Viewpoint

PUTTING A STOP TO PENSION SCAMS

The official journal of the Pensions and Lifetime Savings Association

Issue 1 2017

PENSIONS AND LIFETIME SAVINGS ASSOCIATION

DIRECTOR'S Viewpoint

Julian Mund looks forward to a series of significant events...

WELCOME TO THE FIRST VIEWPOINT OF 2017.

As this magazine lands on your desks, we're looking forward to this year's Investment Conference at the EICC in Edinburgh, which has the good fortune, or the misfortune – I'm not sure which – to fall at the same time as two significant political and economic events for the UK.

First, on 8 March the Government will publish the first of two Budgets this year, and the last spring Budget (until some future Chancellor decides to switch things round again). The two 2017 Budgets and the 2018 edition will prepare us for what lies ahead when the UK leaves the European Union in 2019.

This time last year we were lobbying hard to successfully avoid a change to the way pensions contributions are taxed. Now we're expecting to hear the Government's decision on the reduction in the Money Purchase Annual Allowance after the consultation it launched at the last Autumn Statement. In a consultation that was really about recycling pensions tax relief, it was interesting to see the Treasury recycling some of its own language about the cost of pensions tax relief. Could the debate about tax relief reform be reignited on 8 March? We're not expecting it, but never say never...

THE BUDGET AND BREXIT ARE BOUND TO BE THE SUBJECT OF MUCH DEBATE UP IN EDINBURGH

The second big political event during the conference will be the triggering of Article 50 by Theresa May on 9 March. The European Council will then appoint the European Commission to negotiate with the UK, with former European Commissioner and French Foreign Minister Michel Barnier heading the negotiating team.

Monsieur Barnier was once a fixture of PLSA press releases on EU issues as we fought against Solvency II-style rules for pensions. Keeping them at bay once again is one of our three key needs for pensions in Brexit, alongside the need for strong economic prospects and a strong financial services sector shared by many industries. We published our paper on Brexit in January and we're making sure it's being seen and understood by ministers and officials in DExEU.

So the Budget and Brexit are bound to be the subject of much debate up in Edinburgh. But the main theme for us will be *Diverse Investments, Diverse Perspectives*, during which our focus will include improving gender diversity in pensions, particularly at trustee board level, as well as our DB Taskforce work. And on the subject of differing perspectives we've got some great speakers, including the author Margaret Heffernan. She'll join a fantastic line-up including your favourite

PLEASED TO HEAR ABOUT WAYS WE COULD IMPROVE

Gangnam Style dancer Ed Balls, philosopher AC Grayling, Aberdeen Asset Management CEO Martin Gilbert and US FT Editor Gillian Tett. Plus of course there will be a huge number of expert speakers from among our membership.

There are still delegate places available so it's not too late to join us. Just contact the team here on Cheapside. And if you can't make it but you want to see some of our speakers, we're live webstreaming several sessions each day – just take a look at our website.

Before then I hope you enjoy the latest *Viewpoint*. I'd like to thank all of our contributors, sponsors and of course our readers. And I'm always pleased to hear about ways we can improve it or any of our other services – so please get in touch with your ideas.

Julian Mund
PLSA Director

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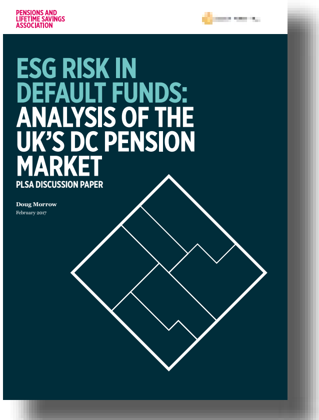
Viewpoint UPDATE

PLSA DISCUSSION PAPER *ESG RISK IN DEFAULT FUNDS: ANALYSIS OF THE UK'S DC PENSION MARKET*

The Pension and Lifetime Savings Association commissioned this study from Sustainalytics in order to better understand the environmental, social and governance (ESG) risks facing the default funds offered by defined contribution pension schemes in the UK. The timing for such an inquiry is propitious. The number of DC plan members in the UK is set to increase dramatically over the next 10 years. The Pension Policy Institute forecasts that by 2030 there could be 17 million members enrolled in DC workplace schemes in the UK, up from 11 million today. The value of the aggregate pension pot held by these DC plan members is forecasted to reach £952 billion in 2030, up from £155 billion in 2015, which underlines the growing importance of DC plans in the UK retirement landscape.


PENSIONS AND LIFETIME SAVINGS ASSOCIATION

ESG RISK IN DEFAULT FUNDS: ANALYSIS OF THE UK'S DC PENSION MARKET

PLSA DISCUSSION PAPER

Most of these assets are likely to be held in default funds. According to a 2015 PLSA study, 90% of DC plan members use their scheme's default fund. Default funds are widely used because they simplify what is often an overwhelming choice facing plan members. The decisions made by plan trustees and asset managers about the management and composition of default funds will thus have significant implications for the future financial security of UK workers.

The report is available to download: **www.plsa.co.uk/PolicyandResearch.aspx**

Tracey Dawson, FPMI

CONGRATULATIONS TO TRACEY DAWSON, OUR PQM POLICY AND ASSESSMENT MANAGER WHO HAS RECENTLY BEEN ACCEPTED AS A FELLOW OF THE PENSIONS MANAGEMENT INSTITUTE.

OUR PICK OF THE BEST HEADLINES AND TWEETS

SHOULD PENSION SCHEMES INVEST TO ACHIEVE SOCIAL GOOD?

Pensions Insight

DB TRANSFERS: WHAT ARE THE IMPLICATIONS?

Investment & Pensions Europe

MPS CALL FOR TOUGH CORPORATE GOVERNANCE RULES IN WAKE OF BHS

FTAdviser

PLSA targets 'provocative' FTSE 350 #executive pay: ow.ly/4REF3089kOI @PPJamesPhillips @lukehildyard

#PLSA issues press release on May's announcement - #Brexit: <Making It Work For #Pension Schemes And #Savers: ow.ly/q7WE30854Qk

Lesley Williams reveals @The PLSA's efforts to make pensions more inclusive bit.ly/2k2RvGz pic.twitter.com/2R3EvrVLpV

PUTTING A STOP TO PENSION SCAMS

The PLSA believes that Government proposals don't go far enough, and effective scheme authorisation is essential. **James Walsh**, Policy Lead, EU and International, reports.

WE NEED A MUCH MORE AMBITIOUS APPROACH

LET'S START WITH THE GOOD NEWS. SINCE MY LAST VIEWPOINT ARTICLE ON PENSION SCAMS (WAS IT ONLY LAST SEPTEMBER?) IN WHICH I DETAILED THE PLSA'S CALL FOR A CHANGE IN THE LAW, THE GOVERNMENT HAS MADE A COMMITMENT TO TAKE ACTION.

In Whitehall-speak, of course, 'action' starts with a consultation paper and a series of 'workshop' meetings between 'stakeholders' and civil servants, but I really shouldn't carp about the Government trying to get its policy right. To be fair to Pensions Minister Richard Harrington, he has identified scams as a priority and has asked the PLSA to contribute to the policy-making process. So three cheers for a good start.

The bad news is that the Government's proposals, as set out in the consultation paper, don't go far enough. There is nothing strictly wrong with them – ideas such as a ban on cold-calling and tougher regulation of Small Self-administered Schemes (SSASs) are a good start. But they only scratch the surface.

We need a much more ambitious approach, based on a robust system of authorisation for pension schemes, and that is what the PLSA will be pressing for over the next few weeks.

THE GOVERNMENT'S PLAN

First, a recap of the Government's ideas. The consultation paper proposed action on three fronts.

- First up is a ban on cold calls about pensions. This is welcome, but limiting it to telephone calls will just incentivise the scammers to shift to other channels. The Government should be looking to outlaw all unsolicited approaches by email, online messaging and no doubt other means as well.
- The second proposal is stricter limits on the statutory right to transfer. At present,

> **PEOPLE NEED TO BE ABLE TO TRUST THEIR PENSION SCHEME AND AN AUTHORISATION REGIME WOULD ACHIEVE THAT**

the saver has a right to a transfer within six months to any registered pension scheme. Even when trustees and scheme managers warn members that they are walking straight into a scam, the members can still insist on going ahead. Of course, it's the member's money – and their loss if they ignore good advice. But is this situation really acceptable? The PLSA thinks not. The Government would limit the right to transfer so it only applies when the receiving scheme is an FCA-authorised personal pension, or an authorised master trust or where there is a 'genuine employment link'. Again, this is a decent start (although the employment element looks open to abuse), but it could and should be far more ambitious.

> **THE PLSA IS PROPOSING AN AUTHORISATION REGIME TO STOP ROGUE OPERATORS FROM ENTERING THE MARKET**

- Finally, the Government would make it harder to set up fraudulent schemes by requiring that only 'active' companies could be used as the basis of registering a new workplace scheme. We think this is also open to abuse by clever scammers.

A BOLDER APPROACH

The Government's three proposals are well-intentioned, but they do not address the central problem – that being a *registered* pension scheme is no proof of being a *legitimate* pension scheme.

Of course, *Viewpoint* readers know very well that being HMRC-registered is merely a mark of initial compliance with tax law, not an official seal of approval for the pension scheme as a whole, but most savers would find this astonishing.

We need to be bold in addressing these problems. The PLSA is proposing an authorisation regime to stop rogue operators from entering the market and to tackle those using existing schemes as a vehicle for their activities.

Under our plan, members would only have a right to transfer to an authorised pension scheme. No authorisation – no transfer.

Just think how much simpler things would be for trustees and scheme managers. No more time-consuming due diligence. No more futile back-and-forth with members who bat back your well-intentioned warnings with pro forma responses drafted for them by the scammers. No more paying transfers to schemes that you *know* are vehicles for scams.

DEMONSTRABLE PROFESSIONAL EXPERIENCE, AS ASSESSED BY A PROFESSIONAL BODY, COULD BE USED INITIALLY TO ACCREDIT INDEPENDENT PROFESSIONAL TRUSTEES

Instead, a simple check with the Pensions Regulator and, if the scheme is authorised, then the transfer gets paid. Otherwise it's not. Savers protected. Scams blocked. Job done.

SMALL SCHEMES FIRST

Inevitably we cannot achieve this ideal world scenario overnight, but we can make a good start and put a plan in place for the rest.

PLSA members tell us the greatest scams risk lies in small schemes and overseas schemes, so that is where we would start.

Under the PLSA's plan, no scheme with fewer than 100 members would be allowed to accept transfers unless it has appointed an 'independent professional trustee' who meets demanding approval requirements or a 'recognised professional' such as a lawyer or accountant. This person would have a duty to 'blow the whistle' on any scams activity.

The latter would be a modern version of the 'Pensioneer Trustee' role that was abolished in 2006. The crucial difference is that, whereas the Pensioneer Trustee's duties focused on meeting the tax rules, the modern version would have wider responsibilities for watching out for scams.

We would also apply this new requirement to new, sub-100 member schemes, regardless of whether they wish to receive transfers.

REGULATING INDEPENDENT PROFESSIONAL TRUSTEES

At present anyone can style themselves as a 'professional trustee'. No specific qualification or experience is needed. We should tackle this as well.

We propose that demonstrable professional experience, as assessed by a professional body, could be used initially to accredit independent professional trustees. Eventually a mandatory qualification should be introduced, based closely on the new requirements for trustees of master trusts. Standards for independent professional trustees should be set at a higher level than those for lay trustees.

A 'WHITE LIST' NOW

In practice, it would take some while to introduce these new requirements – probably one to three years. In the meantime, the Regulator should quickly establish an interim 'white list' of schemes, to which transfers could be made in the confident knowledge that the receiving schemes were legitimate.

This 'white list' would include master trusts that meet the Master Trust Assurance Framework criteria, large DB and single-employer DC schemes with over 1,000 members and FCA-authorised insurers, plus any further schemes deemed to be an extremely low scams risk.

A LONGSTANDING VISION

The PLSA has long had a vision of a pensions landscape in which schemes are authorised. People need to be able to trust their pension scheme and an authorisation regime would achieve that.

Our proposals for tackling scams, which we would implement first of all for small schemes, are a step towards realising that vision. All we have to do now is to persuade the Government to adopt our proposals.

That is where the consultations and workshops come in. The PLSA will be doing its utmost to help the Government get its policy right and give people real protection from pension scams.

INTERVIEW: CRAIG MACKINLAY MP

Viewpoint met up with **Craig Mackinlay MP** to get his thoughts on pensions and the importance of lifetime savings.

Q:

DUE TO THE LARGE SUMS OF SAVINGS INVOLVED, PENSIONS POLICY HAS TO BE REASONABLY STABLE OVER MANY DECADES IF PEOPLE ARE TO BE ABLE TO PLAN EFFECTIVELY FOR THEIR RETIREMENT INCOME. HOW CAN A MORE STABLE AND LONG-TERM APPROACH BE ENCOURAGED IN POLICYMAKING? WHAT ROLE DO THE MEDIA HAVE TO PLAY IN GOOD POLICYMAKING?

A:

To promote long-term pension saving, people need encouragement to do so and to be able to understand the product being sold to them. Encouragement in the form of tax relief needs to be assured, if not guaranteed; and the investment products being sold need to be easily comprehensible, and with minimal charges. The media can help in making the case for cost transparency and keep up pressure on government to discourage any change to the stable playing field of pension taxation

Q:

WHAT CHANGES, IF ANY, WOULD YOU MAKE TO UK PENSIONS POLICY?

A:

My concerns are for the lower-paid to be encouraged into pension-saving. I have long advocated a tax-plus relief on pension payments, with basic rate taxpayers receiving relief against income in excess of payments made, with a compensatory loss of tax relief at the other end to higher rate taxpayers. I believe this should be at 30% to equate with other parts of the tax system, e.g. EIS and VCTs. My other concern is how we encourage the self-employed into pension provision. Figures show a huge lag in pension provision amongst the self-employed, and I call for the give-up of a part of Class 4 NIC by the government to match self-employed payments. This is an attempt to equate auto-enrolment within employment to a simple scheme for the self-employed.

TO PROMOTE LONG-TERM PENSION SAVING, PEOPLE NEED ENCOURAGEMENT

Q:

WE RECENTLY LEARNT THAT DEBT LEVELS ARE RISING AMONG THE UK POPULATION. WHAT WOULD YOU DO TO DISCOURAGE BORROWING AND ENCOURAGE SAVING?

A:

The UK's saving ratios are among the worst in the G7. I welcome the review by the FCA into alternative lending. The main problem is that the government is heavily reliant on consumptive spending via VAT. The LISA may encourage saving despite the conflict as to what it is: is it a savings or a pension product? Poor interest rates for savers are a discouragement to saving. I am not advocating an increase in interest rates, but quantitative easing has had a negative impact on savings ratios.

POOR INTEREST RATES FOR SAVERS ARE A DISCOURAGEMENT TO SAVING

Q:

'BABY BOOMERS' HAVE BEEN ACCUSED OF HAVING IT ALL AND LEAVING LATER GENERATIONS WITH POORER PROSPECTS. DO YOU THINK THERE ARE ISSUES OF INTERGENERATIONAL FAIRNESS TO BE ADDRESSED IN PENSIONS POLICY? AND HOW?

A:

Intergenerational fairness or unfairness is hugely topical. Is the current triple lock for the state pension sustainable in the medium to long term? It has served a huge purpose in reducing pensioner poverty, but its sustainability has to be questioned in a low-inflation environment. Annuity rates historically locked in for pensioners have also created a two-tier system for pensioners, older vs new; and additionally there is a huge capital gap between well-provisioned prudent pensioners and younger generations priced out of the housing and asset market. The solution is to be found within housing supply and encouraging the habit of earlier saving for longer.

G7

The UK's saving ratios are among the worst in the G7.

BIOGRAPHY

In May 2015, Craig Mackinlay was elected as the Conservative Member of Parliament for South Thanet, Kent. He is currently a member of the Work and Pensions Select Committee and the Exiting the EU Committee.

Craig is a member of both the Institute of Chartered Accountants and the Chartered Institute of Taxation. He is one of only about 1,500 individuals nationwide – and the only MP – to be qualified members of both of these professional bodies. Craig's particular specialism is in pension policy and regulation.

EXTERNAL AFFAIRS QUSTION TIME

Graham Vidler, Director of External Affairs, responds on behalf of the PLSA, among other matters.

Q:

HOW SUCCESSFUL DO YOU THINK THE PENSIONS DASHBOARD WILL BE, AND IF IT DOESN'T CAPTURE EVERY PENSION WITH EVERY PROVIDER, WILL IT REALLY BE OF VALUE?

JIM HAYNES
TRUSTEE DIRECTOR, J.P. MORGAN PENSION FUND

A:

Jim, I think there's huge potential in the pensions dashboard. With the right governance, technical and regulatory framework it could change the way that people engage with their retirement savings, change the way they think about our industry and contribute to increasing the financial wellbeing of the nation.

That's not to say that there aren't risks attached to such an ambitious project. Opening up large amounts of data does come with some risks from both a security point of view and from a consumer protection perspective. While the security risk can be mitigated through implementing the highest of standards, the consumer protection point is one that the industry really needs to stay on top of. That's why the PLSA is campaigning for the presence of a 'public good' dashboard, run by a financial guidance body, to ensure that consumers have a safe place to access their data.

And yes, I think it is essential that the dashboard does eventually cover all pensions. This doesn't have to be straight away; we can get a lot of the benefit from a small number of schemes bringing in others in a staged fashion much like automatic enrolment. And further ahead we might want to look too at the case for bringing other types of retirement saving into scope.

For more on the Pensions Dashboard turn to page 15.

Q:

THE INDUSTRY IS RIGHTLY FOCUSING MORE ON VALUE FOR MONEY AT PRESENT. WITH THIS IN MIND, WHAT WORK IS THE PLSA DOING TO QUANTIFY HOW IT PROVIDES VALUE FOR MONEY FOR ITS MEMBERS?

ROB ORR
HEAD OF TECHNICAL AND COMMUNICATIONS , SAUL TRUSTEE COMPANY

A:

Great question, Rob, especially for a membership body. The way we quantify value for money in the work we do for members is discussed frequently here – often because it's so difficult to do consistently and meaningfully, or sometimes at all, across our work.

There are examples where it's relatively straightforward. It's quite easy to say, for example, that avoiding Solvency II style funding rules for pension funds saved our DB fund members upwards of £150 million. Or that discounts on our events and training exceed the cost of membership for many of our members. Or that our events give our business members great opportunities to build brand awareness and leads with our fund members.

But in capturing the whole picture we need to be led by your feedback. We are a not-for-profit, here to provide services to our members. The things we can measure are whether you rate those services highly and continue to be members. We'll also be running a member survey this year where we'll ask if you think PLSA membership is good value for money. Ultimately, that's the best way we can quantify it.

Q:

INDEPENDENT GOVERNANCE COMMITTEES (IGCS) WERE INTRODUCED IN APRIL 2015, WITH A KEY OBJECTIVE TO ENSURE MEMBERS OF CONTRACT-BASED DC SCHEMES RECEIVE VALUE FOR MONEY. GIVEN THE CURRENT HUGE DEFICITS IN DB SCHEMES AND THE POTENTIAL FOR MORE CASES LIKE BHS, DOES THE PLSA THINK THAT TRUSTEES SHOULD BE HELD ACCOUNTABLE TO UNDERSTAND THE COSTS OF RUNNING A DB SCHEME TO ENSURE THEIR MEMBERS ALSO RECEIVE GOOD VALUE FOR MONEY?

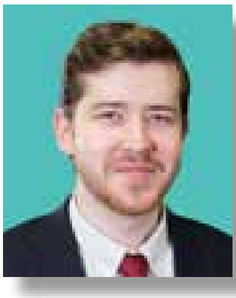
PAT SHARMAN
MANAGING DIRECTOR UK, KAS BANK

A:

Pat, I think better understanding of costs and value for money is fundamental to running any type of pension scheme.

There's a lot to learn from work that's going on in DC at the moment – both in terms of the value for money requirement on IGCs and trustees and the work on disclosing investment costs which is central to delivering against that requirement.

Huge deficit or not, trustees of DB schemes undoubtedly have a responsibility to understand the total costs of running their scheme and how that compares to others.



TOWARDS A PENSIONS DASHBOARD

Matthew Burrell, PLSA Senior Policy Adviser: DC, reports on the challenge of making a good idea into a practical reality.

THE CONCEPT OF A PENSIONS DASHBOARD IS BEGUILINGLY SIMPLE. PROVIDING CONSUMERS WITH THE ABILITY TO VIEW ALL OF THEIR PENSIONS ENTITLEMENTS IN ONE PLACE AND IN REAL TIME SHOULD ALLOW THEM TO MAKE INFORMED DECISIONS ABOUT THEIR ASSETS AND MAKE APPROPRIATE PLANS FOR THEIR LATER YEARS.

The idea itself has been one of the mainstays of discussion for the pensions industry for a number of years. The successful implementation of similar concepts in Australia, Sweden and the Netherlands has led to further calls for action to ensure that the UK financial system has the necessary digital infrastructure for the coming years. None of the above is at all controversial, but the practicalities of implementing a dashboard programme could be.

On 12 September 2016, the Economic Secretary to the Treasury set out a timetable to have the service up and running by 2019. This is undoubtedly an ambitious timetable, and it has been received with some scepticism. However, it's important to first recognise the enormous benefits that such a project could provide both to schemes and their members.

The presence of a dashboard could remove the need for Annual Statements and other documents to be posted out at great expense to the schemes, as members could simply be prompted to log in (saving funds and presumably trees).

Additional consumer awareness could also help to drive the consolidation of smaller uneconomic pots, leading to better outcomes both for scheme members and scheme providers. In the longer term, with the appropriate safeguards, the dashboard could be used to automate transfers and compare fund performance, helping ensure transparency and efficiency in the market; all of which are laudable outcomes.

PRACTICALITIES

The difficulty, as always, lies in the detail. As soon as you start thinking about practicalities rather than possibilities a number of questions spring to mind. What exactly do we mean by a dashboard? What will the system of oversight look like? How will the necessary structures be funded? There are no easy answers to these questions, and they are only the beginning.

Other concerns include the ability of schemes to comply with a future requirement and whether the entire proposal will actually benefit the very people it is supposed to, the scheme members.

We're talking about thousands of small occupational schemes having to comply, potentially incurring proportionately large costs. There's also a serious question as to whether such a scheme could be a boon to scammers as it will increase the speed at which data can be accessed.

Additionally, there are behavioural concerns as to whether consumers will be able to make an informed choice from the information provided. Research shows that people can struggle to bridge the gap between how much a pot is valued at and the income it will provide in retirement, which could lead to poor retirement planning.

AS SOON AS YOU START THINKING ABOUT PRACTICALITIES RATHER THAN POSSIBILITIES A NUMBER OF QUESTIONS SPRING TO MIND

The last two concerns really get to the heart of the issue. A pensions dashboard is a good idea as long as it has consumer benefit at its core. In a 'digital by default' world it's easy to assume that all moves towards digitisation will benefit the citizen, but this is not necessarily the case. There are questions to be answered and circles to be squared.

There are currently a number of initiatives to try and address these concerns. The construction of a prototype is underway, and a wider discussion is being facilitated by government to address policy and governmental issues. The PLSA is engaged with the process at every level to ensure that members' interests and concerns are heard.

There's a lot of momentum surrounding the project, and a genuine enthusiasm to help consumers access their data. If the potential hurdles can be overcome and a consumer-focused environment created, then the pensions dashboard should be of great benefit to scheme members and providers.

Legal & General

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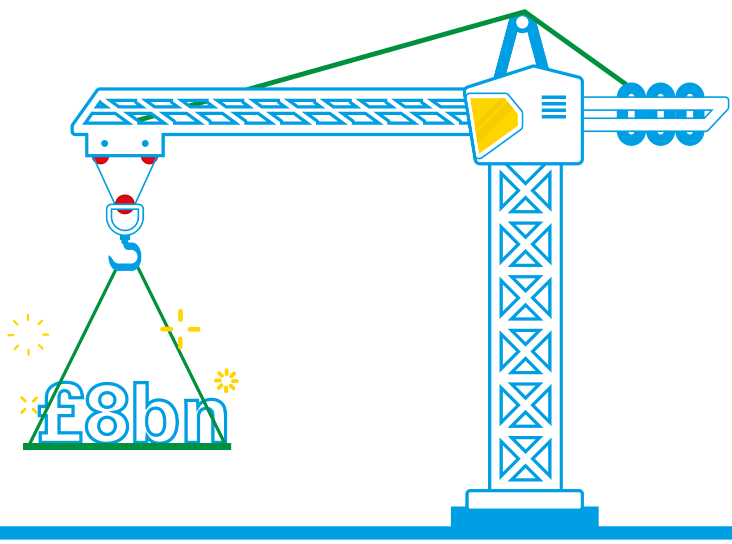

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PENSIONS IN ICELAND

Thorey S Thordardottir of LL (Landssamtok lífeyrissjoda, the Icelandic Pension Fund Association) gives an overview of the retirement provision system in Iceland.

THE THREE-PILLAR SYSTEM FOR RETIREMENT PROVISION IN ICELAND IS UNIQUE AMONG EUROPEAN COUNTRIES IN THAT OCCUPATIONAL PENSIONS, THE SECOND PILLAR, CURRENTLY MAKE UP ALMOST TWO-THIRDS OF OLD-AGE PENSION PAYMENTS – AND ARE PROJECTED TO INCREASE TO ALMOST THREE-QUARTERS OVER TIME.

Second-pillar pension fund assets as a ratio of GDP stood at 150% in 2015, one of the highest ratios in the world. In comparison to Europe the population in Iceland is relatively young and most pension funds are still in a growth stage, with contributions and returns significantly exceeding outflows. Second-pillar occupational pensions are mandatory by law for all wage-earners and self-employed people.

First-pillar state pension is based on residency, with a minimum vesting period of three years and full benefits after 40 years. The state pension is funded from tax revenues.

Finally, voluntary personal pensions make up the third pillar, with take-up being encouraged by additional contributions from employers. The coverage currently exceeds 50%.

All pension funds operate under an EET-tax framework – contributions and returns are exempt from tax, while pensions are taxed when paid out.

STATE PENSION REFORM

A major reform of the state pension came into effect on 1 January 2017. The pension was increased for most recipients, especially at the lower level, and now guarantees an income well above the poverty line. Those with large second-pillar pensions or other income (earned and capital-income) will receive a smaller state pension, or none.

The legal retirement age remained at 67, but a proposal to raise it to 70 over a period of 24 years has been discussed in Parliament and with the labour market and industry confederations.

OCCUPATIONAL PENSIONS

By law, all occupational pension funds offer lifelong pensions, disability and survivor insurance. Minimum contributions are 12% of wages, but labour-market agreements call for an increase in steps to 15.5% by 2018. Employees pay 4%.

Private sector funds are DC, without employer guaranty but with a benefit target. They are generally fully funded.

The public sector funds have been operating as DB, backed by state or municipality guarantees, but changes to a DC-model for new employees are underway. At the same time steps are being taken to cover the long-existing funding shortfall. The changes are in line with the long-term goal of general alignment of pension fund benefits in both sectors, public and private.

A total of 25 pension funds were active at year-end 2015, all members of the Icelandic Pension Fund Association. The number of funds has steadily decreased in recent years through mergers.

PENSIONS SNAPSHOT

Legal retirement age: 67 (increases likely, but not yet decided)

Life expectancy at birth: 81 for boys, 83.6 for girls

Life expectancy at age 65: 19.4 for men, 21.3 for women

Insolvency protection: None in private sector, employer guaranty in public sector (abolished from 1 January 2017 for new employees). Pension funds must meet solvency requirements (monitored by Financial Supervisory Authority).

ABOUT ICELAND

Population: 338,450 (year-end 2016)

Working population: 197,000 (year-end 2016)

Area: 103,000 km2

Average monthly salary: €4,183 (before tax, 2015)

GDP per capita (€): €45,736 (2015)

IN COMPARISON TO EUROPE THE POPULATION IN ICELAND IS RELATIVELY YOUNG AND MOST PENSION FUNDS ARE STILL IN A GROWTH STAGE

PENSION STATISTICS

Total pension assets (year-end 2015)

	Pillar II	Pillar III
Pension funds	€ 20,195 Million (85.5%)	€2,195 Million
Other pension vehicles		€1,216 Million

Old-age pension payments (2015)

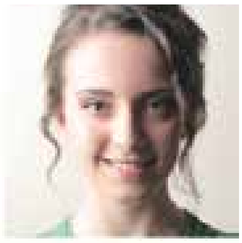
Pension funds, Pillar II	Social Security, Pillar I
62.6%	37.4%

Pension fund asset classes (year-end 2015)

Deposits and claims	5.5%
Domestic stocks	12.9%
Foreign stocks	4.0%
Domestic bonds	51.3%
Foreign bonds	0.1%
Domestic investment funds	8.2%
Foreign investment funds	18.1%

THE GENERATION GAME

In the UK today, the retirement prospects for different generations vary widely. **Maggie Williams** reports on the view from each...



MY DREAM IS A USEFUL MOTIVATOR, BUT REAL LIFE HAS A HABIT OF INTERFERING

Millenials

ARE PEOPLE SAVING ENOUGH FOR THEIR RETIREMENT? THE PLSA'S RESEARCH REPORT *RETIREMENT INCOME ADEQUACY: GENERATION BY GENERATION* ANALYSED THE RETIREMENT PROSPECTS OF MILLENNIALS, GENERATION X AND BABY BOOMERS TO FIND OUT. WE'VE ASKED PEOPLE FROM EACH AGE GROUP IF THEIR DREAM RETIREMENT MATCHES THE PICTURE PAINTED IN THE FINDINGS.

The results make difficult reading for many workers. Of 25.5 million people in employment, 1.6 million risk falling short of the minimum income standard (MIS) defined by the Joseph Rowntree Foundation (see boxout), and 13.6 million will not meet the target replacement rate (TRR) set by the Pensions Commission.

Auto-enrolment should ease some of those concerns, with the PLSA estimating that on average individuals will be £2,500 a year better off in retirement as a result. For younger savers, there's even better news – they should be better off by around £4,000 a year in today's terms. Generation X and Baby Boomers, with less time left before they retire, will benefit less.

There is still a lot to be done if everyone is to enjoy an adequate pension. The to-do list includes future increases to minimum contribution levels (the PLSA recommends at least 12% of salary), an urgent government review for older savers, and considering a national standard of income adequacy in retirement.

MILLENNIALS

(aged 22 to 34)

With a full working life ahead of them, Millennials have the most to gain from auto-enrolment. A minimum contribution level of 8% could provide this age group with 45% of the 67% TRR that the Pensions Commission recommends. But there's little evidence that Millennials are putting aside the extra 22% needed in voluntary savings.

Increasing minimum mandatory contributions to 12%, combined with a later retirement date, might mitigate that shortfall. However, 12% could be a lot to ask from a generation worried about housing costs and heavily loaded with student debt.

James, 25

Currently looking for work

Q. DESCRIBE YOUR DREAM RETIREMENT

If I'm enjoying my career I may want to continue for as long as possible! My mid-60s seem a conservative estimate for retirement.

I'd like to own a house outright by that point as well as have enough savings or pension income for some getaways and holidays.

Q. IS IT ACHIEVABLE?

Given my current situation, it's looking less and less likely. My dream is a useful motivator, but real life has a habit of interfering.

I'm living with my parents at the moment. My plan is to live frugally while I can and save as much of my future pay as possible. I'm also aware that the earlier I pay into a pension scheme – and the more money I pay in – the greater the potential benefit later in life.

Q. ARE YOU TYPICAL OF YOUR AGE GROUP?

People my age are still finding their feet. This means saving is often the last consideration, after rent, food bills, utilities and a 'spending allowance'.

GENERATION X

(aged 35 to 54)

Many in Generation X face an uphill struggle if they are to retire on an adequate pension. This age group was hit by the decline in DB pensions and poorly incentivised DC savings of the 1990s and 2000s. They're also too old to feel any real benefit from auto-enrolment.

Simply increasing pension contributions won't be enough. Not everyone will be able to work for longer, and although using other forms of savings such as property and accumulated wealth will be an option for some, it won't be a universal cure.

Louise, 50

Senior role, private professional /learning services

Q. DESCRIBE YOUR DREAM RETIREMENT

I'd like to be able to retire around 60, gradually phasing down over a few years. Depending on my housing situation I'd like to have around £1,500 disposable income per month after bills were paid.

Having worked hard all my life, I'd like a nice holiday each year, or to travel and maintain a decent but not extravagant standard of living. I'd downsize my property once my children were older, but maintain a home that they could visit.

Q. IS IT ACHIEVABLE?

It's partially achievable, but I may need to leave the area where I live now and use my property as capital.

I had a long-term plan, which was my own pension, plus property. However, the value of my pension has been hit – I had a final salary pension which is now DC plus benefits. My personal circumstances have also changed.

Q. ARE YOU TYPICAL OF YOUR AGE GROUP?

Using the house as part of my retirement plan is similar to a lot of people. I put my faith in a final salary pension which has fallen away, and I think this is also typical. I'm an older mother with younger children which puts pressure on me for their future as well as my own.

THE VALUE OF MY PENSION HAS BEEN HIT – I HAD A FINAL SALARY PENSION WHICH IS NOW DC PLUS BENEFITS

Generation X

BABY BOOMERS

(aged 55 to 64)

The PLSA's report found a mixed outlook for Baby Boomers. Those who have paid into DB schemes should experience an adequate or better retirement, but around half of this age group have very poor prospects. Many will depend on the state pension.

The only options for Baby Boomers with insufficient pension savings are to work for longer (which won't be possible for everyone), or rely on wealth held elsewhere, such as property.

IF I'D THOUGHT ABOUT RETIREMENT IN THE LONGER TERM, I WOULD HAVE PUT MORE ASIDE AND NOT ENDED UP WITH A HOTCH-POTCH OF DIFFERENT PLAN

Baby Boomers

Stefan and Kathy, both early 60s

Stefan – App developer, working and drawing funds from private pensions.

Kathy – Freelance consultant, recently retired from NHS/social services and drawing her final salary pension alongside earnings.

Q. DESCRIBE YOUR DREAM RETIREMENT

Stefan: We want to have long periods of time abroad, returning to the UK from time to time. I don't want to stop working per se, but with a shift to doing what I want to do, not what I need to do to earn money.

Q. IS IT ACHIEVABLE?

Kathy: We've got a clear masterplan, including paying off the mortgage so that we can rent our flat out. We've only planned this in the last two years and we both still have to work at the moment.

Stefan: If I'd thought about retirement in the longer term, I would have put more aside and not ended up with a hotch-potch of different plans, each of which is worth little in isolation.

Q. ARE YOU TYPICAL OF YOUR AGE GROUP?

Kathy: Being able to do things out of choice is the common factor. Some people want to travel; others have different aspirations, such as more family time.

Stefan: We have different backgrounds in terms of our career and pension, but a lot of people will be in the same situation as one or the other of us. Unless you've worked in the public sector, the chances are you've got a mix of different pensions.

WHAT DOES ADEQUATE LOOK LIKE?

The PLSA used two measures of what an adequate pension might look like:

- **The Pensions Commission's Target Replacement Rate.** A percentage of earnings that the Pensions Commission believes represents an adequate income. This is defined as 67% of pre-retirement income for a median earner. The current median income of £27,456 equates to a retirement income of £18,395.
- **Joseph Rowntree Foundation Minimum Income Standard (MIS).** A measure of what the public believes households need for a minimum acceptable standard of living. In 2016, the MIS was £9,500.

The PLSA's analysis used the Office for National Statistics' Wealth and Assets Survey as a basis for understanding the UK's savings. To explore how that data on 40,000 individuals relates to future pension savings, the PLSA built assumptions about planned auto-enrolment increases into its analysis, and used Hymans Robertson's Guided Outcomes methodology to create a picture of what retirement savings might look like for around 800 typical individuals.

INTRODUCING... PLSA PINNACLE

Head of PLSA Academy and PINNACLE **Frances Corbett** reveals a new member service: if you're planning a major project, PLSA PINNACLE could be just what you need...

> *"Let our advance worrying become advance thinking and planning"*
>
> Winston Churchill

MANY OF YOU MAY HAVE BEEN INVOLVED IN STRATEGY-SETTING, WHERE TIME IS SPENT IDENTIFYING WHERE YOUR ORGANISATION IS, WHERE IT WANTS TO GET TO AND BY WHEN. HOPEFULLY MOST OF THE TIME THESE THOUGHTS AND DISCUSSIONS RESULT IN A CLEAR DIRECTION FOR YOUR ORGANISATION, WHICH IN TIME TURNS OUT TO BE WELL FOUNDED AND REFLECTED IN A MEASURABLE EXPERIENCE.

In the early stages of project planning, what you, your organisation and those who work with you require and the actions you may need to take may not be always fully apparent. This early stage is, however, the most exciting and creative part of the process. It's the time when you can use your initiative, research and explore new solutions and begin to work out what to do, when and how to do it, and who should be involved.

For every project you'll consider what has to be included, what would demonstrate best practice, and where it's possible to add value. While aiming to include all three, the first point is easier to assure because this covers the items and issues that define the project and its tasks. The second may initially be less clear, and may only become evident after you seek input from an expert, and/or from someone with knowledge and experience of similar projects and best practice. The third is the most difficult to define since it's subjective and can really only be evaluated once the project has been delivered. In addition, who decides whether value has been added: those who developed the strategy, or the party who might benefit from the project's outcomes?

In the case of a project to deliver a new service, for example, the customer will judge whether or not it offers good or extra value. The provider of the service will also evaluate whether developing and selling the service adds value for their business, on the basis that it has generated extra income or expanded the profile of its customer base.

EXPERT SUPPORT

Here at the PLSA we're keen to ensure our members have access to the right level of support for projects which involve pensions and lifetime savings issues. We're uniquely privileged to have direct access to our industry's top experts, their knowledge of best practice, and often early insight into government initiatives.

Our new service PLSA PINNACLE has been designed to be flexible and supportive to those special 'one-off' projects. It can facilitate circumstances where you have a specific requirement which may not readily fit with existing service provision, or which involves tasks where an independent external view might be beneficial.

Having talked to you we also know that as members you value support which is independent, up-to-date and demonstrates best industry practice. In particular, you've told us you would welcome help with your research, evaluating the effectiveness of your trustee boards, keeping up-to-date with industry and legislative initiatives, and with special projects involving issues you may not have come across previously.

Each project delivered under the PLSA PINNACLE brand will be tailored to your needs, monitored by PLSA personnel, and supported by a wealth of knowledge and expertise provided by our industry's best practitioners.

So when you're asked to identify a new service or process, feel overwhelmed by work or simply don't have the right resources or information to complete that project, PLSA PINNACLE might be the answer. And if we can't help you, we might know someone who can.

For more information, please visit **www.plsa.co.uk/Pinnacle** or call Frances Corbett on **020 7601 1716**.

PLSA PINNACLE

OUR NEW SERVICE PLSA PINNACLE HAS BEEN DESIGNED TO BE FLEXIBLE AND SUPPORTIVE TO THOSE SPECIAL 'ONE-OFF' PROJECTS

Linklaters

Navigating risk, reaching targets

Pensions Investment Practice

Linklaters' Pensions Investment Practice is an accessible single source of expertise on the full range of matters relating to the investment of pension funds. We apply our extensive experience to make sure each project is delivered successfully with individual trustee goals in mind.

We understand regulation, tackle risk and supply insight and innovation.

INSIDE MY SCHEME

Ian Baines explains how the team at Nationwide raised DC employee engagement from 9 to 90%.

THE CHALLENGE

Despite Nationwide offering to match up to 3% in additional contributions, only 9% of GPP members chose to take us up on it. We devoted plenty of attention to the proposition in our general pensions communications and advertised it each year in our flexible benefits promotions, but we couldn't seem to make people understand that effectively they were giving up free money!

THE IDEA

The lightbulb moment came: "Why not just flip it around?" Instead of employees paying the minimum contribution with the option to increase, we decided to automatically set their additional contributions to 3% as the default level so they'd receive the full matching potential – with the option to scale it down to the minimum if they wished. Pay more to get more!

But how do you roll out such an initiative in a way that truly engages the employee instead of sending them into a panic because they're paying more? In fact, there were other positive changes too – we were also increasing our employer contribution and increasing their death-in-service benefit – but we were concerned employees wouldn't really appreciate it, since the majority find the subject confusing enough as it is.

THE PLAN

We developed a communications strategy which we split into three phases. Carefully considering all audiences across our diverse workforce, we utilised multiple communications channels and adopted a bespoke personable style to help employees clearly identify with the subject. Collaboration was essential as our strategy required the full buy-in and support of many internal and external stakeholders, including trades unions.

Phase one was about education and awareness: we recognised that for employees to fully understand the changes, they'd first need simple education about pensions in general, and about Nationwide's pension arrangements. Since the subject of pensions is traditionally a dry one, our main objective was to provide a greater understanding of the importance of having a pension and actively planning for retirement, in a fun and inclusive way. The emotional hook was intended to change ways of thinking about pensions and retirement.

We designed engagement tools to encourage employees to consider their own retirement ambitions and think about what income they'd need to turn them into reality. Our campaign was called 'Don't just dream it, plan it!', and over the course of a few months we hijacked team meetings, presented at seminars and led people-manager workshops. We delivered toolkits nationwide to facilitate pensions team briefing sessions, and held branch knowledge knockouts concluding with the teams working together to enter a retirement dreams poster competition.

The second phase introduced the changes, and first and foremost required robust communications to ensure employees understood their options. Employees received individual emails supported by a series of news stories and an entertaining film to reinforce the key messages.

Our final phase was the implementation of the changes. This was when the employer contribution increased and the mechanism for setting additional contributions to the default 3% was introduced. It was clear that employees needed to understand the impact the changes would have on them as individuals, so they were reminded of the changes and then presented with a personalised comparison statement illustrating how their income would be affected. We then demonstrated the difference a small extra contribution could make to their pension pot when they reached retirement.

THE RESULTS

Following implementation, just 16% of GPP members scaled their contributions back down to the minimum. In general employees have displayed an increased interest by logging on to websites, attending seminars, completing employee surveys and increasing their engagement with the Employee Pensions team. Members of the DB scheme paying AVCs increased from 8% to 11%, and employees not in any Nationwide pension decreased from 5% to 3%.

THE FUTURE

Our intention was never to just stop there and bask in the glory of a successful year. It remains important for us to maintain momentum and not just allow interest to fade. Now employees are investing more, we want them to start taking an interest in where their investments are going, to actively manage their pension savings and to focus on that end goal – that sum that they're going to need to fulfil their retirement dreams.

EMPLOYEES NEEDED TO UNDERSTAND THE IMPACT THE CHANGES WOULD HAVE ON THEM AS INDIVIDUALS

So we're providing them with access to new tools with Friends Life by moving their future contributions to a new platform, also allowing them more flexibility at retirement. We've also enlisted Hymans Robertson's support with their Guided Outcomes product which will empower employees to monitor whether they're on track to receive their target retirement income and provide them with support along the way. We continue to talk in the same language and pull on those emotional levers to engage with them.

Our end goal was for 90% of GPP members to 'Pay more to get more'. We're nearly there, but we're still on that journey – it's never finished!

KEY FACTS:

- DB Nationwide Pension Fund: c.6,000 current employee members (closed to new members)
- DC Nationwide Group Personal Pension (GPP) with Friends Life: c.12,000 members (open to all employees)
- Employees not saving in a Nationwide pension: c.600 (3%)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WHAT DO YOU DO?

Away from her desk NEST Chief Executive **Helen Dean** has a tasty little secret: she's a weekend restaurant critic!

HAVE YOU EVER SPOTTED SOMEONE IN A RESTAURANT TAKING SNAPS OF THEIR FOOD SO THEY CAN SHARE IT ON SOCIAL MEDIA? I SUPPOSE IF YOU'RE AT NOMA OR THE FAT DUCK, IT'S POSSIBLY A CHANCE TO SHOW OFF. BUT WHEN YOU'RE TALKING ABOUT YOUR FAVOURITE LOCAL SPOT I THINK IT'S AN OPPORTUNITY TO SHARE WITH FRIENDS WHERE THEY CAN GET A TOP-NOTCH MEAL. LAST YEAR I HAD THE CHANCE TO TAKE THINGS A STEP FURTHER, BY BECOMING A WEEKEND RESTAURANT CRITIC.

Following in the footsteps of the much missed A. A. Gill happened almost by chance. I enjoy discovering new places and I'm part of a group of five friends who like to eat out. One of our group is a photographer with the local paper, and when she mentioned that they were looking for reviews I decided to give it a try. I was delighted when the editor asked me to contribute regularly.

It's a perfect pastime for me, combining two things I love: food and writing. It certainly adds extra fun to an evening out as it gives any meal a real purpose and buzz – as well as a legitimate excuse to order dessert! Of course, if you start taking photos with a professional-looking camera you can quickly get rumbled – as we've learnt. But this is no bad thing, as talking to restaurant owners can get you all sorts of interesting local history and culinary tips. I've heard some fantastic stories about local people and what they're doing to make their small businesses grow, like a restaurant that sources its fish from the local harbour and uses rare heritage cattle from a nearby farm. You can really taste the difference!

THE FAMOUS FIVE

When writing reviews I always aim for a fair assessment of the food, written in a fresh and engaging way. I try to capture what it's like to go out with the group of us, as so many reviews just discuss the experience from a couple's perspective.

To give my five friends a little anonymity I decided to borrow the characters from the Famous Five. They actually translate really well. In life, George is robust, loves her food and she's a bit of a tomboy. Likewise, Anne is slight and picky but loves puddings while Dick is a bit grumpy, a bit of a foodie and likes to see good presentation. Julian, meanwhile, is very 'can do' and a bit experimental. That leaves me to be Timmy the dog. There aren't many comparisons to draw here (thankfully!), it's just useful as it means I can narrate the meal.

Eating out isn't cheap so I like to think my reviews help people choose the right place to spend their hard-earned money. For example, there was a really excellent restaurant that seemed to have closed but the place still had its fans, wistfully recalling old meals. When our group discussed it we found out that it still opened very occasionally for dinner and was as good as ever. It was an unexpected treat to pass on to the place's old admirers.

I think a lot of people see getting together with friends and family over good food as important whatever age they are. I like to think that my 'day job' helps people do that too. The great thing about a pension is that it helps people carry on doing the things they love when they retire. Hopefully I'll be visiting restaurants and writing reviews long into my own retirement. But that's a long way off – until then, if you need to know where to get some of the best crab ravioli in Northumberland, I can point you in the right direction.

IT'S A PERFECT PASTIME FOR ME, COMBINING TWO THINGS I LOVE: FOOD AND WRITING

TPR VIEWPOINT: AN IMPORTANT YEAR

Lesley Titcomb, Chief Executive of The Pensions Regulator, surveys the main priorities for the next 12 months.

A RAFT OF BOLD NEW PROPOSALS FOR IMPROVING PROTECTION FOR PENSION SAVERS WERE PUT FORWARD LAST YEAR, AND IN 2017 TPR EXPECTS TO PLAY A CENTRAL ROLE IN PUTTING A NUMBER OF THESE IDEAS INTO PRACTICE.

Significant progress is being made in a number of areas: more than 7 million people have now been auto-enrolled into a pension scheme; legislation is advancing through Parliament designed to give enhanced protection to members of master trusts; new powers have been proposed to fight pension scams; cybersecurity has risen up the industry's agenda; and there have been lively debates on 21st century trusteeship and DB regulation.

So how will we build on these key steps as we enter another fascinating 12 months?

DC

Our latest research again highlights the continuing surge in DC scheme membership, in particular master trusts, powered by the successful roll-out of automatic enrolment.

This cements the fact that DC is now the dominant form of pension provision.

This trend in part led to the tabling of the Pensions Schemes Bill, a crucial piece of legislation strongly welcomed by TPR that, subject to Parliamentary approval, will deliver much-needed safeguards for those saving into master trusts.

We look forward to working closely with Government throughout 2017 to consolidate our role in delivering the provisions set out in the Bill. For the first time it will give us supervisory powers to authorise and de-authorise master trusts according to strict criteria, giving more confidence to employers preparing to meet their pension duties.

We began 2017 by announcing our first fines against a number of master trust schemes for failing to complete a chair's statement. This continues a clear direction of travel on ensuring schemes meet their basic duties through education and, if necessary, enforcement.

We also know that many of the tens of thousands of occupational DC schemes struggle to meet adequate standards of governance and administration, and this can pose a risk to good member outcomes.

WE REMAIN OPEN TO INNOVATIVE IDEAS; WE RECOGNISE THE RISKS AND THE CHALLENGES THAT SCHEMES AND EMPLOYERS FACE

WE NEED A ROBUST AND SUSTAINABLE APPROACH TO REGULATION FOR THE NEXT FIVE TO 10 YEARS

So it may be that consolidation, perhaps within authorised master trusts, is the best long-term solution for members of such schemes. The Bill could act as a strong driver for a market-led consolidation of such schemes.

TPR FUTURE

We need a robust and sustainable approach to regulation for the next five to 10 years.

So we ended 2016 by making clear that just as the pensions landscape is evolving amidst challenges, such as the shift to DC and the UK's exit from the EU, so we as a regulator should look at how we operate in light of the challenges ahead.

We're doing this through a piece of work I commissioned, called TPR Future, which is considering what we should and should not do in exercising our regulatory responsibilities and delivering the objectives given to us by Parliament.

We're asking probing questions such as do we have the right balance between educating, enabling and enforcing? Do we identify the right risks to which to allocate our resources? Given DC and public sector scheme regulation require a different approach to DB, how are we going to deliver that? Which regulatory tools are most effective in which circumstances?

We're also challenging the type of regulator we want and need to be. Can we be quicker and more responsive? Can we be clearer about what we expect of trustees and sponsors, not just in our guidance but also in how we communicate with individual schemes on particular issues, such as their valuation and recovery plan? What skills and capabilities will we need within TPR?

We're consulting our stakeholders on this work and will then pull together our ideas for change and share our thinking.

DB SCHEME FUNDING

2016 saw a constructive debate on the regulation of DB schemes, prompted by a number of high-profile cases. We took the opportunity to set out to the Government, and to the Work and Pensions Select Committee, a number of areas where our powers could be improved, such as in information-gathering and scheme valuations.

We look forward to joining the discussion following the DWP's Green Paper on DB regulation, which will set out the Government's preliminary proposals for further discussion and which we hope may ultimately develop some of the suggestions we and others have made.

In the meantime, we remain open to innovative ideas; we recognise the risks and the challenges that schemes and employers face. And of course as well as protecting members' benefits and the PPF, we have a statutory objective to minimise the impact of the pension funding arrangements on the sustainable growth of the employer. This means we have to have regard to the financial health of the sponsoring employer as well as to the scheme that it sponsors.

TRUSTEESHIP AND GOOD GOVERNANCE

Through our research on the skills and competence of trustees, we know many are highly experienced and skilled but too many occupational pension scheme members and sponsors are suffering financial detriment from poor stewardship.

To tackle this, during 2017 we'll undertake a targeted education and enforcement drive to make our expectations clear on what 'good' looks like. Crucial to this will be to use data to target our communication approach more effectively, according to scheme size, type and compliance history.

2016

SAW A CONSTRUCTIVE DEBATE ON THE REGULATION OF DB SCHEMES, PROMPTED BY A NUMBER OF HIGH-PROFILE CASES.

In addition, recognising that the most effective boards have a diversity of skills, we'll continue to encourage and support lay trustees through the development of the trustee toolkit and targeted guidance and self-help tools.

As we said last year, we're not prepared to accept two classes of scheme member – those that benefit from good governance and administration, and those that do not.

CYBERSECURITY

Another area where we'll continue to focus our attention is the importance of data security.

Technology and the use of data play a vital role in pension provision. Last year we welcomed the Government's plan for a pension dashboard, which will itself rely heavily on robust data sharing – so it's essential that trustees and advisers are alive to the very real threat of cyber attacks on pension schemes which are rich in personal data.

Unlawful access or attacks could be catastrophic for a scheme and its members, with the loss of data or even financial assets or denial of service.

Some pension providers, particularly those subject to PRA supervision, will probably already have a security strategy in place. But trust-based schemes may need to look at tightening up their existing arrangements to ensure they have all the proper protocols and policies in place or challenging their administrators to do the same.

Our new DC guide on administration has more information for trustees in this area, and our website sets out what trustees can do to mitigate the risks.

SCAMS

I'm glad to say that TPR and HMRC have been at the forefront of efforts to clamp down on pension scammers and to build up awareness of what people can do to protect their pension.

The cross-government taskforce Project Bloom has been instrumental in encouraging HM Treasury and DWP to consult on measures intended to further restrict scam activities. These measures include banning cold-calling about pensions, restricting the ability to transfer to scam schemes and other measures that reconsider the ways certain schemes are regulated.

We await the outcome of the consultation, and in the meantime we'll continue to promote our hard-hitting Scorpion campaign to warn of the dangers of pension scams.

THE YEAR AHEAD

2017 will be a year for the industry to keep up the momentum on a range of new initiatives while also meeting existing challenges, not least the successful implementation of automatic enrolment.

This year around 700,000 small employers will need to meet their duties, and by the end of the year more than a million employers will have put their staff into a pension.

I'm confident we'll play our part in meeting these challenges and make sustained progress towards our commitment to be a bold, agile and decisive regulator.


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SCORPEO provides specialist services to asset owners and asset managers to highlight and capture the intrinsic value embedded in corporate actions.

WHY IS THIS VALUE BEING MISSED?

- There over 1 million corporate actions a year across world markets and over 100 different types.
- Many require voluntary election decisions which need to be transmitted from the fund manager to the issuing agent within strict deadlines.
- It is a huge processing function for Investment Operations and Custodians.
- It's not easy for investment managers to read all the associated documentation, actively manage the election process in the timelines and also capture the optimal value for the fund.
- As a result a common route is often to apply a default election which is often sub-optimal in terms of economic value.

WHY IS IT IMPORTANT?

Pensions Funds, Investment Managers and Custodians are all operating in a challenging environment.

Regulatory compliance, increased transparency and performance demands are all high on the agenda.

- Pensions in the UK are facing significant challenges with aggregate pension deficits at record levels.
- Objective is to reduce costs and improve returns across the investment value chain and a 'policy of marginal gains' to squeeze out additional value.
- Investment Managers and Trustees have a duty to act in the best interests of scheme beneficiaries so any additional value should be a source of focus.
- Increased performance becomes a differentiator adding to fund performance and investor returns.

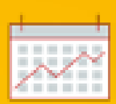
HOW MUCH VALUE IS BEING MISSED?

- In 2016 over $600 million was missed in UK scrip dividends alone as a result of sub-optimal elections of cash or stock.
- Over $7BN of value has been missed globally on scrip dividends since 2011.
- Significant additional value is being missed on other corporate actions including rights issues, tenders, buy-backs etc.

SOLVING OLD PROBLEMS WITH NEW TECHNOLOGY

Aware of these inefficiencies and challenges, SCORPEO has developed new and innovative products specifically designed for our clients.

- Applying our data and technology, investors have easy to use and scalable solutions to realise the optimum value from corporate actions across their portfolios.



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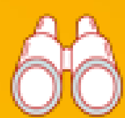

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ROUNDTABLE: TECHNOLOGY AND EFFICIENCY

A group of industry experts met in January for a roundtable sponsored by **SCORPEO** to discuss how schemes might improve investments and achieve marginal gains inperformance using new technology, including finding efficiencies and optimizing value in corporate action election decision-making.

Pádraig Floyd covers the conversation.

PARTICIPANTS

- **DAVID FAIRS (CHAIR)**
  DIRECTOR
  ASSOCIATION OF CONSULTING ACTUARIES LIMITED
- **JOHN BELGROVE**
  SENIOR PARTNER
  AON HEWITT (TELEPHONE)
- **ANTHONY STEVENS**
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- **TROY MORTIMER**
  DIRECTOR
  KPMG

WE NEED TO BE COMPARING APPLES WITH APPLES. THE ONUS IS ON ASSET MANAGERS, CONSULTANTS AND TRUSTEES TO HAVE A PROPER DEBATE ABOUT VALUE FOR MONEY

Consolidation came up early in the conversation, and Chair David Fairs asked whether consolidation is a way of achieving lower costs or higher performance?

It would certainly address governance, because schemes acquire complex third-party services and they need to be EQUALLY sophisticated buyers, said Iain Cowell.

"Consolidation will allow them to achieve that and will help to enhance governance. That improved governance will spiral, in turn drive better understanding of the products they are buying."

Claire Finn warned that consolidation is neither a magic wand nor a single structure: "From a DC perspective, the vast majority of costs relate to administration, not investment," she said. "We see new form of consolidation in DC with master trusts and I expect more consolidation into master trusts going forward. This in turn gives rise to an opportunity to ensure higher quality investment solutions are made available to more members."

"True consolidation could be much more radical," said John Belgrove, but acknowledged it has proved difficult even for schemes under the same sponsor. "That would be the ultimate level, but it's incredibly hard."

Chris Barrow said "the regulators are currently fixated on costs in the pension fund but investors should also be focusing on opportunity costs and easy marginal gains in the portfolio. The role of SCORPEO's technology is to help clients achieve this in the specific area of corporate actions value."

That is inevitable, said Elizabeth Fernando, as costs are certain, while returns are not. It is important to clients, because it is something they can control.

BIGGER IS BETTER

Building larger funds through consolidation is also a way to promote accountability, said Mortimer.

"Larger schemes bring greater responsibilities and more assets means you have to assess all the asset classes. This drives awareness and education."

INNOVATION OFTEN COMES AT A TIME OF STRESS, AND THIS IN TURN ENABLES NEW TECHNOLOGIES AND BUSINESS MODELS

However, there are practical limitations to the trustee model, said Belgrove.

"I wish people had the time to do everything and to do it brilliantly," he continued, "but the truth is they simply don't have the resources and they must delegate to providers or partners that can do things on their behalf."

Mortimer agreed: "It is all about stewardship, which is why schemes are coming together and ESG is being introduced to smaller schemes."

But things are very different for DC schemes, said Finn: "Commodities, listed infrastructure, smart beta, multi-asset and absolute return can all be had in the liquid space and so we are some years away from having illiquids in DC."

WHO CALLS THE TUNE?

Responsibility is clearly an issue, but should trustees be trying to maximise returns, asked Fairs?

The period of low returns we have experienced is unusual for those in the industry and requires a new mindset, said Cowell.

"The rewards of long-term investing stem from taking risks, rather than short term cost reduction" Cowell explained. "For most portfolio managers, delivering low-cost, engineered returns is considered strange. Blended ETF strategies operate like that, but it is very different from where we've come from."

MANAGERS HAVE A ROLE TO PLAY TO DEVELOP OPTIMAL SCHEME SOLUTIONS. THERE IS A LOT MORE TO DO, BUT THERE IS A ROLE FOR US ALL

Fernando questioned whether the motivation behind the development of diversified growth funds was to allow complex asset allocation decisions to be devolved to someone with greater technical knowledge.

Smarter products must be part of the solution, said Belgrove, and that will inevitably continue to drive down costs. "Smarter products will mean more dynamic asset allocation," he argued, but this alone will not deliver better outcomes.

"There is still no guarantee of contributions in addition to better products and lower costs, and that is what is needed."

However, Finn said we should remember that what is important is risk-adjusted investment returns: "Managers have a role to play to develop optimal scheme solutions. There is a lot more to do, but there is a role for us all."

TELL IT AS IT IS

As we move to a world of even greater disclosure, will this show how hard your investment manager is working for you, and will that increase the focus on how schemes operate, asked Fairs?

"Innovation often comes at a time of stress," answered Ruoss, "and this in turn enables new technologies and business models such as ours to help drive change and bring better outcomes.

"However, as a member, I would be angry if my scheme was not doing this even in a bull market. It is not just down to the investment manager, but equally the custodians, trustees and consultants all need to be part of the driver to marginal performance improvements."

"In a lower returns world, fees take up a larger part of the returns, but cost control should always be a key feature," said Belgrove. "However, there are obvious costs – fund manager and adviser fees, etc – and I expect there will be more pressure to deliver value for money here as well."

Mortimer agreed: "It is not just about cost minimisation, but efficiencies. That has to be attractive to the asset manager and we must look at how they are incentivised."

But the managers are still the best placed to understand how to operate their businesses and how efficiencies will work, Mortimer contended. Rather than seeking to punish asset managers and advisers, schemes should be working with them in order to save money.

PUSHING AT AN OPEN DOOR

But there are some easy wins to be had, suggested Barrow, particularly in the area of corporate actions. SCORPEO's data shows that in UK scrip dividends alone, over $600 million was left on the table in 2016 due to the inefficiencies and complexities for fund managers in making corporate action decisions.

"There are more than one million corporate actions a year and managers not only have to process these but also make choices in many of them, such as when offered cash or stock in a scrip dividend," says Barrow. "That's a lot of work and analysis, and as a result many fund managers tend to have default instructions in place."

However, these default positions are not extracting maximum value from these corporate elections, leaving a lot of money on the table – in fact in European stock scrip dividends alone, well over $1 billion is missed every year and there are many other types of corporate actions where significant value is being missed for the pension fund.

"Technology can be used across the value chain," Barrow said, "and can create better outcomes for schemes and their members."

However, the technology must be right, added Ruoss. It must fit the industry needs, and not make the industry fit the technology – a typical mistake of the past. New and exciting technologies bring solutions to old legacy problems, from processing and payments right through the value chain. The C-suite is recognising this and actively engaging it, with the evidence in the raft of in-house innovation zones that have sprung up over the last couple of years.

This is one of the reasons why Northern Trust uses SCORPEO's product, said Stevens, "Developing these tools for a maximum 4,000 actions a year is neither easy nor cost-effective for a platform that is running $6.5 trillion.

And there is demand for it, he added, as cost controls using new technologies have taken off in the Dutch and Australian markets: "There is a great deal more information required of the investment industry by the DNB, and this is increasing the focus on managing costs more closely."

Though the same reporting is made available to UK clients as Dutch ones, there is little demand for this more granular information in the UK, perhaps because trustees don't have the resources to make use of it.

WHOSE RESPONSIBILITY IS IT, ANYWAY?

But, asked Fernando, what is the market doing in return to service the decision-making process around these elections?

"We often get asked to make an election a week before the date it takes place," she said. "It may appear that money is being left on the table, but the time lag combined with market moves may mean what was optimal a week ago is no longer optimal - if we could have made a choice on the day, I may have made a different decision."

Again, this is where new technology is solving these legacy problems, answered Ruoss. "Small, dynamic companies can offer solutions to the value chain. Technology innovation reduces complexity and risk by reducing manual processing and freeing up capacity in an industry stretched by regulation and looking for ways to add value to investors and beneficiaries, and custodians are well placed to be at the forefront here."

"We are not always the best people to manage the trading process," acknowledged Cowell.

The fact that we don't really know where the responsibility for this lies shows how fragmented we have become, he said.

"Custodians have a real opportunity in the future to take on the responsibility."

THE REGULATORS ARE CURRENTLY FIXATED ON COSTS IN THE PENSION FUND BUT INVESTORS SHOULD ALSO BE FOCUSING ON OPPORTUNITY COSTS AND EASY MARGINAL GAINS IN THE PORTFOLIO

PROFESSIONAL ADVISERS MUST STEP UP

Mortimer agreed that trustees must ask whether they are getting the maximum value out of their trades. However, this will require education as this is a highly technical area for trustees.

But while trustees must understand the costs, there is a danger they could start down the road towards micro-management of the component costs said Belgrove: "The responsibility for this should sit with service providers and professional advisers to demonstrate value, because the trustees' focus is stewardship at the overall level of costs. Transparency and disclosure must improve so they can monitor it more easily.

In some cases there is not enough pressure being placed on advisers, he added, and raised a concern that the bundled total cost measure favoured for the benefit of simplicity will hide some of the costs that many schemes are already ignorant of.

"I am highly supportive of meaningful cost disclosure," said Finn, "but we need to be comparing apples with apples. The onus is on asset managers, consultants and trustees to have a proper debate about value for money as the lowest cost solution is not necessarily going to offer the best value to the member."

The industry has certainly embraced the concept of what we do to help investment returns but the reality of being open to new and innovative technology can be somewhat different, said Barrow.

"People are focused on so many other things – usually regulation or cost base. They need to push for the easy wins."

KEMPEN
CAPITAL MANAGEMENT

Cost transparency

Transparent fiduciary management – an oxymoron?

Fiduciary management has been increasingly successful over recent years growing by c35% per annum. This growth shows little sign of abating with larger schemes now considering the merits of a more delegated approach. Partly because of this success it has attracted both attention and criticism, not least in the FCA's interim Asset Management Market Study. Demonstrating a greater degree of transparency is critical and there are a number of areas where we believe it is of paramount importance.

Fee structures

The pricing of fiduciary management should be as "clean" as possible. This means that when the overall fee is split into two parts, to show the asset managers' fees and the fiduciary manager's fee, it should be very clear and transparent to clients exactly how much is going where. This means that the fiduciary manager should only ever be remunerated under their element and that there should be no "wrapper" or "kicker" to the fiduciary manager in the asset managers' fees. In fact, to ensure as transparent a fee structure as possible, fiduciary managers should "pass-through" all asset managers' costs. If the fiduciary manager is successful in reducing these costs, their clients benefit from these reductions. This allows clients to truly understand the value of the services.

Asset management costs

As referenced above, so much attention is on the asset managers' charges and minimising those, that there is less of a focus on controlling transaction costs themselves - which are one of the biggest costs involved, and we know that smarter implementation can save huge amounts on cost. As an example, there are two ways to invest in equities; one way has an AMC of 5-20bps, and roundtrip transaction costs of 1.5%. Another approach has an AMC of 70bps, but round trip costs of only 0.02%. Hence it is not so clear cut as simply choosing the "cheapest" fund – as it could end up costing a lot more overall.

Use of internal funds

There has been increasingly clearer direction from clients on whether internal funds can be included or excluded, which is a sign that potential buyers of fiduciary management are getting to grips with this issue. The use of internal funds itself is not an issue, but the key to this is being aware of the use of internal funds and the possible conflicts of interest that they could cause. Providing the fiduciary manager with guidelines on which types of funds (e.g. active or passive, fund of funds, etc) and how internal funds should be addressed is key, including an overall limit of the total assets under management that can be allocated to these internal funds. Ultimately, trustees need to be confident that the fiduciary manager will replace the asset manager if performance is poor, regardless of whether it is an external or internal fund manager.

Infrastructure

This is often overlooked by trustees when considering fiduciary management. How does a pooled structure compare to a structure where clients have segregated assets under a power of attorney model? One of the key questions that needs to be asked is how do you get out or exit the fiduciary manager, which understandably can often seem like an odd question to be asking at the outset. You would not drive a car unless you know the brakes work, and the same principle applies here. You need to know how to get out if and when the need arises, and critically, how long it will take to exit. Best practice would be to work under a segregated basis where the fiduciary manager is still able to deliver the economies of scale that they pass onto clients. Should a client want to leave they should be able to have their assets back the next working day. Clients should be with a fiduciary manager because they want to work with them, not because they can't get out.

Independent oversight

The FCA has identified that a significant proportion of fiduciary management clients do not take independent oversight in their selection process or on a continual basis, with many pointing to the added marginal costs of the process as a deterrent. We would argue that the overall outcome from a funding perspective is hugely enhanced, and that focussing on short-term additional costs is a red herring. All of our clients have some form of independent oversight which we find hugely valuable in building the trustee relationship that a fiduciary manager is required to undertake.

Cost benchmarking

To achieve greater transparency, you need to go beyond just looking at your costs, but also the peer group. We have seen fiduciary cost benchmarking developed in the Dutch pensions market, where regulators demand in-depth knowledge of all costs incurred by a pension fund. We encourage the UK to follow suit.

Conclusion

Transparency for the sake of it, is not the goal. The goal is to see change in behaviour and thinking, including proper assessment of costs and how they compare in risks and return terms.

We are passionate about full costs disclosure, and encourage all fiduciary managers and their clients to do the same. Because, let's face it, only when you have the full picture can you make fully-informed decisions.

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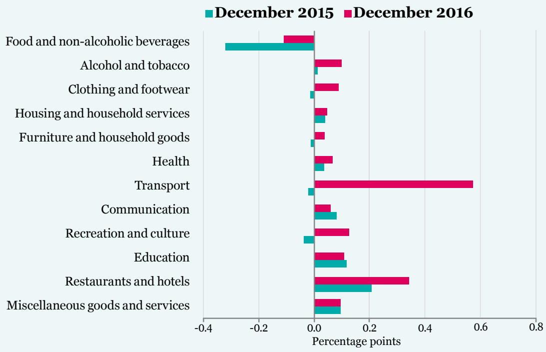
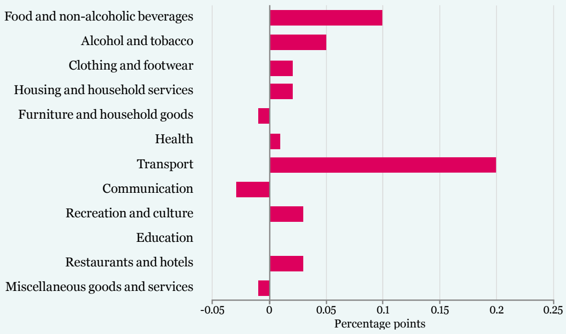
ECONOMIC INDICATORS

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

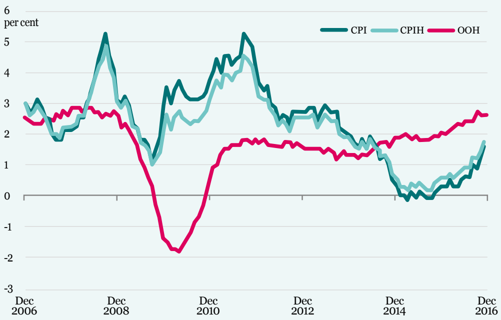


Note: Individual contributions may not sum to the total due to rounding.
Source: Office for National Statistics.

CPI 12-MONTH INFLATION RATE FOR THE LAST 10 YEARS: DECEMBER 2006 TO DECEMBER 2016 UK

Source: Office for National Statistics.

CPIH, OOH COMPONENT AND CPI 12-MONTH RATES FOR THE LAST 10 YEARS: DECEMBER 2006 TO DECEMBER 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: DECEMBER 2015 TO DECEMBER 2016

		Index[1] (UK, 2015 = 100)	1-month rate	12-month rate
2015	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
	Aug	100.9	0.3	0.6
	Sept	101.1	0.2	1.0
	Oct	101.2	0.1	0.9
	Nov	101.4	0.2	1.2
	Dec	101.9	0.5	1.6

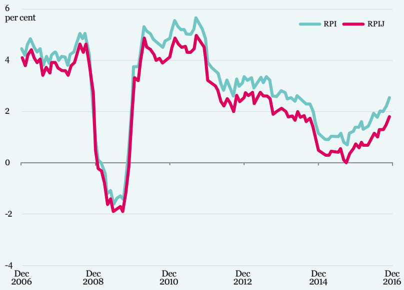
Note: 1. From February 2016, CPI and CPIH indices have been re-referenced and published with 2015=100. This does not impact on published inflation rates.
Source: Office for National Statistics.

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	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
	Aug	101.2	102.7	0.3	0.2	0.9	2.4
	Sep	101.4	102.8	0.2	0.1	1.2	2.4
	Oct	101.5	103.2	0.1	0.4	1.2	2.7
	Nov	101.7	103.4	0.2	0.2	1.4	2.6
	Dec	102.2	103.6	0.4	0.2	1.7	2.6

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: DECEMBER 2006 TO DECEMBER 2016 UK



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

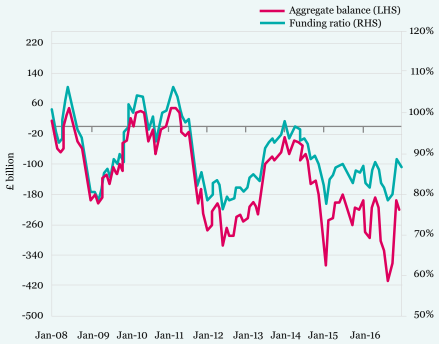
RPI AND RPIJ INDEX VALUES, 1-MONTH AND 12-MONTH RATES: JULY 2015 TO JULY 2016 UK

		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	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
	Aug	263.4	241.8	0.4	0.3	1.8	1.0
	Sep	264.9	242.3	0.2	0.2	2.0	1.3
	Oct	264.8	242.1	0.0	-0.1	2.0	1.3
	Nov	265.5	242.7	0.3	0.2	2.2	1.5
	Dec	267.1	244.0	0.6	0.5	2.5	1.8

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

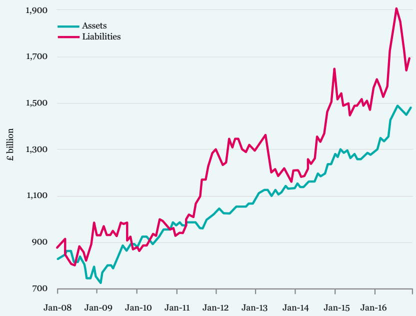
PPF 7800 INDEX JANUARY UPDATE

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



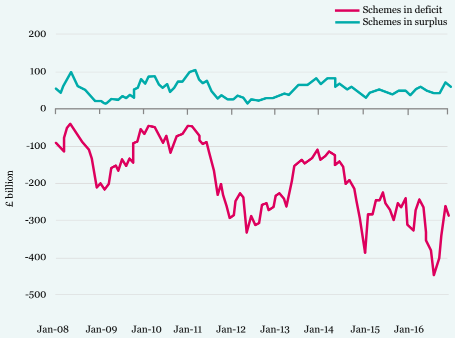
Source: Pension Protection Fund.

FUNDING COMPARISONS

	December 2015	November 2016	December 2016
Aggregate balance	-£194.6bn	-£194.7bn	-£233.9bn
Funding ratio	86.8%	88.1%	86.8%
Aggregate assets	£1,275.2bn	£1,443.1bn	£1,476.4bn
Aggregate liabilities	£1,469.8bn	£1,637.8bn	£1,700.3bn

Source: Pension Protection Fund.

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



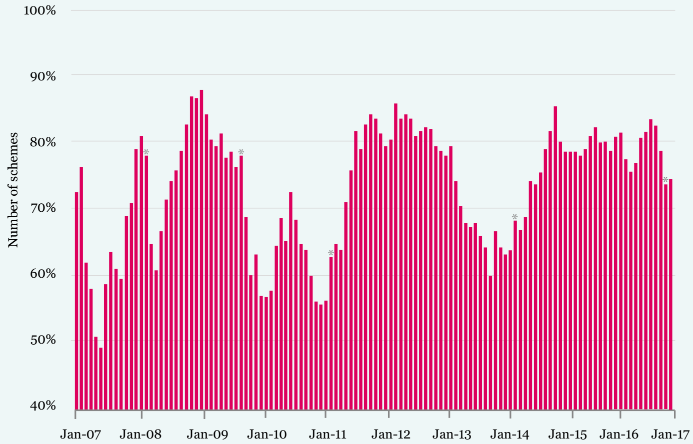
Source: Pension Protection Fund.

SCHEMES IN DEFICIT (SURPLUS)

	Dec 2015	Nov 2016	Dec 2016
Number of schemes in deficit	4,521	4,272	4,339
Deficit of schemes in deficit	£242.1bn	£263.6bn	£290.2bn
Number of schemes in surplus	1,424	1,522	1,455
Surplus of schemes in surplus	£47.5bn	£68.9bn	£66.4bn
Number of schemes in PPF universe	5,945	5,794	5,794

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 (4.3 per cent) respectively. The changes to assumptions on December 2016 and implemented in the end November PPF 7800 Index reduced the number of schemes in deficit by 157 (2.7 per cent).*
Source: Pension Protection Fund.

Pension fraud

Affecting more people than ever

In the first year since the pension freedoms rules changed, **£13 million** of pension fraud scams were reported* - that's a big number, and a lot of people are affected. Do you need help protecting your customers' future and your business?

experian

experian.co.uk/life

*Experian Uk&I Fraud report 2016

MEMBER NEWS

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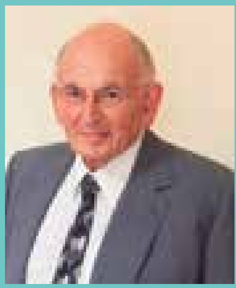

Colin Lever

IN THE LAST ISSUE OF VIEWPOINT WE REPORTED THE SAD NEWS OF THE PASSING OF FORMER NATIONAL ASSOCIATION OF PENSION FUNDS (NAPF) CHAIR, COLIN LEVER. SINCE THEN WE HAVE RECEIVED SOME MORE INFORMATION FROM FORMER COLLEAGUES ABOUT HIS LIFE.

In his early days in investment consulting – then in its infancy – he was puzzled by the innocent (naive) way in which companies and pension fund trustees at that time appointed and reviewed the activities of their investment managers. As a result he published a memorable paper entitled the Musings of a Scoreboard Operator. He went on to spearhead the development of more objective and challenging measurement of the performance of investment managers, and broader investment consulting. The UK actuarial consulting firms led the world in this respect and Colin Lever led the UK.

In 1981, Colin was elected Bacon & Woodrow's youngest Senior Partner. He was active in the NAPF and became Chairman of the Association in 1985. This was a time of great change in the pensions world with the introduction of personal pensions by the Thatcher Government.

In retirement Colin was able to indulge his many and varied interests and in particular his love of flying. His stories of piloting exploits in various parts of the world were legion, and his enthusiasm on subjects in which he was interested was always infectious.

Colin was a wonderful family man and will be much missed by his wife Ruth, their son and three daughters, their partners and eight grandchildren.

THOMSON REUTERS

PRACTICAL LAW™

LEGAL UPDATE

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

WHAT TO EXPECT IN PENSIONS LAW IN 2017?

Changes to the pensions landscape may come from many quarters, but focusing on the legal aspects, our editorial team is anticipating the following potential highlights:

- **Green Paper on DB pension reform**. The government's promised Green Paper on possible reforms to the legislative regime governing DB pensions is keenly awaited. Likely to be published in the first quarter of 2017, it follows on from the recent Work and Pensions Committee report which, among other things, called for punitive fines for employers who seek to avoid their pension responsibilities. Some commentators have also speculated about the possibility of a mandatory clearance regime being enacted, which would apply when a DB scheme's sponsoring employer is acquired on a corporate transaction.
- **Charges in DC schemes**. Further legislative measures are expected to come into force that will restrict charges in both contract and trust-based DC schemes. From April, early exit charges for those aged 55 and above will be restricted to 1% of funds under management (and 0% in the case of new members). The FCA is also considering further measures to force disclosure by DC providers of transaction costs.
- **DC master trusts**. The regulation of the DC master trust regime will be tightened up once the Pension Schemes Bill 2016/17 is enacted; the DWP has indicated it will consult on related statutory regulations, setting out much of the underlying detail, in autumn 2017.
- **Auto-enrolment review**. In the early part of the year, the DWP is due to publish the terms of reference for its review of the auto-enrolment regime. Based on what we know so far, the review should be fairly wide-ranging, covering the scope of the regime, the appropriateness of the earnings and age thresholds, and the level of the charges cap among other points. A working group will be set up to advise the DWP on the review, with a full report expected later in the year.
- **DC pension flexibility: money purchase annual allowance**. At the 2017 Budget on 6 March, the Chancellor is due to confirm whether the money purchase annual allowance will be reduced from £10,000 to £4,000 as proposed at the 2016 Autumn Statement. If the change goes ahead, it will significantly reduce the appeal of the flexible access options for individuals who have reached age 55 and are still making DC pension contributions.
- **Cases**. There is likely to be progress during 2017 in several pieces of ongoing pensions litigation. Following a hearing in November 2016, the Supreme Court is expected to give judgment in the *Brewster case*, which may cause schemes to revisit their death-benefit nomination processes. Later in the year, Court of Appeal hearings are due in *Bradbury v BBC* (listed for the end of February); the *IBM* case, in which appeals are listed for May from the 2014 "breach" and 2015 "remedies" High Court judgments; and *Safeway v Newton*, in which an appeal is scheduled for July. The *United Biscuits* case, due to reach trial in October, could have major ramifications for VAT recoveries by DB schemes. It is also possible the ECJ will give judgment in *Hampshire v PPF* on the interpretation of Article 8 of the Insolvency Directive. The outcome could force the UK government to make fundamental changes to the PPF compensation cap.

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**.

PENSIONS CONNECTION

PENSIONSCONNECTION UPDATE

Laura Webb,
Head of Membership Relations.

IT WAS ANOTHER EVENTFUL YEAR IN PENSIONS, AND ANOTHER BUSY YEAR FOR PENSIONSCONNECTION. MORE THAN 500 MEMBERS ATTENDED OUR EVENING SEMINARS AND BREAKFAST BRIEFINGS IN 2016. OUR FORUMS COVERED A BROAD RANGE OF TOPICS INCLUDING GUIDANCE VERSUS ADVICE, INVESTING IN THE PRIVATE RENTAL SECTOR, LIFE AFTER LISA, TRENDS IN PENSIONS FUNDING AND INVESTMENT STRATEGY, AND THE PENSIONS DASHBOARD.

I'd like to thank Newton Investment Management, Goldman Sachs Asset Management, Wealth at Work and Xerox HR Services for sponsoring our Defined Contribution, Finance Director, HR and Trustee streams respectively over the past year. We have a packed schedule of meetings planned for 2017 to keep you up to date on the latest trends and thinking in the industry.

Each forum meets between two and four times a year and business members have exclusive opportunities to sponsor the streams to showcase their brand as well as contribute to and influence the policymaking debate.

Sponsors at each event will have the opportunity to speak on a hot topic and distribute company marketing literature in the delegate networking area. In addition, branding will also be enhanced on the stream landing page of the PensionsConnection website, which will include a 50-word profile with hyperlink to the sponsor's corporate website.

The forums are free to attend and open to anyone involved in pensions, providing you with the opportunity to meet and network with fellow members and the key decision-makers in the industry.

If you would like to take advantage of this opportunity or would like more information, please contact my colleague Varsha Gowda at **varsha.gowda@plsa.co.uk**. And if you would like to subscribe to any of our PensionsConnection services or join us at one of our future meetings, get connected at **www.plsa.co.uk/pensionsconnection**.

PENSIONS AND LIFETIME SAVINGS ACADEMY UPDATE

Frances Corbett,
Head of PLSA Academy and PINNACLE.

BY THE TIME YOU READ THIS, DELIVERY OF THE PENSIONS AND LIFETIME SAVINGS ACADEMY 2017 EDUCATION AND TRAINING PROGRAMMES WILL HAVE BEGUN – AND THE INVESTMENT CONFERENCE 2017 WILL BE JUST AROUND THE CORNER. FOR TRUSTEES THIS IS NOT ONLY AN OPPORTUNITY TO ENGAGE WITH INVESTMENT PROFESSIONALS AND OTHER TRUSTEES BUT ALSO A CHANCE TO PARTICIPATE IN TWO TRUSTEE LEARNING ZONE (TLZ) SESSIONS ON 8 MARCH 2017 IMMEDIATELY BEFORE THE CONFERENCE OPENS. AS PLACES ARE LIMITED IT IS ESSENTIAL TO BOOK EARLY FOR THIS EVENT.

At the time of writing we're planning our development projects for 2017. We're keen to ensure that we continually develop and expand the Academy and offer wider access to our education and training programmes, so we're introducing a number of new learning opportunities. The first of these will begin this spring when we'll start to roll out online learning modules. These sessions will offer those new to pensions, new trustees, or anyone working in HR the chance to expand their understanding of retirement saving without having to leave the comfort of their office or home. Over the year we'll add modules covering retirement guidance and investment, and a module to help and encourage anyone who might be considering becoming a trustee of their pension scheme.

Make sure you're a regular visitor to **www.plsa.co.uk/training**, and keep up to date with new and different learning opportunities from the Academy during 2017.

WE'RE KEEN TO ENSURE THAT WE CONTINUALLY DEVELOP AND EXPAND THE ACADEMY AND OFFER WIDER ACCESS TO OUR EDUCATION AND TRAINING PROGRAMMES

PENSION QUALITY MARK UPDATE

Tracey Dawson,
Policy and Assessment Manager, PQM.

THE PENSION QUALITY MARK TEAM IS ROLLING OUT A SERIES OF EXCITING INITIATIVES IN 2017.

PQM CHAMPIONS

This is an upgrade of our successful Friends of PQM programme. We're looking to partner with a select number of organisations who will actively promote the Pension Quality Mark and introduce the brand to potential new clients. In return, the Champions will get preferential access to a number of PQM events as well as recognition on our website. Numbers will be very limited, and details of our chosen partners will be available later in the year.

PQM DISTINCTION

To recognise the schemes that are leading the industry standards, we've launched the PQM Distinction award. PQM Distinction recognises the best of the best. Each year at the PLSA Annual Conference & Exhibition we'll award the PQM Distinction to schemes that go above and beyond the PQM standards in either communications or governance.

Schemes do not submit or apply for PQM Distinction; our assessors identify and nominate schemes during the year. The shortlisted schemes are judged by a panel of the PQM Managing Director, two PQM non-executive directors and two industry figures.

MOVE TO TWO-YEARLY ASSESSMENT CYCLE

We're moving to assessments ever two years for our PQM Classic holders – those who hold PQM or PQM PLUS accreditation (this does not apply to PQM READY or RQM holders, who remain on a yearly cycle).

As a result, we'll be asking for full evidence at each assessment, which will include pensionable pay evidence, introducing extra rigour to the process. However, there will now be two years between assessments, which should lighten the load for our PQM holders.

If you would like further information on any of the above please contact **matthew.doyle@pensionqualitymark.org.uk**.

New PQM members since our last issue:

THB Group Ltd Pension Plan	PQM
The LEO Pharma Group Stakeholder	PQM PLUS
Vaillant UK	PQM PLUS

CREDIT SUISSE

Chasing Storms for Uncorrelated Returns

Insurance Linked Strategies

Find out more about the ILS products and solutions at Credit Suisse:
Credit Suisse Asset Management – UK Distribution Team
One Cabot Square
London E14 4QJ
United Kingdom
uk.csam@credit-suisse.com

CALENDAR OF EVENTS 2017

MARCH

22
Hot Topic Seminar: Dashboards and Disclosure (London)

23
Trustee PensionsConnection (am) (London)

23
Human Resources PensionsConnection (pm) (London)

30
Introduction to Trusteeship Part 1: The Theory (London)

APRIL

04
Talking to Employees about Saving in a Workplace Pension (am) (London)

06
LGPS Pension Board Seminar (London)

26
Hot Topic Seminar: Integrating pensions and lifetime savings (London)

MAY

03
Introduction to Trusteeship - Part 1: The Theory (London)

04
Introduction to Trusteeship - Part 2: The practice (London)

10
Fund Member Breakfast (London)

11
Retirement Guidance - employer seminar (am) (London)

15-17
Local Authority Conference 2017 (Cotswold Water Park, Gloucestershire)

19
Managing Change in Workplace Pensions (London)

23
Corporate Governance PensionsConnection (am) (London)

JUNE

06
Introduction to Trusteeship - Part 1: The Theory (London)

7-8
PensionsEurope Conference 2017 (Brussels)

13
Finance Director PensionsConnection (am) (London)

13
Defined Contribution PensionsConnection (pm) (London)

27
Trustee PensionsConnection (am) (London)

27
Human Resources PensionsConnection (pm) (London)

JULY

04
Retirement Guidance - employer seminar (am) (London)

11
LGPS Pension Board Seminar (London)

12
Fund Member Breakfast (London)

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


Principle 3
PATIENCE
IS STILL A VIRTUE
ClearBridge
Investments
Successful business owners take a long view. So we look for stocks worth holding for years or even decades, and invest heavily in research to support our convictions. Low turnover reflects this active decision to be patient.
Discover what can make our investment principles right for today, and tomorrow.
ClearBridge.com/principles
All investments involve risk, including loss of principal.
Active management does not guarantee a profit or protect against loss.
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