectively during 2016.

Full details of 2017 meeting dates and more can be found on the PensionsConnection website at **plsa.co.uk/pensionsconnection**.

If you have topics you would like to see on the agenda at future forums, please get in touch at **plsa@plsa.co.uk**

PENSION QUALITY MARK UPDATE

Examining **Eli Lilly's** fresh approach to communications.

IN OUR INCREASINGLY BUSY WORLD, WITH SO MANY DEMANDS ON OUR TIME, IT'S EASY FOR PENSION COMMUNICATIONS TO BE OVERLOOKED.

PQM member Eli Lilly, a global pharmaceutical company, has adopted the following four principles to help employees to plan and save for the future.

Segmentation: It only presents information that is relevant to the member and the scheme they are in.

Personalisation: It puts members' data into the retirement modeller for them and uses their name in all communications.

A mix of media: Online tools help members to self-serve. Members can model their pension benefits, run statements, make investment changes, and see their personal information online.

Simplification: Over recent years, the company has worked hard to stop providing lots of data and instead to transmit simple and clear messages. They tell members what they need to know, explain how to select their choices, and make clear any deadlines. A recent innovation was to check all communications using a "readability score".

The company measures the results of its communications on an ongoing basis to see how many employees are engaging with them. This allows confirmation that the information has been sent, and also shows whether the employees read any further than the email link and what they did as a result.

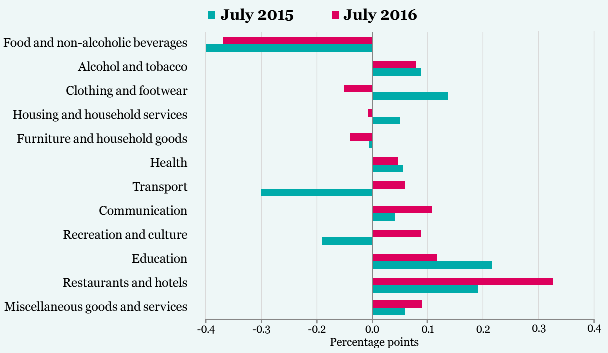
This holistic approach is working – the company has had over 2,000 log-ons to its pension administration tools, 280 members switched their investments during the year, and there were 1,175 individual retirement quotes run by members.

New Retirement Quality Mark members since our last issue:

Lifesight
National Pension Trust
L&G

ECONOMIC INDICATORS

CONTRIBUTIONS TO THE CPI 12-MONTH RATE: JULY 2015 AND JULY 2016 UK



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

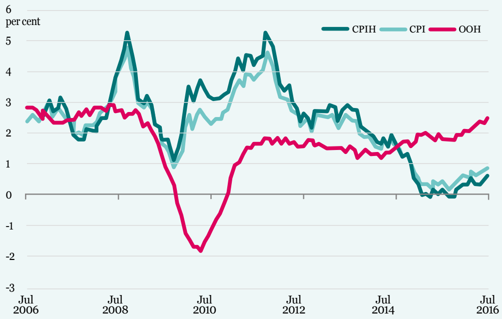
CONTRIBUTIONS TO THE CHANGE IN THE CPI 12-MONTH RATE: JULY 2016 UK

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: JULY 2006 TO JULY 2016 UK

Source: Office for National Statistics.

CPIH, OOH COMPONENT AND CPI 12-MONTH RATES FOR THE LAST 10 YEARS: JULY 2006 TO JULY 2016



Note: CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic.
Source: Office for National Statistics.

CPI INDEX VALUES, 1-MONTH AND 12-MONTH RATES: FEBRUARY 2015 TO FEBRUARY 2016

		Index[1] (UK, 2005 = 100)	1-month rate	12-month rate
2015	Feb	99.5	0.3	0.0
	Mar	99.7	0.2	0.0
	Apr	99.9	0.2	-0.1
	May	100.1	0.2	0.1
	Jun	100.2	0.0	0.0
	Jul	100.0	-0.2	0.1
	Aug	100.3	0.2	0.0
	Sep	100.2	-0.1	-0.1
	Oct	100.3	0.1	-0.1
	Nov	100.3	0.0	0.1
	Dec	100.3	0.1	0.2
2016	Jan	99.5	-0.8	0.3
	Feb	99.8	0.2	0.3
	Mar	100.2	0.4	0.5
	Apr	100.2	0.1	0.3
	May	100.4	0.2	0.3
	Jun	100.6	0.2	0.5
	Jul	100.6	-0.1	0.6

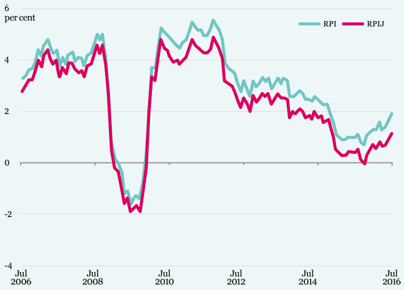
Note: 1. From February 2016, CPI and CPIH indices have been re-referenced and published with 2015=100. This does not impact on published inflation rates.
Source: Office for National Statistics.

CPIH AND OOH COMPONENT INDEX VALUES, 1-MONTH AND 12-MONTH RATES: FEBRUARY 2015 TO FEBRUARY 2016

		CPIH Index[1,2] (UK, 2015 = 100)	OOH Index[1,2] (UK, 2015 = 100)	CPIH 1-month[1] rate	OOH 1-month[1] rate	CPIH 12-month[1] rate	OOH 12-month[1] rate
2015	Feb	99.5	99.3	0.2	0.1	0.3	1.9
	Mar	99.7	99.4	0.2	0.1	0.3	2.0
	Apr	99.9	99.6	0.2	0.1	0.2	1.9
	May	100.0	99.7	0.2	0.2	0.4	1.8
	Jun	100.1	99.9	0.1	0.1	0.3	1.9
	Jul	100.0	100.0	-0.1	0.1	0.4	1.8
	Aug	100.3	100.2	0.2	0.2	0.3	1.8
	Sep	100.2	100.4	-0.1	0.1	0.2	1.8
	Oct	100.3	100.5	0.1	0.2	0.2	1.8
	Nov	100.3	100.8	0.0	0.3	0.4	1.9
	Dec	100.4	100.9	0.1	0.2	0.5	1.9
2016	Jan	99.8	101.2	-0.6	0.3	0.6	2.0
	Feb	100.1	101.3	0.2	0.1	0.6	2.0
	Mar	100.4	101.5	0.3	0.2	0.7	2.1
	Apr	100.5	101.8	0.1	0.3	0.6	2.2
	May	100.7	102.1	0.2	0.3	0.7	2.3
	Jun	100.9	102.2	0.2	0.1	0.8	2.3
	Jul	100.9	102.4	0.0	0.2	0.9	2.4

Notes: 1. From February 2016, CPI and CPIH indices have been re-referenced and published with 2015=100. This does not impact on published inflation rates
2. CPIH has been re-assessed to evaluate the extent to which it meets the professional standards set out in the Code of Practice for Official Statistics. The assessment report includes a number of requirements that need to be implemented for CPIH to regain its status as a National Statistic
Source: Office for National Statistics.

RPI AND RPIJ 12-MONTH RATES FOR THE LAST 10 YEARS: JULY 2006 TO JULY 2016 UK



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

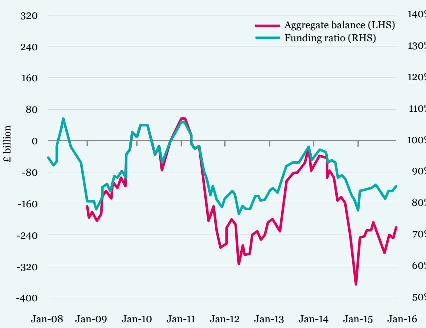
RPI AND RPIJ INDEX VALUES, 1-MONTH AND 12-MONTH RATES: JULY 2015 TO JULY 2016 UK

		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
2015	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
2016	Jan	258.8	238.1	-0.7	-0.7	1.3	0.7
	Feb	260.0	238.7	0.5	0.3	1.3	0.6
	Mar	261.1	239.4	0.4	0.3	1.6	0.8
	Apr	261.4	239.6	0.1	0.1	1.3	0.7
	May	262.1	240.1	0.3	0.2	1.4	0.7
	Jun	263.1	240.1	0.4	0.3	1.6	0.9
	Jul	263.4	241.1	0.1	0.1	1.9	1.1

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

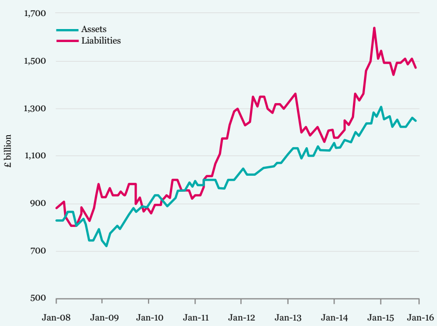
PPF 7800 INDEX DECEMBER UPDATE

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



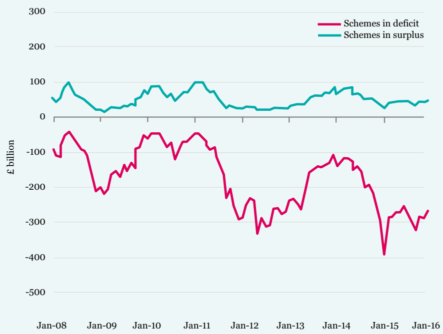
Source: Pension Protection Fund.

FUNDING COMPARISONS

	October 2015	September 2016	October 2016
Aggregate balance	-£216.8bn	-£419.7bn	-£328.9bn
Funding ratio	85.4%	77.5%	81.4%
Aggregate assets	£1,269.9bn	£1,449.5bn	£1,437.8bn
Aggregate liabilities	£1,486.7bn	£1,869.3bn	£1,766.7bn

Source: Pension Protection Fund.

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



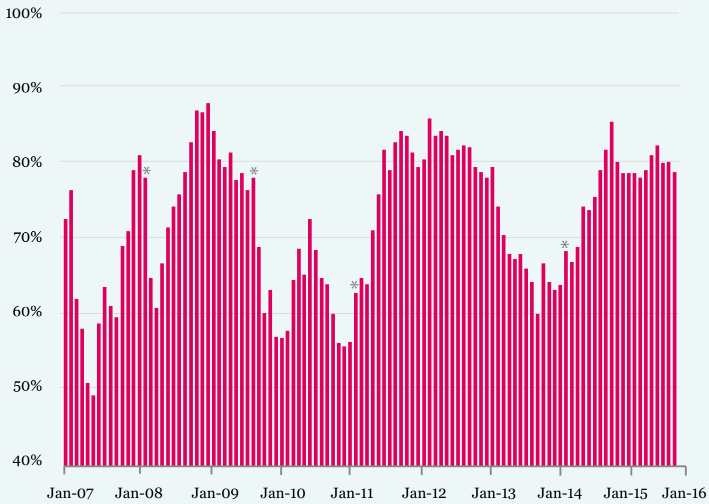
Source: Pension Protection Fund.

SCHEMES IN DEFICIT (SURPLUS)

	October 2015	September 2016	October 2016
Number of schemes in deficit	4,604	4,993	4,797
Deficit of schemes in deficit	£260.2bn	£452.2bn	£370.0bn
Number of schemes in surplus	1,340	952	1,148
Surplus of schemes in surplus	£43.5bn	£32.4bn	£41.1bn
Number of schemes in PPF universe	5,945	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 and October 2009 reduced the number of schemes in deficit by 412 (5.6 per cent) and 566 (8.5 per cent) respectively, while the changes to assumptions in April 2011 and May 2014 raised the number of schemes in deficit by 107 (1.7 per cent) and 259 (0.8 per cent) respectively.
Source: Pension Protection Fund.

Help and support…

for transitioning through later life

NFOP can be a cost effective alternative to a scheme's welfare service, as part of a leavers or retirement package.

As a person transitions towards retirement and beyond NFOP can offer a number of ongoing support services providing help and signposting.

info@nfop.org.uk
www.nfop.org.uk
01582 721652

NFOP Membership Services

- Initial advice over the phone on legal, tax, and financial matters
- IT assistance on computer problems via a dedicated helpline or email address
- A regular informative and entertaining magazine
- Membership of a local group with opportunities for social activities and outings
- Access to the members' area of the NFOP website, filled with useful information and resources
- NFOP Travel Club offers holiday, hotel, cruise and travel insurance deals
- Support from the NFOP Welfare Fund for grants to help with individuals needs

New Joint Venture with RIA

We are delighted to be working in partnership with the Retirement Income Alliance (RIA). RIA is a membership based online community of people seeking to understand all of their options around retirement.

RIA can help your employees or scheme members explore the options available to them as they near retirement and explain how they can make the most of their income in later life.

Find out more at **www.riaonline.co.uk**

ria Retirement Income Alliance
Working in partnership with NFOP

CALENDAR OF EVENTS

2017

JANUARY

18
Academy: Leadership for Managers programme
London

FEBRUARY

02
DC PensionsConnection
London

02
FD PensionsConnection
London

09
Academy: Pension Basics
London

09
Academy: Retirement Guidance – supporting employees
London

14
Hot Topic Seminar: DC
London

28
Academy: Understanding Investment
London

MARCH

02
Academy: Introduction to Trusteeship – Part 1: The theory
London

08-10
Investment Conference
Edinburgh

14
Academy: Introduction to Trusteeship – Part 2: The practice
London

23
Trustee PensionsConnection
London

23
HR PensionsConnection
London

APRIL

04
Academy: Talking to Employees about Saving in a Workplace Pension
London

26
Hot Topic Seminar: DB
London

MAY

15-17
Local Authority Conference 2017
Cotswold Water Park

OCTOBER

18-20
Annual Conference & Exhibition
Manchester Central

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


Bring our ACS expertise...
...to your pensions strategy.